THE LOGIC OF STAGNATION

In the "Afterword to the Second German Edition" of Das Kapital Marx called attention to an aspect of the history of economic thought in the nineteenth century which, though in an entirely different context, has had a striking analogue in our time. The period from 1820 to 1830, he wrote, was notable in England for scientific activity in the domain of political economy. It was the time as well of the vulgarizing and extending of Ricardo's theory, as of the contest of that theory with the old school. Splendid tournaments were held.... The unprejudiced character of this polemic—although the theory of Ricardo already serves, in exceptional cases, as a weapon of attack on bourgeois economy—is explained by the circumstances of the time.... The literature of political economy in England at this time calls to mind the stormy forward movement in France after Dr. Quesnay's death, but only as a St. Martin's summer reminds us of spring. With the year 1830 came the decisive change.

In France and in England the bourgeoisie had conquered political power. Thenceforth the class struggle, practically as well as theoretically, took on more and more outspoken forms. It sounded the knell of bourgeois economy.... It was thenceforth no longer a question whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of disinterested inquirers there were hired prizefighters; in place of genuine scientific research, the bad conscience and the evil intent of apologetic.

Marx wrote this in 1872 at the dawn of the modern imperialist era and shortly after the defeat of the Paris Commune. The class struggle in the advanced capitalist countries entered a new phase, and so did bourgeois economics with the triumph

This is the introduction to a book by Paul Sweezy and Harry Magdoff, Stagnation and the Financial Explosion, soon to be published by Monthly Review Press.
of the marginal utility schools in Austria, France, and Britain in the early 1870s. There followed roughly a half century of relative social peace and complacent economic theorizing, climaxd by the “New Era” of Henry Ford and “endless prosperity.”

Then came the Crash of 1929, the Great Depression, and the deepening stagnation of the 1930s. Social struggles, in both the international and class arenas, intensifies. Mainstream economics was stunned and helpless. The threatened bourgeoisies of the advanced capitalist countries reacted in two ways, exemplified by Nazi Germany and New Deal America.

Under these circumstances, the need for a new theory to help account for what was happening and to show the way to remedial policies was obvious and urgent. John Maynard Keynes met the challenge. As the most prestigious member of the Cambridge school, he was in a position to be listened to; as a brilliant theorist with a deep instinct for the survival of both England and capitalism, he appreciated the gravity of the situation and the necessity to escape from the confines of traditional economic dogmas. The publication in 1936 of his *General Theory of Employment, Interest and Money* signalled a revolution in economic thought comparable to that wrought by Adam Smith and David Ricardo a century and a half earlier.

But no revolution is without its counter-revolution. The stalwarts of the economics profession, regrouping their battered forces, moved to expunge the Keynesian heresy; and what looked like developing into a “spendid tournament,” reminiscent of those of the period 1820-30, soon began to fill the pages not only of the professional economic journals but also of the business press and even the popular media. The form of this polemic was determined by the events of 1937-38. A recovery from the Great Depression that followed the crash of 1929 began in 1933 and continued, slowly but without serious interruption, for the next four years. Unemployment declined from 25 to 15 percent of the labor force, and things seemed on the way back to normal. Then, in the summer of 1937, the sky fell in. A sharp recession pushed unemployment back up to 19 percent in a few months, with no sign of resumed progress to be seen. Suddenly not only the economics profession but the coun-
try as a whole was faced with a question that could no longer be ignored or evaded: *Full Recovery or Stagnation.* The government itself soon joined the fray with the appointment by President Roosevelt of a Temporary National Economic Committee (TNEC), perhaps the most elaborate official inquiry into the condition of the economy ever mounted in this or any other country. Well-publicized hearings with star witnesses were held, and literally dozens of monographic studies were commissioned.

But the whole enterprise was short-lived. Even before the TNEC could issue its anticlimactic report, attention shifted dramatically from the sputtering economy to the Second World War. War orders came pouring in from Britain and France, and the United States began its own build-up for entry into the conflict two years later. The concerns of the 1930s were put aside as the U.S. economy spurted forward: by 1944 the GNP had increased by more than three quarters, and unemployment had sunk to less than 2 percent of the labor force.

Memories of stagnation lingered on, however, and this became a significant force in restraining the exuberance of the aftermath boom that normally follows a destructive war. It was not until the 1950s that the business community was converted to a mood of long-run optimism that was to contribute in its turn to the prolongation of the upswing that characterized the early postwar decades. The economics profession was quicker to forget the past. The interrupted debate of the 1930s was never revived; and even the publication in 1952 of the most thorough and penetrating study ever made of the problem of stagnation—Jøsef Steindl's *Maturity and Stagnation in American Capitalism*—was hardly noticed in the scholarly journals here or abroad.

The virtual disappearance of practical and scientific interest in the extraordinary—and at the time totally unanticipated—events of the 1930s did not, however, signify any change.

* This is the title of a collection of essays published in 1938 by Professor Alvin Hansen of Harvard, the most prominent of Keynes's followers on this side of the Atlantic and, along with Professor Joseph Schumpeter, also of Harvard, a leading protagonist in the developing polemic of the late 1930s.
in the underlying forces at work. In its innermost essence capitalism has always been a process of capital accumulation, and at no time in its history has this process been smooth or uninterrrupted. This unevenness has been most evident and violent in the "normal" business cycle, universally recognized by all schools of economic thought. But it has manifested itself as well in longer waves of speeded-up and retarded growth. Until the 1930s, the interest of economists was mostly focused on the business cycle, with the longer waves only rarely being subjected to serious economic analysis. But what happened during that decade forced a recognition, at least for a brief time, that the cycle operates within the context of the longer waves, and that the latter also need to be analyzed and understood. Unfortunately, as related above, the effort to satisfy this need was cut short, and the economics profession generally reverted to its earlier stance of blocking out all but the short-term phenomena of the "normal" cycle.

This was, to put it mildly, the path of least resistance: no one who counted for anything—in business, in government, in academia—wanted to be reminded of the 1930s; and anyone who, like the present writers, kept insisting that, given the nature of the capitalist system, what had happened in the past not only could but almost certainly would happen again, was dismissed as hopelessly out of date and obviously incapable of understanding the "new economics" as preached by the high priests of the new capitalist faith.

It is true that for a while in the 1970s stagnation in the guise of "stagflation" crept back into the economists' (and the public's) consciousness. But there was little inclination to take it seriously, and nothing faintly resembling the deeply concerned debates of the late 1930s emerged. And when Ronald Reagan came along with his unique brand of Voodoo economics—the motto and guiding principle of which should be "après moi le deluge"—the ideologues of the ruling class, many of whom certainly knew better, distinguished themselves by hailing the great recovery of the 1980s and professing to believe that it marks but the beginning of a new golden era of economic expansion.

Now, in the late summer of 1986, reality is well on the way
to putting an end to this demeaning farce. The recovery that began at the end of 1982 has palpably run its course. As in the summer of 1937, when the upswing dating from 1933 suddenly collapsed, no restarting of the engine of capital accumulation is in prospect. The stimulatory medicine that Keynesian theory prescribes for depressions—massive doses of deficit spending—has already been used up. There is nothing left in the Voodoo bag of tricks. The reality of stagnation on a scale not experienced for half a century now stares us in the face. It is high time for the Great Debate to be resumed.

We offer this book—the fourth in a series dating back to 1972—as a contribution to this crucially important enterprise.* Like its predecessors, it brings together essays originally published in Monthly Review that seek to analyze the current condition and direction of movement of the U.S. and global capitalist economies. Stagnation has of course been a recurrent—one might almost say ever-present—topic in these essays, and the purpose of this introduction so far has been to put this theme into meaningful, if all too sketchy, historical perspective. But long experience has taught us that there are other questions that need to be touched on in an introduction to a collection of this kind.

We both reached adulthood during the 1930s, and it was then that we received our initiation into the realities of capitalist economics and politics. For us economic stagnation in its most agonizing and pervasive form, including its far-reaching ramifications in every aspect of social life, was an overwhelming personal experience. We know what it is and what it can mean; we do not need elaborate definitions or explanations. But we have gradually learned, not altogether to our surprise of course, that younger people who grew up in the 1940s or later not only do not share but also do not understand these perceptions. The economic environment of the war and postwar periods that played such an important part in shaping their experiences was

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very different. For them, stagnation tends to be a rather vague
term, equivalent perhaps to a longer-than-usual recession but
with no implication of possible grave political and international
repercussions. Under these circumstances, they find it hard to
relate to what they are likely to regard as our obsession with the
problem of stagnation. They are not quite sure what we are
talking about or what all the fuss is over.

There is a temptation to say: just wait and see, you'll find
out soon enough. Indeed, this may be the only really satisfactory
answer. Unless backed up by actual experience, explanations
often mean little. And there is no doubt that what we see as in-
dications of stagnation in the 1970s and 1980s are still a long
way from the realities of half a century ago. But it would be a
cop-out to leave it at that. We owe it to our readers at least to
try to make clearer what we mean by stagnation and why we
think it is so important.

It may be useful to begin with a quotation from an article
in a recent issue of the Journal of Post-Keynesian Economics. In
the half century ending in 1983, according to the authors,
there have been only ten years (ignoring World War II and con-
version) in which actual GNP has equaled or exceeded potential.
Those ten years have been noteworthy for the presence of expan-
sionary government. Unfortunately, most of the expansion was war-
laden. Three of those years (1950-52) were during the Korean
War; five of them were during the Vietnam War, which overlapped
the activist, Kennedy-Johnson, Keynesian, civilian expansionist re-
gimes. Without the strong pull from government demand over the
last half century, the civilian economy has achieved its potential
only in 1956 and 1973. Even those two years, on the basis of the
utilization of human resources (unemployment) criterion, were
significantly inferior to 1929.*

Though hardly comparable to the gloomy performance of
the 1930s, this record does clearly indicate that the forces that
were then overwhelmingly dominant had by no means disap-
ppeared in the new postwar climate. What did change—and this

is a matter of crucial importance that economic theory has only begun to recognize and deal with—is the way the economy as a whole has adjusted to and been reshaped by the persistent tendency of society's utilization of productive resources to lag behind its huge and growing potential. Whereas in the earlier period this tendency worked itself out in a catastrophic collapse of production—during the 1930s as a whole, unemployment and utilization of productive capacity averaged 18 percent and 63 percent respectively—in the postwar period economic energies, instead of lying dormant, have increasingly been channelled into a variety of wasteful, parasitic, and generally unproductive uses. This has been an enormously complex process that is still very imperfectly understood (in fact, mainstream economics does not even recognize its existence); the point to be emphasized here is that far from having eliminated the stagnationist tendencies inherent in today's mature monopoly capitalist economy, this process has forced these tendencies to take on new forms and disguises. At the same time, it is necessary to emphasize that these changes in the form of stagnation do not mean that the possibility of a generalized collapse of the whole structure no longer exists. This is a “problematic” that has come increasingly to the fore in the last few years, as reflected in some of the more recent essays in this collection (see especially “The Financial Explosion”), and it is one that is very much in our minds as we write this introduction.

Among the forces counteracting the tendency to stagnation, none has been more important or less understood by economic analysts than the growth, beginning in the 1960s and rapidly gaining momentum after the severe recession of the mid-1970s, of the country's debt structure (government, corporate, and individual) at a pace far exceeding the sluggish expansion of the underlying “real” economy. The result has been the emergence of an unprecedentedly huge and fragile financial superstructure subject to stresses and strains that increasingly threaten the stability of the economy as a whole. This should become clearer as we present updated evidence on these developments.

The dramatic change in the role of debt is clearly revealed
Chart 1
Outstanding Debt and Gross National Product

in Chart 1, which compares the total outstanding public and private debt with Gross National Product (GNP). Debt is of course a natural and necessary ingredient of a business economy. In the normal course of events, it grows in tandem with business activity, slowing down or declining during business downturns and expanding to fuel recoveries. And that was the way it went prior to the renewed onset of stagnation. Thus, the ratio of outstanding debt to GNP hovered around 1.5 between 1950 and 1960. But a change in the relationship had already begun to show up during the 1960s: debt started to accumulate at a somewhat faster rate than GNP. This can be seen in the widening of the gap between the two lines. A spectacular shift, however, became manifest in the 1970s: the more stagnation spread, the greater the reliance on debt as a prop to the economy. As can be seen from the chart, the gap between the two lines accelerated after 1970. Between 1970 and 1980, the ratio of debt to GNP advanced from 1.57 to 1.7. That, it turned out, was only a prelude to the debt explosion in the 1980s. By 1985, the total outstanding debt was twice as large as that year’s GNP.

Especially significant is the way the increasing reliance on debt permeated every area of the economy. This can be seen in the growth patterns of debt in each of the four major components of the economy, presented in Table 1. The first line of the table includes state and local as well as federal indebtedness. In view of all the attention paid by the media and analysts to this area, it is useful to note that the rise in government borrowing was less than that of any of the other categories. In fact, government debt as a percent of the total declined from 34 percent in 1965 to 27 percent in 1985. What is particularly noteworthy, however, is that here as elsewhere debt dependency in the last fifteen years has been steadily increasing to compensate for a weakening private economy. Total government expenditures have been a major economic influence throughout the post-Second World War years, rising from 13 percent of GNP in 1950 to 20 percent in 1985. But while in the earlier years, surpluses in good years more or less balanced the deficits of recession periods, later on the pattern changed. Deficits began gradually to outweigh surpluses during the 1960s, and there-
Table 1. Outstanding Debt
(Indexes, 1965 = 100)

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<tbody>
<tr>
<td>Government(a)</td>
<td>100</td>
<td>123.1</td>
<td>182.4</td>
<td>284.5</td>
<td>585.8</td>
</tr>
<tr>
<td>Consumers(b)</td>
<td>100</td>
<td>140.1</td>
<td>226.8</td>
<td>421.2</td>
<td>696.5</td>
</tr>
<tr>
<td>Nonfinancial business</td>
<td>100</td>
<td>165.1</td>
<td>277.9</td>
<td>468.8</td>
<td>762.3</td>
</tr>
<tr>
<td>Financial business</td>
<td>100</td>
<td>200.5</td>
<td>421.6</td>
<td>917.0</td>
<td>1920.2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>144.6</td>
<td>236.5</td>
<td>414.4</td>
<td>742.4</td>
</tr>
</tbody>
</table>

Notes: a) Includes federal, state, and local governments.
       b) This category is called "households" in the source of these statistics. Although consumers are the overwhelming component, the data also include personal trusts, nonprofit foundations, private schools and hospitals, labor unions, and churches.

Source: Federal Reserve Board, *Flow of Funds Accounts.*

after reliance on deficits rapidly increased. During the 1970s as a whole, deficits were needed to pay for 8 percent of federal government expenditures, whereas during the first half of the present decade this proportion more than doubled to 17 percent.

The rise in consumer debt shown in the second line of the table has been fostered by two factors: a strong desire to own homes and cars on the one hand, and an energetic promotion of lending by banks and finance companies on the other. Whenever the effective demand for these big-ticket items showed a tendency to taper off, lending terms were eased to widen the market. This practice was stimulated not only by manufacturers and house builders, but also by finance companies seeking a bigger share of this profitable business. But while this activity has propped up sales of homes and consumer durable goods, it has also piled up a mountain of consumer debt that is fast approaching an unsustainable limit: in 1970 the outstanding consumer debt amounted to about 68 percent of after-tax consumer income; in 1985 it was close to 85 percent.

As can be seen from line 3 of the table, nonfinancial business has been no stranger to the feverish accumulation of debt. The dominant component of this category of course consists of corporations, some of which have undertaken major debt obligations to keep alive, and are hence forced to keep on borrowing
just to meet payments on past debt. Others, in contrast, have long been awash with idle cash, and many of these have also joined the parade. Unable to find profitable productive investment opportunities in the face of excess capacity and flagging demand, they have been eager participants in the merger, takeover, and leveraged buyout frenzy that has swept the country in recent years, becoming in the process both lenders and borrowers on an enormous scale. For all these reasons, nonfinancial corporations as a whole now carry a debt load of about $1.5 trillion, which, according to Felix Rohatyn, of the Lazard Frères investment banking firm, exceeds their total net worth by 12 percent. Moreover, Rohatyn points out, since 1982 the cost of servicing this debt has been absorbing 50 percent of the entire corporate cash flow. By comparison, during the 1976-79 recovery this cost averaged only 27 percent.*

But the most startling rate of growth in borrowing occurred in the financial sector itself (line 4 of Table 1). To a certain extent the numbers give an exaggerated impression of what actually happened. Since the debt of financial firms was relatively small in the base year, the rate of increase shows up as abnormally large when compared with the sectors that already had a much more substantial debt at the outset. Yet the transformation of the firms that are at the core of the debt explosion from minor to major borrowers is itself significant. Traditionally, most of these enterprises are intermediaries that receive otherwise idle funds, which are then lent out. But in the new financial environment, these firms have gone far beyond the role of intermediaries. They have themselves become large borrowers, thus stimulating a more rapid and intensive circulation of the economy’s cash reserves.

Once started, this self-expansion of the financial sector has turned into a complex and enormously powerful process, with the most far-reaching consequences. The following summary of what has happened and the resulting changes in the financial picture is especially interesting in that it comes, as one might

say, from the horse’s mouth—the Federal Reserve Bank of New York:

The volatility of prices for the entire spectrum of financial assets has risen considerably. In step with this development, new financial instruments—such as futures, options, and swaps—that provide additional ways to transfer price risks among market participants flourished. The active trading of these new instruments and of the more conventional instruments underlying them has burgeoned. The volume of financial transactions has accelerated at an unprecedented rate.

Competition has greatly increased in the whole range of financial services. Commercial banks, thrift institutions, investment banks, and insurance companies are all expanding the range of their activities and crossing over into each other’s traditional business preserves. Nonfinancial businesses are directly entering financial services as well. And foreign financial institutions are increasing their involvement in markets here at the same time that U.S. firms are expanding abroad. Competitive pressures have been compounded by the ongoing trend toward financial deregulation of the terms that institutions can charge or offer, the kinds of transactions in which they may engage, and the geographical markets they may enter. This increased degree of competition has squeezed earnings margins on many conventional financial activities, accelerating the development and diffusion of innovations.

The weakened economic and financial condition of major sectors—energy, agriculture, commercial real estate, and various developing countries—has diminished the credit standing of many borrowers. One consequence has been that in recent years the costs of capital and funding for some bank lenders to those sectors have tended to rise relative to the costs for high quality commercial credits. At the same time, the direct credit markets have become more accessible to business borrowers. Banks have had a difficult time competing with the commercial paper and securities markets for corporate credit demands, especially those of the “blue chip” firms. Indeed, in many cases, banks have sought to profit from the trend toward market financing by generating loans and selling them off, either directly or packaged as securities, or by expanding their roles as guarantors and distributors of capital market instruments.

All these forces—innovation, competition, deregulation, securitization, and the growth of trading—have combined to create a challenging environment.*

The fact that the essay from which this passage comes constitutes the bulk of the latest annual report of the New York Federal Reserve Bank is of special significance. In the past these annual reports have been rather humdrum summaries of business and banking developments in the preceding year. The decision to depart from tradition was made, according to the Bank’s president, because “the rapid transformations in the markets are unprecedented in their scope.” In fact, there can be little doubt that the real reason was not to supply information but rather to press the alarm button. The essay starts off by noting that “extraordinary economic imbalances and financial strains have marked the course of the recovery.” Although most of the danger spots are only gently hinted at, one specific reference to a potential disaster area boggles the mind:

And last November a major clearing bank for securities transactions experienced a severe computer problem that could not be put right before closing. As a consequence, this Bank extended a record $22.6 billion loan on an overnight basis.

That incident was well-contained and did not threaten to spill over to other institutions or markets. The computer difficulties were resolved the next day. But it dramatically points out the types of risks we face. Settlement disrupts stemming from more protracted operational problems may not be so limited in their consequences. And, of course, a settlement failure stemming from a default could play havoc throughout the financial system.

The possibility of settlement failures is only one of the areas of financial fragility, all of which, as the above quote implies, are parts of an extensive worldwide network of financial operations. Consciousness of this is what lies behind the warning, issued more recently by William Seidman, chairman of the Federal Deposit Insurance Corporation:

The financial area is probably, next to nuclear war, the kind of area that can get out of control, and once out of control cannot be contained and will probably do more to upset the civilized world than about anything you can think of.*

Aware as the monetary authorities may be of the dangers that lie ahead, their hands are nonetheless tied. And the reason

* Cited in the Financial Times, 29 May 1986. It should come as no surprise that a banker equates the “civilized world” with capitalism.
is precisely the fragility of the system. Interference by the government or the monetary authorities, other than efforts to put out fires when they flare up, carries with it the potential of setting off a chain reaction. This explains why at every critical juncture existing restraints on further financial expansion have been relaxed in order to avoid a major breakdown. The removal of controls has in turn opened the door to still more innovations that add to the fragility.

What is especially striking in the present situation is that the more the financial system has moved away from its role as facilitator of the production and distribution of goods and services, the more it has taken on a life of its own, a fact that can be seen most vividly in the mushrooming of speculative activity, which is closely tied in with the debt explosion of the last ten years, as well as with the day-to-day-operations of financial firms. Felix Rohatyn, an acute observer of the financial scene, claimed in the talk cited above that today we have the “most unfettered speculation seen in this country since 1929.” One indication of this is the jump in the average number of shares of stock traded daily on the New York Stock Exchange, from 19 million in 1975 to 109 million in 1985. Even more striking is the way the futures markets have come to dominate gambling activities. Back in 1960, futures contracts related almost entirely to commodities: in that year only 3.9 million contracts were written. This activity grew to 11.2 million in 1970, which was still within reason, given the growth in the economy. But the 1970s were a different story: by the middle of that decade, futures markets had been established in precious metals, foreign currency, and financial instruments. Other innovations followed (betting on the future of average stock prices, for example), and the dam burst. In 1980 over 92 million futures contracts were traded, in 1985 almost 160 million, with still no end in sight. This has become a major “growth industry” in the United States and is fast spreading to other major capitalist centers abroad.

Chart 2, comparing an index of the volume of futures trading with the Federal Reserve Board’s index of industrial production, presents a graphic picture of this speculative explosion. Prior to 1970, futures trading grew at roughly the same pace as
production. But then the economic slowdown of the 1970s set in, and production lagged while speculation skyrocketed. Since 1977, industrial production has increased 25 percent, the volume of futures trading by 370 percent! It is little wonder that Business Week (16 September 1985) editorialized: “Slow growth and today’s rampant speculative binge are locked in some kind of symbiotic embrace.”

Acknowledgment of this “symbiotic embrace,” however, leaves open the question of which is cause and which effect. A popular line of thought places the blame on speculation (including the hectic buying and selling of corporations) as the cause of the country’s industrial malaise. But for the diversion of funds to these wasteful activities, the argument holds, capital would be flowing into useful productive investment. On the other hand, Henry Kaufman, Managing Director of the Salomon Brothers investment banking firm and one of Wall Street’s most astute analysts, sees it just the other way around: “The rapid expansion in bank reserves against a sluggish economic backdrop yielded the classic result: funds sought financial assets, given that there was no need to finance real economic activity.”*

Kaufman’s view is clearly the realistic one. It should be obvious that capitalists will not invest in additional capacity when their factories and mines are already able to produce more than the market can absorb. Excess capacity emerged in one industry after another long before the extraordinary surge of speculation and finance in the 1970s, and this was true not only in the United States but throughout the advanced capitalist world. The shift in emphasis from industrial to pecuniary pursuits is equally international in scope.

The growing relative importance of “making money,” as distinct from “making goods,” in the U.S. economy is highlighted in Table 2. The first column presents the dollar amounts of GNP accounted for by industries engaged in producing and shipping goods (agriculture, mining, construction, manufacturing, transportation, and public utilities) in selected years from 1950 to 1985. The second column gives the dollar amounts of

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CHART 2
SPECULATION vs. PRODUCTION

Volume of futures trading

Industrial production

Source: Futures Trading Association and Federal Reserve Board.
Table 2. Growth of the Financial Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross National Product</th>
<th>Financial sector as a percent of goods production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Goods productiona</td>
<td>Financial firmsb</td>
</tr>
<tr>
<td>1950</td>
<td>153.3</td>
<td>32.2</td>
</tr>
<tr>
<td>1960</td>
<td>250.5</td>
<td>72.8</td>
</tr>
<tr>
<td>1970</td>
<td>440.7</td>
<td>145.8</td>
</tr>
<tr>
<td>1980</td>
<td>1144.6</td>
<td>400.6</td>
</tr>
<tr>
<td>1985</td>
<td>1566.7</td>
<td>626.1</td>
</tr>
</tbody>
</table>

Notes: a) Agriculture, mining, construction, manufacturing, transportation, and public utilities.
b) Banks, other finance companies, real estate, and insurance.

Source: National income and product accounts, as reported in Survey of Current Business, various issues.

GNP attributed to the financial sector (finance, real estate, and insurance) in the same years. As can be seen, in 1950 the financial sector’s contribution to GNP was 21 percent that of the goods sector; by 1985 this had almost doubled to 40 percent. Without doubt this reflects a structural change of unprecedented magnitude.

At this point we would do well to pause and reflect on the larger meaning of the dramatic developments of recent years that have been briefly passed in review in the last few pages. Underlying our analysis here and throughout this volume is a theory which, stripped to its barest essentials, sees the mature monopoly capitalist economy as one that is subject to, and indeed dominated by, a basic contradiction: the very growth of its productive potential puts insuperable obstacles in the way of making full use of available human and material resources for the satisfaction of the needs of the great mass of the population. What this means is (1) that in the absence of sufficiently powerful countering forces, the normal state of the economy is stagnation; and (2) that the real history of the system in its monopoly capitalist phase is determined by the interaction of the tendency to stagnation and the forces acting counter to this tendency.
On the face of it, this dialectic appears to be quite symmetrical—force versus counterforce, now one and now the other having the upper hand and neither able to establish long-run domination. But this is an illusion. The tendency to stagnation is inherent in the system, deeply rooted and in continuous operation. The counter-tendencies, on the other hand, are varied, intermittent, and (most important) self-limiting. We can best appreciate this lack of symmetry, not by an abstract argument but by a quick review of the history of the last half century. Stagnation reigned supreme in the 1930s, the counteracting forces generated by the First World War and its aftermath having exhausted their strength by 1929. The Second World War put an end to this phase; and the normal aftermath boom took over and played a dominant role for an unusually long period—during which, however, as noted above, the manifestations of the tendency to stagnation never completely disappeared. By the 1970s the forces that powered the long aftermath expansion finally petered out, and stagnation once again rose to dominance. At this juncture, a new set of counteracting forces which have been the focus of our analysis in this introduction went into operation, braking the slide into stagnation and maintaining for a few years a precarious balance between the underlying tendency and the counteracting forces. Once again, however, the latter have shown themselves to be essentially unstable and temporary. As we write these lines, the financial explosion that has speeded up so dramatically in the Reagan period is more and more obviously headed for a crisis.

If this analysis is correct, it has extremely important implications for all those, whether they consider themselves to be on the left or not, who are dissatisfied with the way the economy has been functioning in recent years. The reason is that it rules out the possibility of successful remedial action that leaves intact the system’s basic structure and working principles—or, in other words, that does not call into question the primacy of profit-making and capital-accumulation as the purpose and motor force of economic activity. Stagnation theory tells us—and history confirms—that a system so oriented and motivated is not, as mainstream economics has always claimed, a self-adjusting
and self-steering organism that automatically adheres to the path of long-run development. On the contrary, it is always tending to bog down under the weight of its own contradictions, and the conditions that foster a new lease on life, like major wars and speculative manias, do enormous damage and soon lose their efficacy.

Stagnation theory, in short, teaches us that what we need is not the reform of monopoly capitalism but its replacement by a system that organizes economic activity not for the greater glory of capital but to meet the needs of people to lead decent, secure, and, to the extent possible, creative lives. Once this lesson has been well and truly learned, we can give up the absurd fantasy of making a rotten system work for us, and buckle down to the increasingly urgent tasks of directly fighting for what ought to be the birthright of every member of a society that has any claim to consider itself free and democratic—a job, a steady income, a home, health care, and security in old age. If our ruling class and the government it controls cannot meet these elementary human demands, they should be thrown out and make way for another system that can and will. It is of course bound to be a long and difficult struggle, but it is the only one that makes sense.

The genius of our system is that ordinary people go out and vote against their interests... The way our ruling class keeps out of sight is one of the great stunts in the political history of any country.

—Gore Vidal. From an interview in The Progressive, September 1986