Discussion—three

What is happening to Capitalism?

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The most common belief today among those who still think about the social sciences is that Capitalism has been broken in, harnessed and bridled, so that its earlier tendencies to dash itself to pieces have disappeared. C. A. R. Crosland thinks that domesticated Capitalism is so different from the wild variety that it ought to have a different name, though he does not now know what to call it. John Strachey, in *Contemporary Capitalism,* believes that the animal, though manifestly on its last legs, may choose to run wild again rather than succumb peacefully. J. K. Galbraith puts the issue succinctly when he wrote: "An angry god may have endowed capitalism with inherent contradictions. But at least as an afterthought he was kind enough to make social reform surprisingly consistent with improved operation of the system." *(The Great Crash, 1929.* p. 173.) But Galbraith was careful to add, on the next page, that "now, as throughout history, financial capacity and political perspicacity are inversely correlated. Long-run salvation by men of business has never been highly regarded if it means disturbance in the present."

With difference in emphasis the contention of both Crosland and Galbraith is that the degree of social reform which has been forced on a more or less recalcitrant capitalist class goes far to explain the unexpected duration and stability of the post-war boom. How far is this true? How far has capitalism either ceased to exist or radically changed its nature?

To over-simplify for reasons of compression, traditional socialist doctrine held that the capitalist, driven by competition to maximise his profit, sought always to maximise output while minimising wages. This produced inevitably a growing tendency towards crises of overproduction of which the crisis of 1929-32 was an extreme example, with fascism and war among its bye-products.

Mr. Crosland regards this as music of the past. For one thing the "contemporary business leader" no longer makes profits in order to raise his own standard of living. "He seeks them—partly, of course, because in the long run his own remuneration depends on the success of the company: but mainly because his social status, power, and prestige depend directly on the level of profits . . . Thus profit remains an essential personal and corporate incentive—but largely as a source of strength and influence, and not as an avenue to a privileged consumption position for the capitalist." *(The Future of Socialism,* pp. 35-6.) This is astonishing, when put forward as a reason for revising the traditional socialist view. Marx's analysis of capitalism emphasised that whereas the pre-capitalist commodity producer sells his commodities for money in order to buy commodities to consume—Marx's formula is c-m-c, where c stands for commodities and m for money—it is characteristic of the capitalist to exchange money for commodities to sell for more money—the formula being m-c-m' (where m' represents a greater quantity than m). "But, so far as he is personified capital, it is not values in use and the enjoyment of them, but exchange-value and its augmentation, that spur him into action . . . Only as personified capital is the capitalist respectable. As such, he shares with the miser the passion for wealth as wealth." *(Capital,* I. chap, xxiv.) Joan Robinson expressed the orthodox Marxist view when she wrote that: "profit is desired mainly as a means of accumulating capital, rather than capital being desired mainly as a means of consuming profit." *(The Accumulation of Capital,* p. 392). If capitalism means the accumulation of capital at maximum rate and if it is this tendency which leads to instability and crisis, there has been no change in this respect since 1939 or 1945.

More plausible and more frequent is the claim that economic power—the power to make decisions on production, investment, the allocation of resources, prices, etc.—has passed from the owners of capital to the managers, "to a largely non-owning class of salaried executives, who suffer singularly little interference from the nominal owners." (Crosland, cf. pp. 62-4). The nominal owners are the shareholders who are dispersed, unorganised and increasingly incapable of exercising control over large aggregates of capital. Real power passes, inevitably, to a class of managers whose interests do not coincide with those of the shareholders. An extreme version of this view was developed by James Burnham in *The Managerial Revolution.* Members of this school are required to perform a conjuring trick in which the board of directors vanishes into thin air so that there is nothing between amorphous shareholders and decision-making managers. Once the board of directors is put back into the picture the falsity of the 'managerial' view becomes apparent. Directors usually represent, or are, large shareholders. It is certain that power, within the class of shareholders, is increasingly concentrated in the hands of few and large investors, who have their own fish to fry and who may not always please the small men. It is eccentric, however, to put this forward as a refutation of Marx, who also had something to say about the concentration of capital. It is extravagant to present this development as a change in the nature of Capitalism, though it may have certain important effects on the way in which the system operates.

Perhaps the most convincing argument for Capitalism having changed its nature is the theory of the income revolution. Now, it is claimed, the working class enjoys a higher share in the national income than pre-war, which has stabilised the system by increasing the demand for consumer goods. This theory is usually defended by a partial examination of the distribution of income since 1945. The most thorough examination of oost-war changes has been made by Dudley Seers. In an article in the *Bulletin of the Oxford University Institute of Statistics,* for February, 1956, he shows that the proportion of wages to the Gross Domestic Product (including stock appreciation) in Britain in 1938 was 40%. In 1954 it stood at 40 %. This does not bear out the theory of an income revolution.

Other figures, however, are used in support of the theory. The share of wages in the total of personal incomes has risen from 38% in 1938 to 44% in 1954. The main reason for the discrepancy is that dividends have risen by much less than profits. A. much higher proportion of profits is now put to reserve or ploughed back while a much lower proportion is paid out in dividends. Undistributed profits, of course, are included in the Gross Domestic Product. They are excluded from the total of personal incomes because they belong to the shareholders collectively and not individually.

Compared with pre-war, shareholders spend a higher proportion of their dividend income, and re-invest less. They can do this with equanimity because money is being saved for them in the form of undistributed profits, which enhance the capital value of their shares. Capital gains resulting from this are, of course, tax-free. So are expense allowances through which business men maintain a level of expenditure substantially higher than their money incomes would allow. For all these reasons, to speak of an income revolution on the evidence of a change in the distribution of personal incomes seems quite unwarranted.

This is not quite the whole story. If account is taken of changes in taxation and in relative prices the share of wages in total personal incomes rises, in 1954, from 44 to 47 %. This three point rise probably reflects the extent of the change. It is a change in the right direction but it does not seem commensurate with extravagant claims about income revolutions and new social orders. It may not even be permanent, since the percentage had risen to 50 in 1950 and seems to have been forced down to 47 (Seers says that some margin of error must be allowed for here) by regressive taxation and subsidy policies since 1951. The proportion of income that goes in social security benefits has risen from 6 % in 1938 to 8% in 1954, which is also no cause for undue excitement. In 1946 the proportion was 9%.

It must be admitted that the change looks and feels greater than the figures show. If this were not the case the dubious statistical basis for the theory of income revolution would have been widely apparent. Important changes there have been but they have occurred in relations within, not between, classes. Full employment has done much and family allowances have done something to reduce the extremes of poverty. Modest increases in real wages have a disproportionate effect on the standard of living when earnings are regular and there is more than one breadwinner in the family. The considerable lessening in extreme poverty is obvious. The fact that millions of skilled manual and clerical workers have raised their living standards slightly or not all is less immediately apparent to those not directly involved. Similarly while boom profits have raised some middle-class shopkeepers, farmers and business men to the level of the upper middle class, millions of middle-class people who have no access to an expense account or tax-free capital gains are living at an economic level below that of the nineteen thirties. A partial examination which compares the lessening of working-class poverty with the straitened circumstances of sections of the middle class, and which stops at that point, can lead to quite lop-sided conclusions.

Though labour receives only a slightly higher proportion of the national income in Britain than it did before the war the national income itself is certainly higher. For almost every year since the end of the war it has continued to rise at a significantly faster rate than during the 1930s. A continuation of these tendencies throughout the 1950s and 60s will result, in the event of organised labour maintaining its pressure, in a further significant rise in working-class living standards. If British Capitalism can continue along this path there is no reason to expect a revolutionary change in society in the foreseeable future. During the inter-war decades, admittedly, living standards were also rising, but more slowly than in the post-war period, and disturbed by economic crises of unprecedented severity. Even during years of economic revival unemployment persisted at a level that would now be considered intolerable, while a tenth of the population lived in distressed areas where misery was widespread. Clearly Capitalism has been functioning differently since the war and equally clearly this has not been brought about by any major re-distribution of incomes or extended social services.

A main explanation is the rise in the price levels of primary products, which began in 1939 and continued after the end of the war. This has meant, both harsher terms of trade for Britain and, because of the improved purchasing power of primary producers, easier markets for her exports. With a high exports level—60% higher in the 1950s than in 1938—together with a heavy demand for capital equipment for Britain's war dilapidated industry, plus very high spending levels on armaments, it is hardly surprising that Britain's post-war economic problems have centred round inflation and the balance of payments rather than round deflation and unemployment as in the 1930s. The prolongation of the boom depends very largely on maintaining and increasing the purchasing power of primary producers.

Certain structural changes in contemporary capitalism also work in the direction of greater stability. The two million workers in the nationalised industries depend for their jobs upon government development programmes rather than the vagaries of private investment. And the fact that more private investment now takes place out of company reserves, which have grown vastly, and less by calls on the capital market, almost certainly makes a good deal of such investment steadier and less jerky than in the past, so that the post-war recessions in textiles and the motor trade have not so far tended to snowball.

An extension of nationalisation and controls at home can further stabilise investment and strengthen those forces making for full employment. The greatest danger is in the sector of the economy least subject to control: here, energetic aid to the industrialisation of the under-developed countries and the expansion of East-West trade are obviously crucially important if the dangers are to be averted over a relatively long period.