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‘Has Capitalism Changed?’

1 Orthodox Marxism Takes Stock

At the end of the Second World War many Marxian (and some non-Marxian) economists anticipated that a severe economic downturn, possibly in the same league as the Great Depression, would follow hard on the heels of the peace. When, a dozen years later, the expected crisis had still not materialised and the accumulation of capital was still proceeding rapidly and smoothly in the advanced capitalist countries, the Marxists were under pressure to reappraise their entire political economy. The most important analytical issues concerned the relationship between Marxism and Keynesian theory, and will be considered in the following Chapter. Here we deal with a broader set of questions relating to the possibly changed nature of capitalism. Marx himself had expected the structure of capitalist economies to alter over time, but he had provided little guidance on the limits (if such there were) to the evolution of the system.1

By the mid-1950s there was a new ‘revisionist controversy’ (see Chapters 4 and 14 of volume I of this book). ‘Neo-Fabian writers have claimed’, Maurice Dobb wrote in 1957, ‘that capitalism has either entered on a new and reformed stage that differs radically from the capitalism of the nineteenth century, or even has ceased to be capitalism and is already turning into something else.’2 Among these ‘neo-Fabians’ were prominent politicians such as C.A.R. Crosland and John Strachey. Crosland in particular was the intellectual leader of the ‘revisionist’ stream in the British Labour Party, which hoped to purge the party’s constitution and programme of any elements of Marxist influence. Similar movements were growing in Germany (where the anti-Marxist Bad Godesberg Programme adopted in 1957 reflected their success, and the ideas of Eduard Bernstein were rediscovered), and in almost every other advanced capitalist nation with a significant Labour or Social Democratic party.3
As Dobb conceded, there was certainly a case for Marxian economics to answer. The sustained prosperity of the previous decade could not be attributed entirely to recovery from the war:

As for the so-called pent-up demand arising out of war-time conditions and war-time devastation, this must have played a rapidly diminishing role in sustaining industrial activity in the course of the nineteen-fifties. What needs explaining, particularly over the last three or four years (i.e. since the recovery from the American recession of 1953–4), is the persistent boom of private investment . . . alike in this country, in West Germany and in North America, in the face of a ‘tapering-off’ of previously mounting armament expenditures and in face of rising interest rates and credit stringency. This fact is the more remarkable and cries out the more insistently for explanation, since all that we learned both from theory and from experience in the inter-war period leads us to expect from monopoly capitalism, the more it develops, a mounting degree of excess capacity of plant and equipment and a tendency to stagnation in investment and rate of growth.4

The neo-Fabians explained these phenomena, Dobb continued, in terms of three factors. First, there was the ‘managerial revolution’, which was supposed to have removed control over industry from the capitalist class and placed it in the hands of a new managerial elite whose activities rendered investment decisions less volatile and encouraged the growth of private planning. Second, the so-called ‘income revolution’ of recent decades had greatly reduced economic inequality in all the advanced industrial countries, increasing the average propensity to consume and stimulating aggregate demand. Finally, the substantial increase in the economic influence of the state had contributed greatly to economic stability. The first two factors could be easily dismissed, Dobb argued; since the owners of capital retained control over its disposition, the supposed managerial revolution was spurious, and the growth in equality of incomes had been very modest.5 By contrast, the ‘big extension of state monopoly capitalism’ since 1939 was genuine, and the expansion of state expenditure (especially on arms) had ‘played an important part in maintaining the high level of industrial activity and employment that has been characteristic of the past twelve years’.6

Dobb suggested two further developments which had contributed to the post-war recovery. One was ‘internal accumulation’, financed by retained profits rather than external funds supplied by the banks; this tended to encourage investment expenditure by large companies, whose decisions no longer required ratification by outside financiers.7 The other was the accelerated pace of innovation, bound up with the ‘automation’ of industrial processes, which promoted revolutionary changes in techniques, increased the rate of investment and reduced its volatility in the face of
changes in demand. The resulting boost to department I, Dobb concluded, had offset the underconsumptionist tendencies which might otherwise have adversely affected department II. But this did not imply that 'the upward phase can go on indefinitely, as some neo-Fabians would like to have it, converting a novel “phase” (which I think we have to recognise it as being) into a quite new “stage”'. The new phase was, as he noted two years later, one of 'more frequent, but also more short-lived and shallow crises'. There was no evidence that the contradictions of capitalism had been surmounted. They had merely taken on a new, inflationary form, and another depression could certainly not be ruled out.

In the Soviet Union, Eugen Varga had argued in a book written in 1945–6 and published in September 1946 that the process of economic recovery would occupy the major capitalist powers for at least ten years, given the impoverishment of Europe, China and Japan caused by the war. The augmented economic powers of the state would prove permanent, Varga predicted, and would be invoked if a serious crisis appeared imminent. Conscious planning was replacing the anarchy of the market, giving the state a degree of autonomy; it could no longer simply be described as the creature of the financial oligarchy. But Varga was denounced as a heretic for suggesting that the bourgeois state could overcome the inherent laws of commodity production, and for elevating state capitalist tendencies into a new, crisis-free stage of capitalist development. He recanted in 1949, and the official Soviet position remained, throughout the Stalin era and into the Khrushchev years, what it had been before 1939. There was an essential continuity in 'monopoly capitalism' since the First World War. In the 'general crisis of the capitalist system' the world was divided into 'imperialist' and 'socialist' camps. No long-term stabilisation of capitalism was possible. On the contrary, its contradictions were becoming ever sharper, militarism was rampant, civil liberties were constantly under threat, and the revolutionary potential of the proletariat was growing. There were ambiguities in the Soviet line, notably with respect to the possibility of temporary stabilisations, the inexorable growth of state capitalist tendencies, and the continuation of internal rivalries within the imperialist camp. On balance, however, the official line stated that capitalism was, in essence, unchanged.

Decolonisation also offered a challenge to the traditional Communist world view. The relinquishment of formal imperial control over vast areas of Asia, Africa and the Caribbean in the two decades after 1945 was, at first sight, difficult to reconcile with the Hilferding-Lenin theory of imperialism, according to which the division and re-division of the globe was an essential feature of the highest stage of capitalism. Was not the liberation of the colonies clear proof that the supposed economic contradictions which had provoked imperialist expansion before 1914 had been substantially overcome, if indeed they had ever operated with the severity required by Leninist orthodoxy? (See Chapter 13 of volume I of this book.) Varga took Indian
independence very seriously indeed, while one of the most influential works of the new revisionism, John Strachey's *End of Empire*, argued that the 'Hobson–Lenin' theory of imperialism was based on underconsumption, and had been rendered irrelevant by the substantial growth in real wages in metropolitan capitalist countries during the twentieth century. The old imperial powers no longer profited from the colonies, Strachey maintained. Thus West Germany, with no overseas possessions, had recovered from the war more rapidly than France, which had paid a heavy price for its continuing imperialist pretensions.¹¹

Marxist theoreticians responded to these developments with a variety of arguments, which were not always mutually consistent. Most denied that the European powers had given up their colonies voluntarily. For the British Communist R. Palme Dutt, writing in 1953, the 'bankruptcy of Western imperialism' reflected the fact that the former colonisers could no longer maintain their domination by the previously successful combination of violence and divide-and-rule. British capital's half-hearted attempt to preserve at least some of its empire was crippling the nation's recovery from the war because of the 'economic and military overstrain' which it caused. Most colonial powers soon abandoned the effort. 'Weakened by the two world wars', as Paul Baran put it four years later, 'and no longer able to withstand the pressure from national liberation movements in the colonies, the imperialist powers were forced to bow to the inevitable and to grant political independence to those countries in which the anti-imperialist forces were strongest, in which they could not possibly expect to maintain further their colonial rule' (see Chapter 9 below).¹²

By the early 1960s the Trotskyist Ernest Mandel was viewing the question from a rather different perspective. Mandel accepted that decolonisation was 'an inevitable concession by the metropolitan bourgeoisie to the colonial bourgeoisie'. But it corresponded to an important change in the economic relations between metropolis and periphery, in which the export of means of production was playing a much more important role (and exports of consumer goods a less significant part) than before. The (ex-)colonial bourgeoisie was now seen as a customer, Mandel suggested, rather than as a competitor, and could thus be permitted greater independence of action. State intervention to promote the establishment of heavy industry in the former colonies could only benefit the engineering industries in the West, which were also subsidised by economic 'aid' to the poor countries.¹³

Mandel, Dutt and Baran all agreed that formal independence masked continuing informal control over the economic and political life of the ex-colonies. Lenin himself had cited Turkey, Egypt and China as examples of real dependence hiding behind a purely nominal national sovereignty. Eire and Iraq had been added in the inter-war years to a list which had lengthened considerably since 1945. Thus, Dutt argued, British finance capital continued to own very important sectors of the Indian economy,
drawing tribute from it, and US capital was also moving in fast. Imperialism had not ceased to exist, Dutt concluded; it had simply assumed a different disguise. A new phase of 'neo-colonialism' or – in Mandel's words – 'neo-imperialism' had emerged (see Chapters 9 and 10 below).

Such was the view from the West. As the official ideology of a state which was courting the newly-independent nations, however, Soviet Marxism had to be rather more circumspect. Thus Y.A. Kronrod, contributing to an international symposium in 1961, saw decolonisation as both a genuine liberation and a major threat to economic stability in the capitalist heartland:

By the world-wide collapse of the colonial system, the former colony-holders have lost or are losing the sources of the unfair, self-favouring redistribution of the material resources of their colonies. A radical change in their national industrial structure is an imperative necessity now that they are, stripped of their colonial privileges, compelled under desperate competition in the markets of the world to hold their ground 'with equal chances'. Moreover, their old colonies are fast turning into new industrial competitive forces in the arena of the world economy.

On this interpretation decolonisation had intensified the contradictions of advanced capitalism, and was thus consistent with the general theme of Lenin's *Imperialism*.

II 'Has Capitalism Changed?'

Kronrod was the Soviet representative in an international debate organised in 1958–9, the results being published in book form in 1961 by Shigeto Tsuru, a Japanese economist who had worked with Paul Sweezy before the war on the development of underconsumptionist theory, and who was known for his attempts to synthesise Keynesian and Marxian macroeconomics. Tsuru set the agenda for discussion by asking whether capitalism had 'undergone sufficient evolution to become immune to the type of major depression like the one of 1929–33'. The United States had experienced 20 years of economic growth without a serious crisis. This could not be attributed entirely to war and preparations for war, as prosperity had already survived significant reductions in arms spending in 1945–7 and 1953–4. The avoidance of depressions could not be explained in terms of a new wave of technical progress associated with an upswing in the 50 year Kondratiev cycle (see section I of Chapter 1 above), as some Marxists were suggesting. The new 'scientific-industrial revolution' dated from 1954 at the earliest, while there had been 10 year cycles of the traditional kind in all previous Kondratiev booms. Changes in economic policy did provide a
partial answer, Tsuru admitted, since the scope of effective demand failures had been limited by the 1946 US Employment Act, coupled with banking reforms, farm price support and the growth of built-in fiscal stabilisers. Institutional changes had also occurred, most notably the increase in equality in the distribution of income achieved by US trade unions, which had raised the average propensity to consume and was only partially offset by increased profit margins in the fix-price oligopoly sector. 19

Tsuru himself stressed the importance of military spending in maintaining demand, given that there seemed to be a ceiling of about 16 per cent on the ratio of private investment to national income in the United States. Other, more transitory, factors were at work, especially the (now declining) US export surplus and the unsustainably rapid expansion of consumer credit. There remained powerful tendencies towards stagnation, Tsuru believed. Political opposition to the growth in civilian government expenditure would prevent it from increasing sufficiently to offset a sharp decline in the military sector. Sustained prosperity required high investment, and hence high profits. Capitalists would, however, resist anything which threatened to encroach upon private investment, whether it was higher wages, increased welfare benefits or low-cost public housing projects. If economic growth was indeed to continue, Tsuru argued, it could only be at the expense of massive waste, in which accelerated obsolescence, vast advertising costs and permanent militarisation would all contribute to the maintenance of effective demand. 20

What of the notion, widely aired among reformist socialists, that the distinction between socialism and capitalism was becoming blurred? Tsuru rejected the idea that capitalism and communism were slowly but inexorably converging. 21 A mode of production is defined by the location of control over the surplus product. The essential characteristics of capitalism, Tsuru suggested, were fourfold: profit is the motivating force of economic activity; it is controlled by private capital; it is very largely devoted to accumulation; and there exists continuous pressure upon economic agents to realise profit through the sale of commodities. None of these characteristics had significantly changed. The giant corporations remained committed to the maximisation of secure, long-term profits, despite the separation of ownership and control; the state had secured only a small proportion of the surplus product through corporate profit tax; rising retention ratios enforced a decreasing propensity to consume out of profits; and the pressure to sell was stronger than ever. 22 ‘At least in the case of the United States’, Tsuru concluded, ‘the characteristic features of capitalism as a mode of production are definitely there’. 23

Tsuru’s assessment was supported, and amplified, by Paul Sweezy and Paul Baran. Sweezy emphasised the weakening, under monopoly capitalism, of the connection between technical progress and investment. The introduction of new technology could now be financed, he suggested, from the corporations’ depreciation reserves without any net stimulus to effective
demand whatever, and a rapid rate of innovation was therefore fully consistent with economic stagnation. As for the reduction in income inequality, this entirely pre-dated 1945; there was no inherent or long-run tendency towards increased equality. Finally, Sweezy attacked the simplistic view that, just because increased state expenditure would be beneficial to US capitalism, it would inevitably occur. This overlooked both the 'ideological blinkers' which led capitalists to mistake their true long-run interests, and the existence of conflicts between the long-run interests of the bourgeoisie as a whole and the short-run interests of particular segments of it. For Sweezy the capitalist state was neither a neutral intermediary nor the passive tool of a united ruling class. Economic policy-making was the subject of continuous struggle, and at least in the US case the opponents of increased public expenditure generally came out on top.24

Paul Baran provided a longer, more thorough and more detailed reformulation of underconsumption theory. Underconsumption had to be viewed as a tendency, Baran suggested, which could be offset by opposing forces. Since 1870 the productivity of workers in US industry had grown much faster than their real wages. The result was a massive increase in the economic surplus as a share of total output, and its growing concentration in the hands of a steadily decreasing number of giant enterprises. Hence the tendency to underconsumption, since neither capitalist consumption nor investment was able to provide sufficient effective demand to absorb the ever-increasing surplus. Against the stagnationist pressures to which this gave rise must be set the increase in unproductive and wasteful expenditures, especially in the form of product differentiation and advertising costs in the private sector and of military spending by the state. In consequence profits now represented only part of the economic surplus; wasteful surplus-absorbing expenditures accounted for the rest. This meant that underconsumption theory was not refuted either by the failure of profits to rise, or of consumption to fall, as a share of aggregate output. Capitalism remained prone to stagnation on the grounds of underconsumption output (see Chapter 6 below).25

Marxism of a slightly more conventional strain was represented by Y.A. Kronrod, Maurice Dobb and the French Communist, Charles Bettelheim. Kronrod's analysis echoed that of the inter-war Eugen Varga (see Chapter 1 above). Despite the greatly increased role of the capitalist state, Kronrod argued, a world-wide crisis of overproduction could not long be avoided. All the structural changes which had occurred in Western capitalism were contradictory. The growth of monopoly caused production to grow more rapidly than the market could expand, and the increase in state expenditure was inflationary, which tended to reduce real wages and restrict working-class purchasing power. The growth of 'non-productive' (service) activities offered only a temporary respite from underconsumptionist pressure.26 Bettelheim's argument was essentially similar, denying the ability of the bourgeois state to suppress the fundamental economic laws of capitalist
society and attributing the crisis-free years after 1945 to the growth of wasteful selling costs and military expenditures.27

As we saw in the previous section, Dobb was more cautious than this. There were two extreme arguments, he suggested in his contribution to Tsuru’s symposium; both were erroneous. It was wrong to assert that nothing had changed, and equally wrong to see capitalism evolving into an entirely new system. The growth of the state, the acceleration of technical progress and the demise of finance capital were important developments, but they did not ‘in any way justify talk of a “new stage” or alter in any fundamental respects our estimate of capitalism as a system and of its future’.28

None of the Marxian contributors to Has Capitalism Changed? made any reference to the economic coordination on a world scale which had been facilitated by initiatives such as the Marshall Plan and, in a more permanent form, through institutions like the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade. Not until the 1980s, when the international economic order looked increasingly fragile, was its significance appreciated by Marxian writers (see Chapter 16 below). Nor was any attempt made to assess the relevance of Marx’s immiseration doctrine to a period of steadily rising real wages. This was left to Ronald Meek, whose highly critical analysis of the Marxian theory of wages in 1962 was never effectively countered by more orthodox writers.29

In the symposium itself the two dissenting voices were those of J.K. Galbraith and John Strachey. Galbraith’s rather complacent neo-Keynesian optimism served to minimise the influence which his stress on the exercise of concentrated economic power might otherwise have exerted on contemporary Marxian thought. His contribution added little to his book American Capitalism, in which he had described how the burgeoning monopoly power of the big corporations had been matched by the new ‘countervailing power’ of the state, the trade unions, farmers’ organisations, consumer cooperatives and the ‘mass distributors’ (chain stores and supermarkets). Strachey’s was an altogether more substantial contribution. He retained enough of his pre-war Marxism (see Chapter 1 above) to assert the continued existence of the underconsumptionist dilemma: high profits are both a necessary condition for full employment and (because they depress consumer demand) its destroyer. The growth of oligopoly made this contradiction more (not less) acute, since price rigidity widened profit margins, worsened inequality and reduced the self-adjusting powers of the market. There was no final escape from this dilemma under capitalism, Strachey argued, but its horns could be blunted if the working class used the state apparatus to increase effective demand by redistributing income from rich to poor and by increasing public expenditure on socially useful civilian projects. To a very considerable extent this was what had happened in Western Europe since the war. Even the New Deal had been a partial success, Strachey urged, and US
capitalists would eventually come to recognise their true long-run interests. Stagnation and increasing waste were not the only alternatives. 30

Qualified support for this conclusion came from Ernest Mandel, who had not participated in Tsu's symposium but was publishing prolifically on Marxian political economy in the early 1960s. In his encyclopaedic Marxist Economic Theory, first published in French in 1962, Mandel described 'the epoch of capitalist decline' which dated from 1900 as one in which the state was increasingly invoked to protect monopoly profits by taking responsibility for unprofitable basic industries, making direct and indirect subsidies to private capital, and providing profit guarantees. Military expenditure helped to stabilise department I by supplying 'replacement markets' for the products of heavy industry, while state welfare benefits and the stability of wage incomes achieved by the unions served to maintain the level of demand in department II. While there remained important stagnationist forces in the modern capitalist economy, state intervention had been able to prevent a repetition of the 1929 disaster. 31

In his Introduction to Marxist Economic Theory, which appeared two years later, Mandel claimed that the growth of state involvement had given rise to what he termed 'neo-capitalism'. 32 This was a system characterised by economic planning and a policy of accommodation with, and significant concessions to, the organised working class. Neo-capitalism was in part a temporary phenomenon, associated with the upswing of the Kondratieff long wave and likely to end with it. To the extent, however, that it reflected capitalists' desperate need to avoid another Great Depression and their recognition that unregulated market mechanisms were no longer viable, neo-capitalism might be here to stay. But it was still capitalism:

We can draw the following conclusion from all this: state intervention in economic life, managed economy, economic programming, indicative planning, are not the least bit neutral from the social point of view. They are instruments of intervention into the economy which lie in the hands of the bourgeois class or of the ruling groups in the bourgeois class, and are in no sense arbitrators between the bourgeoisie and the proletariat. 33

Nowhere was this clearer than in the state's attempts to plan wages. Incomes policies were capitalist measures aimed at protecting profits by reducing the share of wages in the social product and integrating the unions into the system. 34

III The Frankfurt School and the Primacy of the Non-Economic

This theme of working class incorporation featured prominently in the post-war writings of the 'Critical Theorists': the Frankfurt School and those
influenced by it. Of all the Marxist theoreticians active in the two decades after 1945, it was the Critical Theorists who drew the most radical conclusions from the changed nature of contemporary capitalism. Profoundly affected by fascism and by the emergence of Stalinism as a repressive ideology of state power, the Frankfurt School rejected the deterministic, positivistic strand in those variants of Marxism which took natural science as their paradigm. Critical Theorists opposed, to the authoritarian and bureaucratic Leninist vanguard party, a libertarian vision of human self-emancipation. They renounced mechanical theories of economic breakdown in favour of a more complex and subtle analysis of the interplay between social institutions, ideology and politics. As Bottomore notes, the Frankfurt School transformed the very notion of 'the political' by extending it to such phenomena as the division of labour, bureaucracy, culture and the family in addition to property ownership and the state apparatus. The determining role of the economic was correspondingly reduced. Critical Theory emphasised instead the increasing integration of 'economic' and 'political' questions; the growth of planning and bureaucratic control at the expense of the market; the continual rationalisation of social life; and the intensification of the division of labour, which fragmented tasks and atomised the working class, no longer able to comprehend and organise against its own alienation.35

Some of the implications for Marxian political economy were drawn out by Herbert Marcuse in his study of Soviet Marxism. Hilferding and Kautsky had shown how it was possible for inter-capitalist conflicts to be superseded by a stable, hierarchically-organised world economy (see volume I of this book, Chapter 14). After 1945 these potentialities had been realised, Marcuse argued, in the face of the compelling need to compete with the USSR. The old rivalries between imperialist powers had disappeared in the face of the East–West confrontation, and had been replaced by an 'inter-continental political economy' which was based on planning rather than the anarchy of the market:

The need for the total mobilisation of all material and mental forces necessitated the abolition of laissez-faire in economic and cultural life, the methodical control of the political process, and national regrouping under the actual hierarchy of economic power – at the expense of cherished national sovereignties. The overriding interest of Western society as a whole modified national and class interest.

The outcome was something very close to Hilferding's 'general cartel', subject to the ultra-imperialist hegemony of the United States. As for labour, Marcuse adopted Arnold Toynbee's distinction between the 'internal' and 'external' proletariats. For the latter, located in ex-colonial territories and in isolated ghettos in the West, little had changed. The former was integrated into the capitalist system and rewarded for its loyalty
with improved living standards and a modicum of political influence. Like the Leninist theory of uncontrollable imperialist rivalries leading to war, Marcuse argued, Marx’s expectation of proletarian revolution in the advanced capitalist countries had become Utopian.36

Friedrich Pollock reinforced this conclusion in his study of the consequences of automation. Pollock expected the new technology to widen the already substantial gulf

between a small group of highly qualified ‘managers’, engineers and specialists on the one hand and the vast mass of wage-earners on the other. The reason for this lies not only in the personal qualities of the two groups but also in their technical and administrative training. The activity of the ‘hands’ is now generally confined to carrying out quite elementary operations or in following simple instructions, the very purpose of which they have no need to understand.

The long-run effects of automation, Pollock hinted darkly, might include the evolution of ‘a new form of society’, based upon authoritarian or military principles, in which the rule of the ‘economic general staff’ of highly qualified specialists would be accepted without challenge, and capitalists would lose their economic function.37

For both Marcuse and Pollock, then, the transformation of post-war capitalism had reduced the working class to fragmentation and passivity. This fundamentally pessimistic perspective was opposed in 1961–2 by a Greek economist based in Paris who, while not formally associated with the Frankfurt School, was considerably influenced by it. Paul Cardan (the nom-de-plume of Cornelius Castoriadis) wrote of a ‘bureaucratic capitalism’ in which the economic contradictions identified by traditional Marxism had been successfully overcome. Marx’s analysis of the falling rate of profit was fatally flawed, Cardan claimed, while underconsumption had been avoided by the continuous increase in workers’ living standards. State intervention now restricted cyclical fluctuations to very narrow limits, so that ‘for all practical purposes full employment has been permanently achieved. Provided they conform, wage earners, whether manual or intellectual, can face the prospect of endless employment. Except for minor fluctuations, production expands by a considerable percentage from year to year.’ Real wages rise at roughly the same rate. Allowing for the steady increase in investment and in government expenditure, this meant that ‘the market problem has been essentially solved’. Thus, Cardan concluded, ‘A crisis of 1929–33 proportions is today quite inconceivable, outside of a sudden epidemic of collective lunacy, simultaneously affecting large numbers of capitalists and their economic advisors’.38

For Cardan, however, this did not imply either that capitalism was free of all contradictions or that the working class was doomed to passive
acceptance of the status quo. These two points were closely related. The
basic flaw in Marx's political economy, Cardan argued, was its assumption
that in capitalism social agents are completely 'reified' (that is, reduced to
objects by the operation of uncontrollable economic laws). Both Marx's
theory of exploitation and his analysis of economic crises assumed that
neither workers nor capitalists could influence the functioning of the
economy. But this is belied both by the capitalists' ability to organise
state-managed and crisis-free accumulation, and by the constant struggle
of the working class over every aspect of the capitalist economy, from the
level of wages and the pace of investment to the structure of production and
the nature of technical change. The existence of class conflict at the point of
production testifies that there are limits to reification. It points to what in
Cardan's opinion is the real and fundamental contradiction of modern
capitalism: its need to solicit the participation of workers (without which
profitable production would be impossible) and at the same time to limit this
participation (lest they organise to do away with capitalism itself). The true
dynamic of capitalist society, Cardan concluded, is the dynamic of the class
struggle, which is reflected in the growing number of unofficial strikes over
the control and speed of production.39

Similar terrain was traversed (in a rather different fashion) by Jürgen
Habermas, the foremost member of the second-generation Critical Tho-
rists. Although his most important book, Legitimation Crisis, was published
as late as 1973, its relevance to the theme of the present chapter is
unmistakable. Habermas denied that 'organised or state-regulated capital-
ism' had been able to do away with economic crises altogether. The
underlying law of the tendency for the rate of profit to decline – and here
Habermas parted company with all the other writers involved in this
controversy except Mandel – was still operative. But crises had changed
the form in which they appeared, with the traditional decline in production
and employment being replaced by inflation, constant pressure on govern-
ment finances, and a growing disparity between private affluence and public
squalor.40 Class relations had become political, so that 'economic processes
can no longer be conceived immanently as movements of a self-regulating
economic system'. The provision of collective goods by the state, although
essential to cheapen constant capital and increase the rate of exploitation,
cast doubt upon the generality of the labour theory of value, which could
not be applied to education, technology or science. Wage determination,
too, had been severed from the law of value and become quasi-political,
reflecting a class compromise attained through collective bargaining.41

There are analogies between Habermas's ideas and the concept of 'state
monopoly capitalism' (or stamocap) which was official ideology in East
Germany, treating the state as a collective capitalist which replaced the
spontaneous operation of market forces with central planning. Habermas
objected that this view of the state as a mere agent of the monopolists was
oversimple, and also exaggerated its power to plan rationally. But he did accept the most important element of *stamocap* theory, which was the increasingly open political nature of economic activity. Economic crises could be averted, but only at the cost of displacing the pressures which lay behind them into other spheres of social life. Class conflict and exploitation remained of fundamental importance, but now found their expression in political and social – rather than narrowly economic – instability.\textsuperscript{42}

This conclusion elevated the question of ideology to a central position in political economy. One result of the growth of state intervention, Habermas maintained, was the collapse of ‘the basic bourgeois ideology of fair exchange’ and its replacement by the notions of formal political democracy and actual rule by a technocratic elite of planners. This raised the possibility of two types of political crisis: a ‘rationality crisis’ resulting from the system’s inability to provide the successful economic management which it had promised its citizenry; and a ‘legitimation crisis’ when it could in consequence no longer retain mass loyalty. In the socio-cultural sphere this would engender a ‘motivation crisis’ due to the system’s failure to ‘generate the requisite quantity of action-motivating meaning’.\textsuperscript{43}

Whereas Cardan saw the germ of a revolutionary grass-roots mass movement in the withdrawal of consent by workers on the shop floor (and was partially vindicated in the May 1968 revolt in France), Habermas’s conclusions were much less incisive. He claimed to be replying to ‘the not-yet-satisfactorily answered question “Has capitalism changed?”’:\textsuperscript{44} but it is far from clear precisely what his answer was. Having overcome its traditional economic contradictions, capitalism faced the prospect of a withdrawal of legitimation by its workers. This constitutes a ‘permanent crisis’ which, Habermas seems to argue, threatens its continued existence. Just how this threat might become effective remains somewhat obscure.\textsuperscript{45}

\section*{IV Unending Boom, Unfinished Business}

We can certainly agree with Habermas that Tsuru’s question had not been satisfactorily answered. Capitalism \textit{had} changed, but to what degree and with what implications for Marxian political economy remained deeply controversial. The periodisation of capitalist development, the criteria for identifying a new stage, the way in which this might differ from a new ‘phase’: these issues would recur, without being resolved, in later decades. The central analytical problem of the relationship between Marx and Keynes underlay many of the disagreements on more practical questions. It was very widely discussed by economists of all persuasions, and forms the subject of the following chapter.

Many of the remaining unresolved issues were debated most vigorously in the years after 1965, when the fragility of post-war prosperity began to
become apparent. One controversy raged around the underconsumptionist views of Baran and Sweezy, which were especially influential in the United States; we deal with their analysis of 'monopoly capital' in Chapter 6. The volume III account of the tendency for the rate of profit to decline was generally offered as an alternative to underconsumption, though occasionally it was combined with it in a synthetic model of crises. This forms the subject of Chapter 7. For the Marxist theories of advanced capitalism, a very important question concerned the economic effects of military expenditure in either stimulating capital accumulation or (as Dutt had suggested) constituting a heavy burden upon it. The implications of the 'permanent arms economy' are discussed in Chapter 8. Finally, the apparent failure of the post-war prosperity to encompass the ex-colonial territories of the Third World became a prominent issue in the 1960s. The 1960s and 1970s saw an explosion of Marxist and neo-Marxist literature on economic development, which went far beyond the rather unimpressive earlier treatment of decolonisation. The whole of Part III (Chapters 9–11) is devoted to the new theories of imperialism which emerged.

In all these debates the primacy of the economic contradictions of capitalism was taken for granted by almost all participants. This is not to accuse them of vulgar economic determinism; Baran and Sweezy in particular paid considerable attention to political, ideological and cultural issues. But the insights of Critical Theory were not seriously applied to economic questions until, from the mid-1970s onwards, the deficiencies of more traditional approaches to the explanation of crises became apparent. In many recent crisis theories the role of working-class self-activity, of legitimation and motivation, have taken pride of place, as we shall see in Chapter 16.

Notes

10. Marcuse, Soviet Marxism, pp. 38–62, 68–9; see also Chs 1 and 2 above.
15. Mandel, Marxist Economic Theory, p. 480
18. S. Tsuru, 'Has Capitalism Changed?', in Tsuru, Has Capitalism Changed?, p. 3.
23. Ibid, p. 56.
The Long Boom

33. Ibid, p. 76.
34. Ibid, pp. 73–5.
36. Marcuse, Soviet Marxism, pp. 33–7; cf. N. Moszkowska, 'Erwartung und Wirklichkeit', Periodikum für Wissenschaftlichen Sozialismus, 16, 1960, p. 10. See also Ch. 9 below.
38. P. Cardan, Modern Capitalism and Revolution (Bromley: Solidarity, 1965), pp. 28, 63.
41. Ibid, pp. 52, 55. See also A. Przeworski, Capitalism and Social Democracy (Cambridge: Cambridge University Press, 1985).
43. Habermas, Legitzation Crisis, pp. 36, 49.
44. Ibid, p. 31, where Habermas refers explicitly to Tsuru's book.