

*The New* \_\_\_\_\_  
**INTERNATIONAL**

**SOCIALIST POLICY  
AND THE WAR**

*By Max Shachtman*

**THE PERMANENT WAR  
ECONOMY—PART III**

*By T. N. Vance*

**On Tanks and Dentures**

*By Henry Judd*

**England — Germany**

*Contributions to Discussion*

**Leon Trotsky on "Workers' Control"**

**35¢**

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**May-June 1951**

# MEMO

We continue to hear from friends all over the world in response to the circular we sent out a couple of months ago.

*Great Britain:* "It has been very good indeed to receive the NI and *Labor Action*, most especially the former, as there is no theoretical journal here. Though we may appear to be very silent, in fact, the articles in NI are very carefully read, and, on the whole, agreed upon as to their soundness and thoroughness..."

*Argentina:* "I have the greatest interest in receiving both organs of yours, but my financial situation is worse than the NEW INTERNATIONAL and *Labor Action*. My last work was at the daily newspaper *La Prensa*, recently expropriated by the government, and at this moment I am unoccupied. Excuse me if I can't contribute to pay the subscriptions, but I am an eager reader of the newspaper and the magazine..."

*Japan:* "We wish first of all to thank you for sending us THE NEW INTERNATIONAL and *Labor Action*, and we would much appreciate if you continue to send us the same..."

*Bolivia:* "I have also received a new number of NI, and I am very happy with it. In spite of our differences, there is indubitable progress, especially in the articles of H. Judd and M. Shachtman in the appreciation of the British working class movement. Your press is read here not only by me, but also by a group of friends... who have learned English especially in order to read your press. I am very content, as they did this by my 'inspiration.'"

Due to the long delay in sea mail, replies are still coming in from the more distant parts of the world. But we want to remind our foreign readers once more: if you have not already done so, let us hear from you. Otherwise you will not receive the next issue of NI.

Here at home, our appeal to our readers to send in special contributions over and above their subscriptions, in order to make it possible for us to send the magazine to many abroad who cannot

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pay for it, has not resulted, so far, in much of a response. We want to appeal to you once more: a few dollars go a long way with the NI. But our dollars are all too few.

L. G. SMITH

## THE NEW INTERNATIONAL

An Organ of Revolutionary Marxism

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# The Permanent War Economy

## Part III—Increasing State Intervention

"When we are sick we do not let nature take its course, but send for a doctor or surgeon. . . . As in the physical world, so in the economic world." Thus spoke R. C. Lefingwell of J. P. Morgan & Co. in a speech reported in the *New York Times* of March 22, 1934, making it amply clear that the doctor in the economic world is the Federal government, i.e., the state. Not all sections of the American bourgeoisie supported state intervention as the remedy for the depression, but decisive support was forthcoming for the essential features of Roosevelt's "Dr. New Deal." Capitalism was seriously ill, to the point of prostration. Traditional methods of recovery, relying upon the "automatic" forces of the market had been tried and failed. Only state intervention could pump blood (profits) into the arteriosclerotic veins of a desperately sick economy.

The depression has been succeeded by the Permanent War Economy, but state intervention in the economy remains. In fact, it has increased until *state monopoly capitalism* provides an alternative description for the new stage of capitalism. Inasmuch as some degree of state intervention has obtained ever since the existence of national states, the nature, purposes and consequences of state intervention re-

quire somewhat detailed analysis to reveal precisely what is new in the situation.

The growing state intervention in the capitalist economy, which distinguishes it from the traditional or *laissez-faire* phase of capitalism, is an outgrowth of financial imperialism. This was clearly perceived by Lenin (*Imperialism: The Highest Stage of Capitalism*, p. 25) when he wrote: "Capitalism in its imperialist stage arrives at the threshold of the most complete socialization of production. In spite of themselves, the capitalists are dragged, as it were, into a new social order, a transitional social order from complete free competition to complete socialization. Production becomes social, but appropriation remains private. The social means of production remain the private property of a few. The general framework of formally recognized free competition remains, but the yoke of a few monopolists on the rest of the population becomes a hundred times heavier, more burdensome and intolerable."

The intercorporate arrangements that caused production to become social at the turn of the twentieth century have first been regularized and then controlled by the state as the twentieth century has unfolded. The preservation of "the yoke of a few monopolists" is now inconceivable

without the direct and indirect support of the state, whose ubiquitous interference in daily life manifests itself in a thousand and one ways. At first, as Lenin indicates, ". . . state monopoly in capitalist society is nothing more than a means of increasing and guaranteeing the income of millionaires on the verge of bankruptcy in one branch of industry or another." (*Imperialism*, p. 39) State intervention in the Great Depression of the 1930's was characterized exclusively by the objective of restoring the profits of the millionaires, and in this it was largely successful.

Events have a logic of their own. The restoration of the rate of profit could not be followed by an abandonment of state intervention. On the contrary, like a patient who has recovered from an almost fatal illness solely through taking medicine containing habit-forming drugs, the enduring "health" of capitalism demands the continuation of the "habit-forming drug" of state intervention. This becomes obvious as the economy of depression is followed by the Permanent War Economy. There are differences, however. Not only is state intervention more extensive, but it is no longer confined to restoring the profitability of "sick" industries. The most decisive sections of capital are subjected to state control and direction, but the reward is the virtual guarantee of the profits of the bourgeoisie as a class.

THE GROWTH OF THE STATE BUREAUCRACY and the increasing consumption of surplus value by the state in the form of increasing taxes are both evidence of increasing state intervention and we shall examine the facts below. Increasing domination of the apparatus of state control by representatives

of monopoly capital is an even more impressive feature of the new capitalism. Lenin, with his remarkable insight into the function of capitalism in its imperialist stage, also anticipated this development. Referring to finance capital as the "personal union" between banking and industrial capital, he states (*Imperialism*, p. 42): "The 'personal union' between the banks and industry is completed by the 'personal union' between both and the state." (Italics mine—T. N. V.) And the union between finance capital and its state is of the most personal nature possible through the appointment of outstanding representatives of "big business" to positions of authority in the administration of virtually all state controls affecting production, distribution and prices—and therefore profits.

The rationalization for state intervention in the depression was provided by John Maynard Keynes, who showed why traditional wage-cutting methods could not restore effective demand and the rate of profit. According to Keynes, restoration of effective demand could not be left to private control of investment decisions. "I conclude," says Keynes in *The General Theory of Employment, Interest, and Money* (p. 320), "that the duty of ordering the current volume of investment cannot safely be left in private hands." Thus, the role of the state is a steadily increasing one: "I expect to see the State . . . taking an ever greater responsibility for directly organizing investment." (*The General Theory*, p. 164)

Despite certain of his critics, especially the unreconstructed advocates of *laissez-faire*, the purpose of state intervention in the Keynesian system is to preserve capitalism. A perfectly fair and thoroughly valid appraisal

of Keynes is provided by the American Keynesian, Seymour E. Harris, in his introduction to *The New Economics: Keynes' Influence on Theory and Public Policy* (p. 5): ". . . 'it may be well to insist that Keynes was essentially a defender of capitalism. Only the stupidity of those whom he supports can account for any other interpretation. *Keynes indeed offers government a larger degree of control over the economic process and a larger degree of operation than the old-fashioned classical economist; but his motive is to save capitalism, not destroy it. . . . Keynes wanted government to assume responsibility for demand, because otherwise the system would not survive.* [My Italics—T. N. V.] It was possible to have both more government activity and more private activity—if unemployment could only be excluded. And above all, Keynes would not remove the foundations of capitalism: free choice, the driving force of the quest for profits, the allocation of resources in response to the price incentive."

Keynes' own appraisal of his rôle accords quite closely with that of Harris. In the concluding notes to *The General Theory* (pp. 380-381), he writes: "Whilst, therefore, the enlargement of the functions of government, involved in the task of adjusting to one another the propensity to consume and the inducement to invest, would seem to a nineteenth-century publicist or to a contemporary American financier to be a terrific encroachment on individualism, I defend it, on the contrary, both as *the only practicable means of avoiding the destruction of existing economic forms in their entirety* and as the condition of the successful functioning of individual initiative. [Italics mine—T. N. V.]

"For if effective demand is deficient, not only is the public scandal of wasted resources intolerable, but the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him. The game of hazard which he plays is furnished with many zeros, so that the players *as a whole* will lose if they have the energy and hope to deal all the cards. Hitherto the increment of the world's wealth has fallen short of the aggregate of positive individual savings; and the difference has been made up by the losses of those whose courage and initiative have not been supplemented by exceptional skill or unusual good fortune. But if effective demand is adequate, average skill and average good fortune will be enough.

"The authoritarian state systems of today seem to solve the problem of unemployment at the expense of efficiency and of freedom. *It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated—and, in my opinion, inevitably associated with present-day capitalistic individualism.* But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom." [Italics mine—T. N. V.]

The passage is remarkable, both for its typical expression of Keynes' fundamental thesis that only state intervention can save capitalism from destroying itself through mass unemployment and, for an otherwise first-rate economist, his complete inability to understand the origin and nature of profits. Why "effective demand" periodically is "deficient" requires an insight into the inner workings of capitalism impossible to attain without such basic Marxian tools as the

labor theory of value, the laws of capital accumulation and the falling average rate of profit. Of this Keynes is incapable for, with all his emancipation from the fetishism of Marshallian economics, he still attributes the ability of capital to increase its magnitude (profits) to its "scarcity." Thus (*The General Theory*, p. 213), "the only reason why an asset offers a prospect of yielding during its life services having an aggregate value greater than its initial supply price is because it is *scarce*; and it is kept scarce because of the competition of the rate of interest on money."

While Keynes' "theory" of profits is, of course, sheer nonsense, it does not detract from his rôle as chief theoretician justifying state intervention. To quote the leading American Keynesian, Alvin H. Hansen, in an essay entitled, "The General Theory," contained in Harris' book previously cited: "David McCord Wright, in a recent article on the 'Future of Keynesian Economics' (*American Economic Review*, June, 1945), put his finger quite accurately on the basic change in *outlook* effected by the 'Keynesian Revolution.' We cannot follow, he says, the main lines of Keynes' argument and say that the capitalist system, left to itself, will automatically bring forth sufficient effective demand. Keynes' ideas 'derive much of their unpopularity because they form the most widely known arguments for intervention even though such intervention may be quite capitalist in nature.' It is the analysis of the problem of *aggregate demand*, together with the implications of this analysis for practical policy, which challenges the old orthodoxy."

Under the Permanent War Econ-

omy, state intervention in the capitalist economy not only expands, but also takes on added functions. The problem is no longer one of buttressing effective demand to eliminate unemployment. From an economy being undermined by deflationary forces, there has occurred a complete shift to one in which inflationary forces predominate. State intervention must therefore, in the first instance, now be concerned with controlling production and prices. Demand has become too effective and must be curbed; the state must also take such measures as are necessary to allocate supplies so as to achieve the desired balance between the war and civilian sectors of the economy.

The increase in state functions, accompanied by a loss in the effectiveness of the capitalist market, has meant a colossal expansion in government expenditures, which, in turn, has necessitated a phenomenal increase in taxes. The relationship of government income to current production and surplus value from 1939 to 1950 is shown in Table I.

In 1939, at the beginning of the Permanent War Economy, total government receipts were \$15.4 billion, with Federal government receipts two billion dollars less than State and local government receipts. Starting in 1941, Federal government receipts rise sharply, dwarfing the relatively modest increase in State and local government receipts. By 1950, while the latter had more than doubled compared with 1939, the former had increased more than six times, with the result that total government receipts had more than quadrupled.

Even after government receipts of social insurance contributions, which have virtually tripled since 1939, are subtracted from total government re-

TABLE I  
RELATIONSHIP OF GOVERNMENT INCOME TO CURRENT PRODUCTION  
AND SURPLUS VALUE, 1939-1950  
(Dollar Figures in Billions)

Year	Total Government Receipts (1)	Federal Government Receipts (2)	State and Local Government Receipts (3)	Total Gov't. Receipts of Social Insurance Contributions (4)	Total Gov't. Receipts of Taxes (Col. 1 minus Col. 4) (5)*	Net National Product (6)**	Taxes as % of Prod. (Col. 5 divided by Col. 6) (7)	Surplus Value (8)†	Taxes as % of Surplus Value (Col. 5 divided by Col. 8) (9)
1939	\$15.4	\$6.7	\$8.7	\$2.1	\$13.3	\$83.2	16.0	\$39.9	33.3
1940	17.8	8.7	9.1	2.3	15.5	93.0	16.7	46.3	33.5
1941	25.2	15.7	9.5	2.8	22.4	117.1	19.1	60.5	37.0
1942	32.9	23.2	9.7	3.5	29.4	151.6	19.4	79.3	37.1
1943	49.5	39.6	9.9	4.5	45.0	183.7	24.5	94.0	47.9
1944	51.8	41.6	10.2	5.2	46.6	201.8	23.1	103.0	45.2
1945	53.7	43.0	10.7	6.1	47.6	202.8	23.5	104.7	45.5
1946	51.7	39.7	12.0	6.0	45.7	198.9	23.0	106.3	43.0
1947	57.8	44.0	13.8	5.7	52.1	218.4	23.9	119.6	43.6
1948	59.8	43.9	15.9	5.2	54.6	241.7	22.6	136.3	40.1
1949	56.2	39.2	17.0	5.6	50.6	236.8	21.4	131.2	38.6
1950†	62.2	42.7	19.5	5.7	56.5	257.0	22.0	142.0	39.8

\*Includes gross tax receipts plus minor amounts of nontax income.

\*\*From Table I of previous article in March-April issue of *The New Internationalist*.

†From Table VIII of previous article in March-April issue of *The New Internationalist*.

‡State and local government receipts and receipts of social insurance contributions are estimated. The official figure for net national product in 1950, when released, will probably be about \$2 billion higher than our estimate.

ceipts, total government receipts of taxes of all forms, including certain fees and related payments, have increased from \$13.3 billion in 1939 to an estimated \$56.5 billion in 1950. In other words, the cessation of hostilities, aside from minor declines in 1946 and 1949, has not been accompanied by any diminution in the state's appetite for surplus value. This becomes crystal clear when we examine columns seven and nine in Table I, portraying the share of government income in both total production and surplus value.

In 1939, one-sixth of current production and one-third of surplus value went to the state (all branches). This

represented, so to speak, the fruits of state intervention in the depression. Under the impetus of the rapid increase in war outlays and increasing government controls, these proportions rose rapidly until in 1943 almost one-fourth of current production and nearly one-half of surplus value went to the state. In spite of steady declines from 1943 to 1949, there has been no question of restoring pre-war relationships. Even in 1949, the state consumed 21.4 per cent of current output and 38.6 per cent of surplus value. In 1950, these percentages increased to an estimated 22 and almost 40 per cent, respectively. With the present rapid increase in war outlays

and Federal tax rates, it is obvious that these ratios will climb rapidly toward their wartime peaks.

ALTHOUGH IT IS TRUE, as shown in the last article on "Declining Standards of Living," that a sizable portion of taxes comes from the working classes, the bourgeoisie contribute the major share to the upkeep of the state. Hence, the loud hue and cry from the all sections of the capitalist press for "elimination of government waste." This is quite understandable when roughly two out of every five dollars accruing to the bourgeoisie go to support its state. Admittedly, there is considerable room for numerous savings in government operations without in any way impairing the functions of the state. Yet, before we shed tears for the "plight" of the American bourgeoisie, we would do well to examine its profits position. For, despite the huge overhead cost of the capitalist state, the bourgeoisie has never been so well off financially as it is today.

Naturally, when state expenditures exceed state receipts, *i.e.*, income derived from current production, the difference must be covered by state borrowing, representing essentially income derived from past production. The periodic rapid increase in the government debt becomes a potent source of inflationary pressure on the economy. In fact, state income and expenditures, or fiscal policy, are by far the most powerful single factor in determining the level at which the economy operates. Besides exerting great influence on the size of the national product, the nature of state fiscal policies in large measure ordains the composition of the national product among the various classes. To a significant extent, therefore, the personnel of the state bureaucracy be-

comes, as it were, an arena for the conduct of the class struggle. This is obviously the case where class pressures are exerted on Congress and State and local legislatures. It is equally true and, in certain cases, more so, when policy can be influenced or modified by administrative action, within the Executive branch of government. The recent attack of the United Labor Policy Committee on "big business domination of the Defense Program," and particularly on Defense Mobilizer Charles E. Wilson is a perfect illustration of the corroding impact of the Permanent War Economy on the functioning of capitalism, as well as the inordinate power that is concentrated in the hands of a single individual who is merely an appointee.

Controlling supply and prices, to mention only the obvious, requires a far larger state bureaucracy than the relatively simple function of buttressing effective demand, which was the chief rôle of the state during the depression. The war economy also demands a permanent increase in the military bureaucracy, aside from the periodic need to assure an adequate supply of cannon fodder. As a consequence, omitting from consideration the period of World War II itself, the state's claim on the employable labor force has increased markedly, as can be seen from Table II.

The total employed labor force, including the armed forces, has increased from 46,120,000 in 1939 to 61,457,000 in 1950, an increase exceeding fifteen million, or approximately one-third. This is without reference to the fact that the total employed labor force reached a peak of 65,220,000 in 1944 at the height of the war. In part, this was accomplished by a

**Table II**  
**RELATIONSHIP OF GOVERNMENT EMPLOYMENT TO TOTAL EMPLOYED LABOR FORCE, 1939-1950**

(In Thousands)

Year	Total Labor Force, incl. Armed Forces (1)*	Annual Average Unemployment (2)**	Total Employed Labor Force (Col. 1 minus Col. 2) (3)	Total Federal Gov't Employment (4)†	Total State and Local Gov't Employment (5)‡	Total Gov't Employment (Col. 4 plus Col. 5) (6)	Gov't Employment Ratio (Col. 6 ÷ Col. 3) (7)
1939	55,600	9,480	46,120	1,286	3,287	4,573	9.9%
1940	56,030	8,120	47,910	1,587	3,306	4,893	10.2
1941	57,380	5,560	51,820	3,032	3,299	6,331	12.2
1942	60,230	2,660	57,570	6,326	3,235	9,561	16.6
1943	64,410	1,070	63,340	12,020	3,126	15,146	23.9
1944	65,890	670	65,220	14,395	3,092	17,487	26.8
1945	65,140	1,040	64,100	14,254	3,124	17,378	27.1
1946	60,820	2,270	58,550	5,841	3,339	9,180	15.7
1947	61,608	2,142	59,466	3,616	3,564	7,180	12.1
1948	62,748	2,064	60,684	3,442	3,752	7,194	11.9
1949	63,571	3,395	60,176	3,655	3,895	7,550	12.5
1950	64,599	3,142	61,457	3,370	4,000	7,730	12.6

\*From Table D of "The Permanent War Economy," Jan.-Feb. 1951 issue of *The New Internationalist*, with actual 1950 substituted for estimate of 64,900,000.

\*\*From Table C of "The Permanent War Economy," Jan.-Feb. 1951 issue of *The New Internationalist*, with actual 1950 substituted for estimate of 3,100,000.

†Breakdown shown in Table II-A; excludes Federal work relief employment totaling 3,216,000 in 1939, 2,792,000 in 1940, 2,192,000 in 1941, 909,000 in 1942, and 85,000 in 1943.

‡Breakdown shown in Table II-A; excludes State and Local work relief employment totaling 39,000 in 1939, 38,000 in 1940, 17,000 in 1941, and 5,000 in 1942.

sharp reduction in the amount of unemployment and, in even larger part, by absorbing new entrants into the labor force arising from the growth in population.

Meanwhile, total State and local government employment increased from 3,287,000 in 1939 to 4,000,000 in 1950 (despite a slight decline during the war)—an increase of close to 25 per cent. This, however, is less than the increase in the total employed labor force. The growth in the state bureaucracy, as is only natural, is largely accounted for by the increase in total Federal government employment, which rose from 1,286,000 in 1939 to 3,730,000 in 1950—an increase of almost 200 per cent. Thus,

total Federal government employment, which was two million less than total State and local government employment in 1939, almost equalled the latter in 1950. The result is that total government employment has increased from 4,573,000 in 1939 to 7,730,000 in 1950—a rise of 69 per cent during the first eleven years of the Permanent War Economy.

The government employment ratio, set forth in column seven of Table II, tells the story so far as the over-all growth in the state bureaucracy and its relationship to total employment is concerned. From a ratio of less than ten per cent in 1939, meaning that only one employed person out of ten was on a government payroll, there

occurred a steady rise to 12.2 per cent in 1941 and then a phenomenal increase during the war to a peak of 27.1 per cent in 1945. In other words, during the height of World War II, more than one employed person in every four was being supported by the state! Following the end of the war, there was, naturally, a rapid decline in the government employment ratio, until it reached a low of 11.9 per cent in 1948, with an increase since then to 12.6 per cent in 1950.

Again, the highly significant fact is that there is no return to the prewar relationship, even in the case of the government employment ratio. Instead of one out of ten belonging to one or another segment of the state bureaucracy, as was the case in 1939, we now have one out of every eight employed persons in this category. We have already exceeded the government ratio that prevailed in 1941 and are moving rapidly toward the relationship that existed in 1942. For the government employment ratio to in-

crease beyond this level, approaching the fantastic heights of 1943-1945, would undoubtedly require participation by American imperialism in an all-out war effort. Nevertheless, the warnings are apparent on every hand that manpower, even more than strategic materials, will be the limiting factor in the current effort of American imperialism to contain and then to destroy Stalinist imperialism. Parenthetically, this is the decisive reason why American imperialism must seek and maintain allies, and why the MacArthur policy, to the extent that it would jeopardize this fundamental strategic aim, is suicidal.

The composition of government employment, as shown in Table II-A, reveals the crucial importance of manpower and demonstrates that not even American imperialism can maintain an economy of "guns and butter, too" if we assume that all-out war is in the offing.

Let us suppose, for example, that an all-out war effort against Stalinist

imperialism will compel about the same manpower utilization by the military and Federal civilian bureaucracies as took place in 1944, and that it is desired at the same time to sustain the civilian economy at current high levels. An increase of almost eleven million in Federal employment over 1950 would be needed. Even allowing for full absorption of the unemployed, and the normal increase of several hundred thousand a year in those seeking work for the first time, there would still be a shortage of between seven and eight million. Even reducing State and local government employment to the 1944 level would save less than 900,000. Thus, private civilian employment would have to be reduced by six to seven million, or an equivalent amount of married women, retired workers and others not presently considered part of the labor force would have to be induced to seek and to accept employment. In either case, the impact on civilian output, aside from any shortages in materials or productive capacity, would be substantial.

Abstracting from the war situation itself, however, there has been approximately a tripling in the size of the Federal civilian bureaucracy, which rose from 571,000 in 1939 to an estimated 1,568,000 in 1950. Even more dramatic has been the increase in the military bureaucracy, which increased from 342,000 in 1939 to an estimated 1,500,000 in 1950—a growth of well over 300 per cent. As a permanent feature, the size of the military forces (without regard for the current build-up in connection with the Korean war) exceeds the number employed in public education. What a sad and fitting commentary on the moral bankruptcy of capitalism! Of at least passing interest is the sizable increase

in the number of State and local government non-school employees, which declined from 1,877,000 in 1939 to 1,700,000 in 1944 and then rose to an estimated 2,342,000 in 1950—representing a growth of more than 25 per cent from 1939 to 1950. Even the cost of local police and bureaucratic functions increases!

Although the figures are still relatively small, the increase in employment in government enterprises, from a combined total of 516,000 in 1939 to an estimated 863,000 in 1950, is noteworthy—not only because this is an increase of almost 70 per cent, and nearly 80 per cent for Federal government enterprises alone, but because of the steadily rising trend. The sphere of nationalized production is gradually being enlarged, and this is not just a question of the postoffice, but rather of public utilities and atomic energy and, to some extent, transportation. It is no longer solely a question of nationalizing those industries that are incapable of operating at a profit. A new element has been injected and it has arisen only because of the dual aims of the war economy. Private capitalists either lack the resources or cannot be entrusted with such vital war tasks as development of synthetic rubber and atomic energy. Profitability is not the decisive consideration, but *survival*. The state, as the executive committee of the bourgeoisie, can do what no single capitalist or group of capitalists can do. Unlimited sums can be poured into any project which is deemed essential, whether it is profitable or not.

More than eleven per cent of government employment is currently to be found in nationalized enterprises. The process of erosion has begun, even in America, the stronghold of capitalist private property. While

**TABLE II-A**  
**COMPOSITION OF GOVERNMENT EMPLOYMENT, 1939-1950\***  
(In Thousands)

Year	FEDERAL			STATE AND LOCAL		
	Civilian, except work relief	Military	Government Enterprises	Public Education	Non-school, except work relief	Government Enterprises
1939	571	342	373	1,267	1,877	143
1940	653	549	385	1,273	1,872	161
1941	957	1,676	399	1,281	1,846	172
1942	1,719	4,154	453	1,270	1,794	171
1943	2,519	9,029	472	1,244	1,709	173
1944	2,545	11,365	485	1,226	1,700	166
1945	2,444	11,302	508	1,224	1,734	166
1946	1,864	3,434	543	1,277	1,883	179
1947	1,462	1,599	555	1,334	2,042	188
1948	1,408	1,468	566	1,369	2,187	196
1949	1,443	1,604	608	1,422	2,277	196
1950**	1,568	1,500	662	1,457	2,342	201

\*These breakdowns of columns four and five of Table II represent full-time and part-time employees.

\*\*Estimated.

**TABLE III**  
**CORPORATE SALES, PROFITS AND TAXES, 1929-1950**  
 (Billions of Dollars)

Year	Corporate Sales (1)	Corporate Profits Before Taxes (2)	Corporate Tax Liability (3)	Corporate Profits After Taxes (Col. 2 minus Col. 3) (4)	Corporate Sales minus Gross Profits (Col. 1 minus Col. 2) (5)	Corporate Sales minus Net Profits (Col. 1 minus Col. 4) (6)
1929	\$138.6	\$9.8	\$1.4	\$8.4	\$128.8	\$130.2
1930	118.3	3.3	0.8	2.5	115.0	115.8
1931	92.4	-0.8	0.5	-1.3	93.2	93.7
1932	69.2	-3.0	0.4	-3.4	72.2	72.6
1933	73.0	0.1	0.5	-0.4	72.9	73.4
1934	89.6	1.7	0.7	1.0	87.9	88.6
1935	102.0	3.2	1.0	2.2	98.8	99.8
1936	119.5	5.7	1.4	4.3	113.8	115.2
1937	128.9	6.2	1.5	4.7	122.7	124.2
1938	108.6	3.3	1.0	2.3	105.3	106.3
		*	*	*	*	*
1939	120.8	6.5	1.5	5.0	114.3	115.8
1940	135.2	9.3	2.9	6.4	125.9	128.8
1941	176.2	17.2	7.8	9.4	159.0	166.8
1942	202.8	21.1	11.7	9.4	181.7	193.4
1943	233.4	25.0	14.4	10.6	208.4	222.8
1944	246.7	24.3	13.5	10.8	222.4	235.9
1945	239.5	19.7	11.2	8.5	219.8	231.0
1946	270.9	23.5	9.6	13.9	247.4	257.0
1947	347.8	30.5	11.9	18.6	317.3	329.2
1948	381.3	33.9	13.0	20.9	347.4	360.4
1949	359.7	27.6	10.6	17.0	332.1	342.7
1950*	409.0	39.8	17.7	22.1	369.2	386.9

\*Estimated, with corporate sales based on the same proportionate increase over 1949 as total business sales; corporate profits and taxes estimated by Council of Economic Advisers based on actuals for first three quarters of 1950.

some of the more class-conscious capitalists are prone to question where it will all end, they are all consoled by the *actuality* of profits exceeding anyone's imagination.

HAND IN HAND WITH THE INCREASE in taxes and the permanent growth in the state bureaucracy go an enormous increase in business and a fantastic increase in profits. This can readily be seen from an examination of the data for corporate sales, profits and taxes, shown in Table III.

We have shown the data for corporate sales, profits and taxes from

1929 to 1950, in order to demonstrate conclusively how the Permanent War Economy, with all its increasing state intervention, has paid off handsomely for the bourgeoisie. Although corporate tax liability for the decade 1929-1938 was negligible, totaling \$9.2 billion for the entire ten years, corporate profits could not reach 1929 levels by a very sizable amount. Even corporate sales remained below 1929 despite state intervention during the depression. For the first ten years of the Permanent War Economy, however, corporate sales went up by leaps and bounds, reaching a level of \$381.3 bil-

lion in 1948 and by 1950 were almost three times the level of 1929! Even when allowance is made for the depreciation of the dollar, the absolute increase in physical sales is fairly impressive. At the same time, corporate taxes totalled \$97.5 billion for the first decade of the Permanent War Economy—a burden ten times that of the previous decade. Nevertheless, corporate profits *after* taxes increased from \$20.3 billion in the decade 1929-1938 to \$113.5 billion in the decade 1939-1948, an increase in the mass of net profit amounting to 459 per cent!

The superiority of war and war economy over the New Deal and public works, so far as the capitalist class is concerned, is unmistakably clear. As a matter of fact, the inclusion of 1929 profits distorts our comparison of the depression era with the Permanent War Economy. Proper procedure would begin the comparison with the year 1930. For the nine-year period, 1930-1938, corporate profits after taxes equalled \$11.9 billion, while corporate sales minus gross profits totalled \$881.8 billion, yielding a rate of profit of 1.3 per cent. Take any nine years of the first twelve years of the Permanent War Economy, and what a difference! From 1939 to 1947, for example, corporate profits after taxes equalled \$92.6 billion, while corporate sales minus gross profits totalled \$1,762.3 billion, yielding a rate of profit of 5.3 per cent.

The pump primer of increasing war outlays produced a doubling of sales and, even with the gigantic increase in taxes, a 678 per cent increase in the mass of net profits and a 308 per cent increase in the rate of profit! Increasing state intervention does, after all, have some good points. The Permanent War Economy has yielded a profit bonanza that is without precedent

in a highly developed capitalist nation and is almost embarrassing to the bourgeoisie. And, in complete confirmation of the trends previously developed in the rate of surplus value and relative class standards of living, the picture improves from the point of view of the bourgeoisie. A new peak of \$33.9 billion before taxes and \$20.9 billion after taxes was reached by American corporations in 1948. Even the slight decline of 1949 left profits above the already swollen wartime levels. It remained, however, for 1950, aided in no small measure by the outbreak of the Korean war, to reach new historic profits and sales peaks. For the first time in history, corporate sales exceeded \$400 billion. Corporate profits before taxes are estimated at \$39.8 billion, with corporate profits after taxes likewise reaching a new high of \$22.1 billion. Compare these figures with the increase in wages, even after allowance for rising personal income taxes, and it is clear that state intervention under the Permanent War Economy has restored both the mass and rate of profit. Capitalism has revived, at least so far as the bourgeoisie are concerned. If only it can be sustained indefinitely, ponder the theoreticians of the bourgeoisie!

Despite the "inventory recession" of the first half of 1951, the heavy industries, the "war babies," are not worried. "Current profits in some industries continue to be terrific," states Carlton A. Shively, stock market commentator of the New York *World-Telegram and Sun*, in his column of May 1, 1951. "That is true of oil, copper, steel, motor, rubber and tire and chemical industries. Many units in those industries are reporting for first quarter far higher net profits as compared with the same quarter of last



year, and the net profits as compared with fourth quarter, even after excess profits taxes, show little or no decline. Without the excess profits taxes the net profits for many corporations would be so large they would cause anxiety on many counts." (Italics mine—T. N. V.)

There can be no doubt that the wasting of resources, both human and natural, in war and preparation for war is a profitable business (so far) for the American bourgeoisie. The manner in which the war economy is run,

with negotiated contracts (between big business and its own representatives in the government) and huge tax concessions through rapid amortization, means that profits are, in effect, guaranteed by the state. How the bourgeoisie and their apologists have the effrontery to complain about those unions that have cost-of-living escalator clauses in their contracts is virtually beyond comprehension. Yet, it is only when we examine what has happened to the rate of corporate profit that the real skullduggery of

the bourgeoisie and the immense profitability of the Permanent War Economy become apparent.

RATES ARE FAR MORE SUSCEPTIBLE OF juggling than absolute figures, although we can be reasonably certain that the mass of corporate profit has not been overstated. What this mass of profit is divided by determines the rate of profit. Four different methods of computing the "rate of corporate profit" are shown in Table IV.

There is first the concept of the National Association of Manufacturers, the super trade association of certain segments of the big bourgeoisie. Not content with computing the rate of profit on sales, the N.A.M. adjusts net profits after taxes for changes in inventory valuation, on the theory that increases in inventory due to price changes are fortuitous and really not part of the profits of the bourgeoisie, especially when prices are going up. This approach is rationalized by emphasizing that low-cost inventory must be replaced at current high costs. Which is well and good, but the corporation that stocked inventory at relatively low costs still obtains a windfall profit, on which it has to pay income taxes, whether a compensating future loss is anticipated or not. And in an inflationary period, inventory losses due to price declines are not very likely.

A more important fallacy in the N.A.M. method of computing the rate of profit is that when the mass of profit is divided by sales, the effect is to count profit itself as a cost of production. This is necessarily so since the sales price includes the profit. Despite widespread profiteering and cries that the Office of Price Stabilization is attempting to control prices through control of profits, profits are

a result and not a cost of production. To treat profits as a cost of production is equivalent to demanding a perpetual pyramiding of profits, for the larger the profit the larger the increase in profit that is required to maintain the former rate of profit. Nevertheless, even the N.A.M. figures cannot conceal the fact that the Permanent War Economy has done a pretty good job of restoring the rate of profit. Still, a rate of four or five per cent is less than the 6.4 per cent of 1929 and sounds sufficiently small to be inconsequential in its effect. The prevalence of figures, especially in press releases, calculating the rate of profit on sales is a tribute to the propaganda of the bourgeoisie and to its ability to promote its own self-interests, but is hardly conducive to scientific accuracy.

The mass of profit must therefore be divided by sales minus profit in order to begin to arrive at the rate of profit. This is done, without any changes for inventory valuation, in both the middle columns of Table IV. In both cases, the mass of profit is measured as the net profit after taxes. In the first case, however, corporate sales minus net profits are used as the denominator; in the second case, corporate sales minus gross profits are taken as the proper base on which to calculate the rate of profit. A rate of profit of six per cent is almost equal to the performance of 1929, and considerably better than the five per cent or less shown by the N.A.M. The difference, percentagewise, is substantial, especially if we take the figures for 1950, which we have already shown is the peak profit year in the history of American capitalism. The N.A.M. approach yields a rate of profit of but 4.4 per cent. Under our first method, we obtain a rate of corporate profit of

TABLE IV  
RATES OF CORPORATE PROFIT, 1929-1950\*

Year	N.A.M. Profit Margin on Sales†	Rate of Corporate Profit After Taxes (Col. 4 ÷ Col. 6 of Table III)	Alternative Rate of Corporate Profit After Taxes (Col. 4 ÷ Col. 5 of Table III)	Rate of Corporate Profit Before Taxes (Col. 2 ÷ Col. 5 of Table III)
1929	6.4%	6.5%	6.5%	7.6%
1930	4.9	2.2	2.2	2.9
1931	1.2	-1.4	-1.4	-0.9
1932	-3.5	-4.6	-4.7	-4.2
1933	-3.4	-0.5	-0.5	0.1
1934	0.4	1.1	1.1	1.9
1935	2.1	2.2	2.2	3.2
1936	3.0	3.7	3.8	5.0
1937	3.7	3.8	3.8	5.1
1938	3.0	2.2	2.2	3.1
		* * *	*	*
1939	3.6	4.3	4.4	5.7
1940	4.7	5.0	5.1	7.4
1941	3.9	5.6	5.9	10.8
1942	4.0	4.9	5.2	11.6
1943	4.2	4.8	5.1	12.0
1944	4.3	4.6	4.9	10.9
1945	3.3	3.7	3.9	9.0
1946	3.2	5.4	5.6	9.6
1947	3.7	5.7	5.9	9.6
1948	5.0	5.8	6.0	9.8
1949	5.3	5.0	5.1	8.3
1950‡	4.4	5.7	6.0	10.8

\*Derived from Table III, with the exception of the N.A.M. concept of the rate of profit.

†From "Profits and Prices," Economic Policy Division Series No. 31, October 1950, published by Research Department of N.A.M. Net profits after taxes are adjusted for changes in inventory valuation, as estimated by Department of Commerce as due to changes in price level.

‡Estimated.



5.7 per cent, which is almost 30 per cent higher than the N.A.M. would show. Under our alternative method, the rate of profit becomes six per cent, which is more than 36 per cent higher than the N.A.M.'s figure!

The difference between our two methods, of course, is that in the former taxes are, in effect, treated as a cost of production, while in the latter the base on which profits are calculated is without reference to taxes. A moment's reflection will show that it is no more proper to consider taxes as a cost of production than profits. It is true that one of the great weaknesses of the present corporate tax structure is that most corporations are able to pass on higher taxes in the form of higher prices, thereby contributing to the inflation and maintaining the same mass of profit and, in some cases, the same rate of profit as existed before any given increase in corporation taxes. This, again, is hardly a justification for treating a result of production, for taxes (on corporations) are merely taking a portion of profit or surplus value, as a cost of production.

Arriving at a true official rate of corporate profit therefore requires subtraction of both profits and taxes from sales before the rate of profit is computed. The rate of profit, in terms of obtaining a true picture of what is actually happening in the economy, therefore ought to be calculated before taxes, both with reference to the mass of profit and to volume of capital employed to obtain a given profit. This is done in the last column of Table IV. The picture that emerges is considerably different from any previously discussed. Since 1941 the rate of corporate profit has exceeded 1929! For the war years and for 1950, the rate of profit runs in the neighborhood of eleven to twelve per cent—a level

about 50 per cent higher than in 1929. The rate of profit in actuality is thus two and almost three times the modest picture shown by the N.A.M. That the bourgeoisie have had to disgorge half or almost half of their profits to their own state for the conduct of their war and preparations for their future war has precisely nothing to do with the degree to which the working classes are exploited in the process of production.

IT IS ONLY THE RATE OF PROFIT before taxes that gives us an inkling of what a life-saver the Permanent War Economy has been to the bourgeoisie. Even this is far from the whole picture, for the simple reason that profits are only one form of surplus value. The capitalist who makes profits must share his cut of surplus values created by the workers with the capitalist who obtains interest, with those who obtain rent and royalties, with those whom he pays huge salaries to manage his wealth, and with the state which demands taxes to protect him and his system. The true rate of profit for all industry can thus be obtained only by dividing the mass of surplus value by the total amount of capital, both constant and variable, employed in production.

To arrive at meaningful figures for the Marxian formula for the rate of profit,  $s$  divided by  $(c \text{ plus } v)$ , is not easy, but it can be approximated through the following technique. Having already derived the mass of surplus value in the last article, together with the mass of variable capital, it is only necessary to obtain the magnitude of constant capital. We know of no method whereby this can be done directly, as there would be far too many gaps in building up the total mass of constant capital on an

TABLE V  
CORPORATE AND NONCORPORATE RETAIL, WHOLESALE  
AND MANUFACTURING SALES, 1939-1950\*  
(Billions of Dollars)

Year	RETAIL TRADE			WHOLESALE TRADE			MANUFACTURING		
	Total	Cor- por- ate +	Non- cor- por- ate rate	Total	Cor- por- ate rate	Non- cor- por- ate rate	Total	Cor- por- ate rate	Non- cor- por- ate rate
1939	\$42.0	\$20.9	\$21.1	\$30.1	\$21.3	\$8.8	\$61.2	\$57.2	\$4.0
1940	46.4	23.1	23.3	33.6	23.5	10.1	70.2	65.8	4.4
1941	55.5	27.4	28.1	43.4	29.7	13.7	98.0	92.0	6.0
1942	57.6	26.2	31.4	48.1	29.0	19.1	125.1	116.3	8.8
1943	63.3	27.3	36.0	51.3	30.3	21.0	153.9	141.9	12.0
1944	68.8	28.7	40.1	54.7	32.3	22.4	165.4	151.0	14.4
1945	75.8	31.2	44.6	59.8	34.7	25.1	154.6	138.7	15.9
1946	100.3	44.3	56.0	79.2	51.4	27.8	151.4	136.9	14.5
1947	118.9	56.9	62.0	93.1	65.2	27.9	191.0	177.8	13.2
1948	130.0	62.7	67.3	100.3	68.9	31.4	213.7	195.3	18.4
1949	128.2	62.3	65.9	90.0	61.3	28.7	200.0	182.4	17.6
1950†	140.2	70.8	69.4	100.1	69.7	30.4	235.0	207.4	27.6

\*Represents what Commerce terms "Total Business Sales"—"the sum of data for manufacturing and wholesale and retail trade. These figures are smaller than the nonfarm business statistics used in gross national product computations by the amount of sales . . . for construction, utilities and other nonindustrial sectors."

†Includes automobile services.

‡Corporate retail, wholesale and manufacturing sales estimated on the assumption that they increased by the same proportion over 1949 as total corporate sales, with non-corporate sales derived as a residual.

industry-by-industry basis. Even if reliable and comprehensive capital investment figures could be obtained, we would still lack information on the turnover of capital—a factor of critical importance in developing the rate of profit.

Accordingly, it is necessary to start with sales data, and to try to build up total sales or receipts for all industry. Inasmuch as the market price of a

commodity represents its value, the proceeds from sales necessarily embody the values transferred by the employment of constant capital in production and the values created by the employment of variable capital or labor power in production. This approach conceptually yields a true gross national product for all industry. It may be objected that in many industries the market price of a com-

modity deviates from both its production price and value. This is of no consequence for we are seeking the rate of profit for *all* industry. The deviations of market price from value must cancel out; otherwise, there would be no profit or surplus value for the capitalist class *as a whole*. This, incidentally, is the pitfall on which all non-Marxian theories of profit collapse, for on top of their faulty theoretical approach they are immersed in the analysis of the single entrepreneur or firm. While marginal utility, scarcity, speculation, or risk-taking may on occasion explain the fortuitous profits of an individual firm, such theories cannot begin to explain how it is possible for the entire capitalist class to start with a given quantity of capital and to emerge from the process of production and circulation with an amount of capital exceeding the starting sum by a definite and measurable increment.

The data on corporate sales are readily available and were presented in Table III. Our problem therefore resolves itself into one of estimating the sales or receipts of unincorporated enterprises. Here we can begin with a Commerce series on "Total Business Sales," which covers only retail and wholesale trade and manufacturing. These data, with a breakdown shown between corporate and noncorporate sales, are presented in Table V.

The data themselves are of more than passing interest. As one would expect, unincorporated enterprises play only a negligible rôle in the volume of manufacturing sales, but are fairly significant in wholesale trade, accounting for thirty per cent or thereabouts of total volume. In retail trade, however, noncorporate sales are as important as corporate sales, actu-

ally accounting for more than half of total retail sales in every year under consideration except 1950. In other words, it is primarily in retail trade that the bulk of the middle classes exists, a testimonial to the survival qualities of the corner grocery store and gasoline station.

The most interesting fact about these figures is the tendency for the importance of manufacturing to increase as war outlays (and controls) increase. Thus, while total manufacturing sales were less than the combined total of retail and wholesale trade sales in 1939, accounting for 46 per cent of total business sales, they increased steadily as war outlays and controls gathered momentum, reaching a peak of 57 per cent of total business sales in 1943 and 1944. Then, there was a rapid decline until in 1946 the prewar rate of 46 per cent prevailed again. The basic tendency for wasteful distribution to diminish in importance, and for manufacturers to sell directly to the government as well as to exert a squeeze on middlemen, reasserted itself following 1946, with the result that in 1950 manufacturing sales were 49 per cent of total business sales.

In a small way, these trends are corroborative evidence of the loss of effectiveness of the capitalist market as an allocator of resources. Looked at another way, while total wholesale trade sales increased 232 per cent from 1939 to 1950, and total retail trade sales augmented by 234 per cent during the same period, total manufacturing sales grew by 284 per cent. This is merely another way of saying that under the Permanent War Economy, aside from periods of all-out war, when the increase is even more striking, manufacturing has grown at a rate 20 per cent faster than distribu-

TABLE VI  
AVERAGE RATE OF PROFIT FOR ALL INDUSTRY, 1939-1950  
(Dollar Figures in Billions)

Year	Corpo- rate Sales* (1)	Non- corpo- rate Sales or Receipts (2)†	c+v+s Gross Sales or Receipts (Col. 1 plus Col. 2) (3)	c Con- stant Capit- tal (4)**	v Vari- able Capit- tal (5)†	c+v Total Capit- tal plus (Col. 4 plus Col. 5) (6)	s Sur- plus Value (7)†	s/c+v Average Rate of Profit (Col. 7 ÷ Col. 6) (8)
1939	\$120.8	\$74.7	\$195.5	\$112.3	\$43.3	\$155.6	\$39.9	25.6%
1940	135.2	80.5	215.7	122.7	46.7	169.4	46.3	27.3
1941	176.2	99.8	276.0	158.9	56.6	215.5	60.5	28.1
1942	202.8	126.9	329.7	178.1	72.3	250.4	79.3	31.7
1943	233.4	148.7	382.1	198.4	89.7	288.1	94.0	32.6
1944	246.7	164.7	411.4	209.6	98.8	308.4	103.0	33.4
1945	239.5	180.0	419.5	216.7	98.1	314.8	104.7	33.3
1946	270.9	202.5	473.4	274.5	92.6	367.1	106.3	29.0
1947	347.8	203.7	551.5	333.1	98.8	431.9	119.6	27.7
1948	381.3	226.5	607.8	366.1	105.4	471.5	136.3	28.9
1949	359.7	223.1	582.8	346.0	105.6	451.6	131.2	29.1
1950†	409.0	244.8	653.8	396.8	115.0	511.8	142.0	27.7

\*From Table III, column one.

†To noncorporate retail, wholesale and manufacturing sales, shown in Table V, were added gross farm income, noncorporate and government construction activity, national income originating in finance, insurance and real estate, services, and government and government enterprises, and a miscellaneous factor based on the number of active proprietors in agricultural services, forestry and fisheries, mining, transportation, and communications and public utilities.

\*\*Derived by subtracting net national product, shown in column six of Table I, from column three.

†From Table VIII of previous article in March-April 1951 issue of *The New Internationalist*.

tion. The propensity of capitalism to dig its own grave through increasing industrialization and greater proletarianization of the labor force is thus strengthened under the Permanent War Economy.

To noncorporate sales for manufacturing, retail and wholesale trade, it was necessary to add sales or receipts for the remainder of unincorporated business activity, such as gross farm income, unincorporated construction activity, and the like. While there may be some duplication in the figures,

and even some omissions, the gross figure for unincorporated business shown in column two of Table VI appears to be reasonable both as to level and trend.

THE SUMATION OF CORPORATE AND noncorporate sales or receipts yields the gross value of production, or *c* plus *v* plus *s*. This magnitude, together with its components, and the average rate of profit for all industry from 1939 to 1950 are shown in Table VI.

Constant capital was derived, as explained in the footnote to column four, by subtracting net national product (which represents the sum of variable capital and surplus value) from the gross value of production. An alternative method, since the magnitude of variable capital and surplus value were previously derived, would have been to subtract surplus value from the gross value of production, thereby obtaining total capital, i.e., the summation of constant and variable capital. Then, from this last figure, variable capital could have been subtracted in order to obtain constant capital. The results would naturally be identical.

It is the relationship between the magnitude of surplus value and the magnitude of total capital that determines the rate of profit, according to Marx, and for all industry, including the portions of surplus value paid out in the form of interest, rent, etc., in addition to that which is specifically labeled profits, he is unquestionably correct. The average rate of profit, shown in column eight of Table VI, thus portrays the actual performance of American capitalism under the Permanent War Economy.

Three facts of considerable importance emerge from this analysis of the average rate of profit: (1) The level of the average rate of profit is almost three times that shown in Table IV, confirming the easily observed fact that the capitalist who obtains profit must pay substantial tribute to the more parasitic members of the capitalist class who collect interest, rent, royalties, and absurdly large salaries (of course, in many cases, the division among capitalists as to the form and method of appropriating surplus value is not nearly as clear-cut as here-in suggested). (2) The Permanent War

Economy not only succeeded in restoring the profitability of American capitalism, but actually managed to increase the average rate of profit until 1944, i.e., there is a definite correlation between the ratio of war outlays to total output and the average rate of profit. An increase of 30 per cent in the average rate of profit, as occurred between 1939 and 1944-1945 is, in some ways, even more significant than the fact that the true average rate of profit for all industry reached a peak of one-third, for it is conclusive evidence that state intervention has as its major objective guaranteeing the profits of the bourgeoisie. (3) The Marxian law of the falling average rate of profit reasserts itself following the end of World War II, although it is significant that the maintenance of a ten per cent ratio of war outlays to total output is sufficient, in the short run at any rate, to maintain the average rate of profit at a higher level than existed in 1939 or even in 1940.

The data contained in Table VI represent the "guts" of the economic performance of American capitalism under the Permanent War Economy. From 1939 to 1950, the mass of surplus value rose from almost \$40 billion to an estimated \$142 billion, a rise of 256 per cent, the largest increase of any of the components of economic performance. Virtually keeping pace was the increase in the magnitude of constant capital, which rose from \$112.3 billion in 1939 to an estimated \$396.8 billion in 1950, a rise of 253 per cent. The gross value of total output, as measured by gross sales or receipts, naturally comes next in rate of growth, increasing from \$195.5 billion in 1939 to an estimated \$653.8 billion in 1950, a rise of 234 per cent. Then follows total capital, which rose from \$155.6 billion in 1939 to an esti-

mated \$511.8 billion in 1950, a rise of 229 per cent. In last place is the increase in the magnitude of variable capital, which rose from \$43.3 billion in 1939 to an estimated \$115 billion in 1950, a rise of but 166 per cent. All of these changes combine to yield an increase over the first twelve years of the Permanent War Economy of eight per cent in the rate of profit.

In the process of capital accumulation, it is, however, as Marx observes, "the composition of the total social capital of a country" that is crucial in understanding the economic laws of motion that prevail. The organic composition of capital relates the growth in constant capital to total capital, and it is the increasingly high organic composition of capital, as constant capital increases relative to variable capital, that threatens capitalism with self-destruction through concentration and centralization of the social means of production in fewer and fewer private hands and all the social consequences that then unfold. The trend in the organic composition of capital under the Permanent War Economy can easily be calculated from the data in Table VI, and we present below the rates for the years of significant change:

<i>Year</i>	<i>Composition of Capital</i>
1939	72.2%
1941	73.7
1944	68.0
1946	74.8
1948	77.6
1949	76.6
1950	77.5

The mass of the means of production were thus 72.2 per cent of the total capital, including labor power, employed in production in 1939. The percentage rose slightly, in conformity with the generally observed tendency

toward an increasingly high organic composition of capital, to 73.7 per cent in 1941. There then followed a perceptible decrease, during American participation in World War II, to a nadir of 68 per cent in 1944. A slight increase in 1945 was followed by a substantial increase in the composition of capital in 1946, as peacetime output resumed, with the upward trend continuing until a new peak of 77.6 per cent was attained in 1948. A slight slump during the recession of 1949 was only preliminary to virtual restoration of the 1948 peak in 1950. The organic composition of capital has thus increased by more than seven per cent between 1939 and 1950, and by 14 per cent from 1944 to 1950.

The decline in the organic composition of capital during the war years is not surprising in view of the huge increase in the ratio of war outlays to total output, for it can be directly traced to the decline in the productivity of labor that takes place in wartime, to the physical necessity of increasing output through abnormal reliance on manpower, to the drastic decline in net private capital formation, and to the vicissitudes of the class struggle that placed the proletariat in a position to accomplish a slight reduction in the rate of surplus value. As a matter of fact, all these factors operated in the United States from 1942-1945; the only wonder is that the decline in the organic composition of capital during World War II was not greater.

Since, at an 80 per cent composition of capital, four dollars of means of production are needed to yield a wage of one dollar to the average worker, the relative diminution in the variable constituent of capital as capital accumulates makes it increasingly difficult under capitalism to employ the

**TABLE VII**  
**MASS AND RATE OF PROFIT OF LISTED MANUFACTURING CORPORATIONS,**  
**ACCORDING TO S.E.C. SURVEY, 1938-1947\***

Year	NET PROFIT AFTER INCOME TAXES			NET PROFIT BEFORE INCOME TAXES		
	Amount (Billions of Dollars)	As A % of Sales	As A % of Net Worth†	Amount (Billions of Dollars)	As A % of Sales	As A % of Net Worth†
1938	\$1.6	6.6%	6.4%	\$1.3	5.3%	5.1%
1939	2.5	9.5	10.2	2.1	7.7	8.3
1940	3.7	12.2	14.7	2.6	8.4	10.1
1941	6.4	15.0	24.7	3.1	7.3	12.0
1942	7.0	12.7	25.7	2.6	4.8	9.6
1943	7.9	11.1	27.9	2.8	3.9	9.7
1944	8.2	10.4	27.4	3.0	3.8	10.1
1945	6.4	8.6	19.9	3.1	4.2	9.6
1946	6.0	9.6	17.6	4.1	6.5	11.9
1947	10.1	11.7	27.4	6.4	7.4	17.2

\*Securities and Exchange Commission Survey Series Release No. 151, published April 27, 1949, covers manufacturing corporations listed on the stock exchange, with the number of companies varying from 1,013 in 1938 to 1,306 in 1947.

†Net worth is calculated as of the beginning of the year.

entire available labor force. This pressure continues to exert itself even though the Permanent War Economy has, in its own way, as previously explained, "solved" the problem of unemployment. Precisely where the breaking point is likely to be, no one can say, but it is clear that the composition of capital is already dangerously high and constitutes a sword of Damocles, hanging over the unsuspecting head of such a highly-g geared capitalist economy that in a few years it is possible to produce all the automobiles, television sets, etc., that can be sold under capitalist conditions of production. If, therefore, only a very high ratio of war outlays to total output can reduce the composition of capital or, at least, arrest the tendency toward a constantly increasing composition of capital, then the economic motives for American imperialism to engage in such activities in foreign policy as warrant an increase in war outlays, even if the ultimate conse-

quence is all-out war, are laid bare for all those with eyes to see who wish to see.

IT IS NOT NECESSARY TO RELY ON OUR calculations and derived figures to conclude that the Permanent War Economy has yielded an unprecedented profit bonanza for the bourgeoisie, restoring both the mass and rate of profit to record-breaking levels. We can first look at the results of a study by the Securities and Exchange Commission for manufacturing corporations listed on the stock exchange. This study, covering the years 1938 to 1947, is indicative of what has happened to the largest aggregates of capital. Its results are embodied in Table VII.

It will be seen that the rate of profit on sales is consistent with the ratios that we developed earlier in this article. Net profit before income taxes for these leading manufacturing corporations was only \$1.6 billion in

1938, with net profit after taxes \$1.3 billion. A spectacular rise until 1944 then took place, followed by a decline in 1945 and in 1946, and then the reaching of new heights in net profits before taxes in 1947. At more than \$10 billion in 1947, these 1,306 manufacturing corporations averaged a net profit before income taxes in excess of \$7.7 million, which was about four times the level of 1939. Even after income taxes, these principal manufacturing corporations earned \$6.4 billion in 1947, or almost five million dollars on the average. Despite the rise in corporation income taxes, this was three times the level of 1939!

The return on net worth, which represents invested and reinvested capital, is by far the most interesting set of figures in the table as, without reference to the turnover of capital, the return on net worth indicates the expansive qualities of capital. On a before-income-tax basis, the rate of return on net worth rose from 6.4 per cent in 1938 and 10.2 per cent in 1939 to a wartime peak of 27.9 per cent in 1943 and then declined to 17.6 per cent in 1946, but immediately rose again to 27.4 per cent in 1947. The confirmation of our earlier conclusions is readily apparent.

The rate of return of net profits after income taxes on net worth is the final proof that our contentions are completely accurate with respect to the impact of the Permanent War Economy on profits. From a rate of 5.1 per cent in 1938 and 8.3 per cent in 1939, the return on investments in major manufacturing corporations rose to 12 per cent in 1941, then leveled off during the war at a rate between 9.6 and 10.1 per cent, rose to 11.9 per cent in 1946 and jumped to 17.2 per cent in 1947! At the 1947 rate of return, assuming maintenance of the

tax rates in existence at that time, a capitalist would receive back his entire investment in a manufacturing enterprise in less than six years. To match a performance of this kind one must return to the earlier days of capitalism when it was in its ascendancy. Such a rate of return, almost twenty years after American capitalism entered the permanent crisis of world capitalism, is a tribute not only to the effectiveness of the Permanent War Economy in preserving capitalism, but also to the enormous inner strength and productive capacity of American capitalism.

Unfortunately, the S.E.C. study does not go beyond 1947. We can, however, turn to the annual study of National City Bank of New York to obtain a reliable picture of current profits of leading corporations. To facilitate examination, we have divided the data contained in the National City Bank's *Monthly Letter* of April 1951 into two tables. In Table VIII-A, we present the data comparing profits after taxes and book net assets (net worth) in 1950 with 1949.

AS MEMORANDA ITEMS, WE HAVE selected the four manufacturing industries that show the greatest net profit after taxes. These are the pillars of heavy industry. Their performance in 1949 is clearly comparable to 1947 (and 1948 was even a better profits year than 1947 or 1949), but in 1950 it is breathtaking. Forty-five petroleum companies increased their net profits after taxes from \$1,413,000,000 in 1949 to \$1,730,000,000 in 1950, an increase of 22 per cent. Fifty-five iron and steel corporations increased their net profits after taxes from \$555,000,000 in 1949 to \$786,000,000 in 1950, an increase of 41 per cent. Sixty-five chemical concerns increased their net profits after taxes from \$543,000,000

in 1949 to \$743,000,000 in 1950, an increase of 37 per cent. Twenty-six automobile companies increased their net profits after taxes from \$857,000,000 in 1949 to \$1,054,000,000 in 1950, an increase of 23 per cent.

For 1,693 leading manufacturing corporations, net profits after taxes increased from \$7,046,000,000 in 1949 to \$9,288,000,000 in 1952, an increase of 32 per cent. No wonder, then, that a special joint study of the S.E.C. and Federal Trade Commission (summarized in *The New York Times* of April 27, 1951) reports that: "Profits of manufacturing corporations touched the highest point in history during 1950. . . . The report disclosed that the 1950 net income of the corporations before payment of Federal taxes was 61 per cent higher than in 1949, or \$23,200,000,000, compared with 1949's total of

\$14,400,000,000. Net income after taxes of manufacturing corporations in 1950 was estimated at about \$12,900,000,000, or 43 per cent more than in 1949." The study shows that this phenomenal profit performance occurred despite an increase of almost 100 per cent in provision for Federal taxes.

The joint study also shows that the larger the assets, the smaller the rate of increase in net profits after taxes, again confirming the Marxian analysis of the results of capital accumulation. Those companies "with assets of \$750,000 or less showed an average profit increase in 1950 over 1949 of 106 per cent." At the other end of the scale, "those of \$100,000,000 and over averaged 32 per cent (increase in net profits after taxes in 1950 compared with 1949)." The previous record year

**TABLE VIII-A**  
**MASS OF PROFIT OF LEADING CORPORATIONS IN 1950**  
**COMPARED WITH 1949, ACCORDING TO NATIONAL CITY BANK OF N. Y.\***

Number of Companies	Industrial Groups	REPORTED NET INCOME AFTER TAXES		Increase % 1949 to 1950	BOOK NET ASSETS AS OF JAN. 1†	
		1949 (Millions of Dollars)	1950 (Millions of Dollars)		1949 (Billions of Dollars)	1950 (Billions of Dollars)
(45)	Petroleum products	\$1,413	\$1,730	22%	\$10.7	\$11.6
(55)	Iron and steel	555	786	41	4.8	5.1
(65)	Chemical Products	543	743	37	3.2	3.5
(26)	Autos and trucks	857	1,054	23	2.8	3.3
1,693	Total manufacturing	7,046	9,288	32	50.7	54.4
98	Total mining, quarrying	219	282	29	1.8	1.9
178	Total trade (retail and wholesale)	577	679	18	4.3	4.6
248	Total transportation	503	873	73	15.0	15.2
293	Total public utilities	1,066	1,300	22	12.0	13.3
99	Total amusements services, etc.	93	102	10	0.9	1.0
695	Total finances	964	1,040	8	10.6	11.6
3,304	GRAND TOTAL	10,468	13,563	30	95.4	101.9

\*National City Bank of New York, *Monthly Letter*, April 1951.

†"Net assets at beginning of each year are based upon the excess of total balance sheet assets over liabilities; the amounts at which assets are carried on the books are far below present-day values," thereby implying an abnormally high return on net worth.

**TABLE VIII-B**  
**RATE OF PROFIT OF LEADING CORPORATIONS IN 1950**  
**COMPARED WITH 1949, ACCORDING TO NATIONAL CITY BANK OF N. Y.\***

Number of Companies	Industrial Groups	% RETURN ON NET ASSETS†		% MARGIN ON SALES	
		1949	1950	1949	1950
(45)	Petroleum Products	13.2%	14.9%	9.9%	10.8%
(55)	Iron and Steel	11.6	15.3	7.2	8.1
(65)	Chemical Products	17.1	21.3	10.3	11.7
(26)	Autos and Trucks	30.2	32.3	8.9	8.9
1,693	Total Manufacturing	13.9	17.1	6.8	7.7
98	Total Mining, Quarrying	12.0	15.0	12.3	12.6
178	Total Trade (Retail and Wholesale)	13.4	14.8	3.3	3.8
248	Total Transportation	3.4	5.7	4.8	7.7
293	Total Public Utilities	8.8	9.8	11.9	13.1
99	Total Amusements Services, etc.	9.9	10.5	4.8	5.7
695	Total Finance	9.1	9.0	—	—
3,304	GRAND TOTAL	11.0	13.3	6.6	7.7

\*National City Bank of New York, *Monthly Letter*, April 1951.

†"Net assets at beginning of each year are based upon the excess of total balance sheet assets over liabilities; the amounts at which assets are carried on the books are far below present-day values," thereby implying an abnormally high return on net worth.

of 1948 was exceeded by 11 per cent.

Returning to the National City Bank study, the percentage increase in net income after taxes in 1950 over 1949 for leading corporations ranges all the way from eight per cent for 695 finance companies to 73 per cent for 248 firms engaged in transportation. Thus, for the grand total of 3,304 companies included in the study, net profits after taxes rose from \$10,468,000,000 in 1949 to \$13,563,000,000 in 1950, an increase of 30 per cent. The book net assets of these same corporations rose from \$95.4 billion in 1949 to \$101.9 billion in 1950, with manufacturing representing about half the number of companies and an equivalent portion of total capital investment.

The rate of profit for these same companies in the National City Bank study is shown in Table VIII-B.

Impressive as is the percentage margin on sales, even more spectacular is

the return on net assets. While the performance for leading manufacturing corporations as a whole confirms the results of the S.E.C. study previously cited in Table VII, with an increase in return on net assets from 13.9 per cent in 1949 to 17.1 per cent in 1950, it is interesting to note that the 65 chemical companies increased their return on net assets from 17.1 to 21.3 per cent, and the 26 auto and truck companies went from 30.2 to 32.3 per cent. Thus, for a corporation like General Motors, the most terrific profit-maker in the history of American capitalism, invested capital is paid for every three years!

In every category except finance the return on net assets rose from 1949 to 1950, with the grand total for the entire 3,304 leading corporations rising from 11.0 per cent to 13.3 per cent, which is an increase of over 20 per cent in the rate of return, despite an increase of \$6.5 billion in net assets.

On the assumption that all capital invested and reinvested is employed in production, the comparison between the return on sales with the return on net assets indicates the turnover of capital and its different rates among major industries. "The shorter the period of turnover," says Marx (*Capital*, Vol. III, Kerr ed., p. 85), "the smaller is the fallow portion of capital as compared with the whole, and the larger will be the appropriated surplus value, other conditions remaining the same." Although it would be preferable to obtain the rate of turnover on capital by dividing total sales by total invested capital, the same result can be obtained by dividing the percentage return on net assets by percentage margin on sales. Inasmuch as the difference between capital turnover in 1950 and in 1949 is negligible, we present below merely the turnover times for major industrial categories, based on Table VIII-B, in 1950:

Industrial Group	Turnover in 1950
Manufacturing	2.2
Mining, Quarrying	1.2
Trade (retail and wholesale)	3.9
Transportation	0.7
Public Utilities	0.7
Amusements, services, etc.	1.9
TOTAL ALL GROUPS	1.7

In other words, for the companies contained in the National City Bank study as a whole, capital was turned over 1.7 times in 1950, or about every seven months. The variation among industrial groups is extreme, ranging all the way from the slow turnover time of 0.7 in such heavy fixed capital industries as transportation and public utilities to the very rapid turnover of 3.9 in retail and wholesale trade, where a tremendous volume of busi-

ness can be done with a relatively small capital investment as capital turns over once in almost every three months. This, of course, is another reason why calculating the rate of profit solely with reference to sales is completely misleading. For total manufacturing, the turnover is 2.2, but for autos and trucks the turnover time is 3.6, indicating why the automobile industry is so profitable.

THE BOURGEOISIE AS A CLASS recognizes, although with considerable reluctance, that government planning and state intervention and compulsory controls are necessary as a matter of survival if the aims of the Permanent War Economy are to be fulfilled. As Truman stated in the President's Economic Message to Congress of January 12, 1951: "A defense emergency requires far more planning than is customary or desirable in normal peacetime. The military build-up is a planned effort. The mobilization of industrial support for this military build-up is a planned effort. The industrial cutbacks and civilian restraints, necessary to achieve military and economic mobilization, are planned efforts. . . . In these critical times, it is recognized that Government must assume leadership in this planning. It has the prime responsibility for national security. It has access to the basic information. The most important operation toward this end is the broad programming of various major requirements; the balancing of these requirements against supply; and the development of policies to satisfy needs according to priority of purpose."

These are the functions that under capitalist theory are normally reserved for prices and the market economy. That the market increasingly atro-

phies as a regulator of production or allocator of resources compelling increasing state intervention is the most distinctive change in the *modus operandi* of capitalism as the war economy develops. The question logically arises: why cannot voluntary controls work? Charles E. Wilson, defense mobilization director, gave a brief and direct answer to this question in a speech reported in *The New York Times* of January 18, 1951: "What about our economy in the face of such expansion, such expenditures, such use of materials? How do we keep it from running away? There is only one answer—controls. I hate the word—so do you. But there is no other way. *Voluntary methods will not work. That has been proven.*" (Italics mine—T.N.V.) In other words, experience has shown that appeals to loyalty, patriotism, etc., are no substitute for the state power of coercion.

Practical experience has thus gone a long way toward reconciling the bourgeoisie to increasing state intervention, especially when the ratio of war outlays to total production exceeds ten per cent. As that arch exponent of *laissez-faire* capitalism, Ludwig von Mises, expresses the alternative (*Economic Planning*, 1945, p. 13): "If the market is not allowed to steer the whole economic apparatus, the government must do it." To be sure, von Mises argues that even in wartime, if the "right methods" are used, controls are unnecessary (*Bureaucracy*, 1944, pp. 30-31):

It has been objected that the market system is at any rate quite inappropriate under the conditions brought about by a great war. If the market mechanism were to be left alone, it would be impossible for the government to get all the equipment needed. The scarce factors of production required for the production of armaments would be wasted for civilian uses which, in a war, are to be

considered as less important, even as luxury and waste. Thus it was imperative to resort to the system of government-established priorities and to create the necessary bureaucratic apparatus.

The error of this reasoning is that it does not realize that the necessity for giving the government full power to determine for what kinds of production the various raw materials should be used is not an outcome of the war but of the methods applied in financing the war expenditure.

If the whole amount of money needed for the conduct of the war had been collected by taxes and by borrowing from the public, everybody would have been forced to restrict his consumption drastically. With a money income (after taxes) much lower than before, the consumers would have stopped buying many goods they used to buy before the war. The manufacturers, precisely because they are driven by the profit motive, would have discontinued producing such civilian goods and would have shifted to the production of those goods which the government, now by virtue of the inflow of taxes the biggest buyer on the market, would be ready to buy.

However, a great part of the war expenditure is financed by an increase of currency in circulation and by borrowing from the commercial banks. On the other hand, under price control, it is illegal to raise commodity prices. With higher money incomes and with unchanged commodity prices people would not only not have restricted but have increased their buying of goods for their own consumption. To avoid this, it was necessary to take recourse to rationing and to government-imposed priorities. These measures were needed because previous government interference that paralyzed the operation of the market resulted in paradoxical and highly unsatisfactory conditions. Not the insufficiency of the market mechanism but the inadequacy of previous government meddling with market phenomena made the priority system unavoidable. In this as in many other instances the bureaucrats see in the failure of their preceding measures a proof that further inroads into the market system are necessary.

We may not be pardoned for reproducing at length the views of one of the last living theoreticians of nine-



teenth century capitalism, but his views are unique and the subject is important. Among the factors that von Mises conveniently overlooks are the political impossibility of curtailing consumption so drastically by reliance on fiscal policy alone, the fact that government competition with private industry for scarce materials would accelerate the inflation that is inevitable once a sizable portion of production is devoted to war purposes, that confiscatory taxation (probably including a capital levy) undermining the very foundations of capitalism would be required, that Draconian fiscal controls are themselves inconsistent with the "automatic" theory of the market and would undoubtedly require implementation through forced savings and direct exercise of the police power of the state to ensure compliance, and that even if it were prudent for the bourgeoisie to ignore the lessons of history and accept the advice of von Mises, the time required to enable the state to direct production through indirect controls would unquestionably be fatal.

THE TIME ELEMENT, ESPECIALLY, IS recognized by the authors of the only comprehensive analysis of production controls in the war economy (*Wartime Production Controls* by David Novick, Melvin Anshen and W. C. Truppner, Columbia University Press, 1949, p. 16):

In peace the major influence upon economic activity is profit. The ultimate measure of the desirability of undertaking certain industrial activities or carrying them out in certain ways is the anticipated effect of the final result on the individual enterprise's profit and loss statement. Since the peacetime economy is made up of a multitude of individual enterprises, it is important to each one, but not to the nation, whether its particular choice of policy or method is profitable or not. The classic justification

for non-interference by government in business is that the accidents of individual choice result in the greatest possible production from the national resources. *In time of war, however, the nation cannot wait for each of these individual experiments to produce the desired result. An over-all control of economic activity must be substituted for individual planning under the profit motive.* And not only must the control agency make the industrial decisions; it must do its job without either the profit and loss test of the wisdom of its policies and the efficiency of its methods, or the time required to apply any other test. (Italics mine—T.N.V.)

In other words, when it is a question of survival, neither price nor profit can guide the allocation of resources. Nor, for that matter, can the state as a general rule be expected to operate in response to such motives. After flirting with the reasons for this fact for three pages, the authors finally come sufficiently close to hitting the nail on the head (p. 18): 'Because the effect of price is random and non-selective, in time of war price manipulation cannot be used as the major tool for directing the use of the nation's resources.' (Italics mine—T.N.V.) It therefore follows that: "*As the volume of military requirements increases, the area of control must grow. Ultimately, in the total war economy there must be total industrial control.*" (Italics mine—T.N.V.)

Not only is controlling production for specific objectives through the price mechanism like scattering seeds to the four winds to plant a kernel of wheat in a particular spot, but it places the various sections of the capitalist class in an untenable position with respect to their fellow capitalist competitors. As Novick *et al* put it, citing the experience of 1942, pp. 67-68: "Caught in the competitive forces of the free market, no single producer of refrigerators or passenger automobiles could contemplate closing his

doors in the face of eager crowds of customers (and endangering the continuance of his carefully nurtured distributor organization) in order to prepare his production lines to make machine guns, tanks, guns, and airplane subassemblies. *Such decisions could be made only on an industry-wide basis, and this could be brought about swiftly only through government direction.*" (Italics mine—T.N.V.)

Moreover, in many cases, as previously mentioned, it would be impossible to induce the desired capital investment solely by appealing to the profit instincts of individual capitalists. As a matter of record, the Federal government financed in the neighborhood of \$35 billion of industrial, military and housing facilities during World War II. Almost half of this total was for the creation of new manufacturing facilities, the vast majority of which private capital could not have undertaken even if it possessed the necessary accumulations of capital for the simple reason that, without substantial state aid, the prospects of profits would be far too remote. To be sure, many of these facilities were subsequently sold to private capital at a fraction of their cost, so that those whose products had peacetime uses could be operated by private industry at a profit. Nevertheless, the fact remains that exclusive reliance on the immediate profit motive to direct investment into desired channels during a major war (and even during a minor war as at present) would markedly reduce the military effectiveness of any industrialized nation.

The preeminent role played by state capital accumulations during World War II occurred, it must be emphasized, despite the huge aggregations of private capital that existed and which received the overwhelming portion of war contracts. "Analysis . . .

indicated that in the third quarter of 1942 the 100 largest company consumers of each basic metal used the following percentages of the metal consumed by all manufacturing companies: carbon steel, 49 per cent; alloy steel, 70 per cent; copper, 79 per cent; copper-base alloy, 66 per cent; and aluminum, 81 per cent. A combined listing (eliminating duplications) yielded a total of 391 different companies (approximately 2,000 plants). In the third quarter of 1942 these 391 companies used 56 per cent of the carbon steel consumed by all manufacturing companies; 75 per cent of the alloy steel; 82 per cent of copper; 71 per cent of copper-base alloy; and 85 per cent of aluminum. . . . The same 391 companies shipped more than three-fourths of the total dollar value of all direct military-type products." (*Wartime Production Controls*, p. 346.)

ASIDE FROM THE PROBLEM OF PRODUCTION, which requires direct state controls, such as priorities, allocations and the over-riding directive power of the state, the state, representing the interests of the bourgeoisie as a whole, must try to keep the inflation within tolerable limits. Naturally, inflation is so managed as to place the main burden on the backs of the working classes and many individual capitalists amass huge and quick profits. Still, an unbridled inflation can interfere with production and disrupt the plans of the military and civilian state bureaucracies. Accordingly, state intervention is extended wherever necessary, without any objections from contemporary American financiers, further circumscribing the area within which private capital is permitted by its own state to function. An excellent example is the recent decision to make the government the sole importer of rub-



ber and tin. As Wilson's first quarterly report states (*The New York Times*, April 2, 1951): "By designating Government agencies to act as exclusive importers of commodities, such as rubber and tin, and by working in international commodity committees to allocate scarce materials among free countries, we are helping to end the current scramble for these materials which has forced their prices unnecessarily high." The *international* aspects of the Permanent War Economy are yet another reason why increasing state intervention is mandatory for the American bourgeoisie as a matter of self-preservation, but we must leave to another article treatment of its implications.

We shall also leave for subsequent analysis consideration of the implications of the various techniques used to try to "freeze" the class struggle and of the increasingly obvious Bonapartist tendencies that may be discerned as a result of what amounts to an "interlocking directorate" between the military bureaucracy and big business.

The virtual guarantee of profits by the state is the *sine qua non* of increasing state intervention under the Permanent War Economy. The scandals in the letting of war contracts never seem to deter repetition of the most unsavory performances of the past, even when the cast of characters is changed. "By far the most important lesson," state the authors of *Wartime Production Controls* (p. 382), "is that the power to contract is the power to control."

While the very mechanism of price control, based on perpetuating a rate of profit representing an all-time modern historical peak, is balm for the wounds of the more individualistically-minded members of the bourgeoisie, at least the larger ones, the forces

that constantly work toward a transformation of traditional capitalism proceed with a logic of their own. The Office of Price Stabilization issues various types of "mark-up" regulations that result in the fixing of price ceilings at levels guaranteed to maintain super-profits, but along comes its boss, Eric Johnston, Economic Stabilization Administrator, to announce (April 21, 1945) that "no industry will be permitted to raise prices if its dollar profits amount to 85 per cent of the average of its three best years during the 1946-49 period, inclusive."

Whether this policy will be implemented remains to be seen. And, as we have demonstrated, profits in 1946 to 1949 were so high that 85 per cent of this level hardly represents impoverishment. The significant point, however, is that it is difficult to foresee the limits of state intervention, assuming that the Permanent War Economy continues for an indefinite number of years. The promulgation of a profit-limiting policy, even if strictly confined to paper as was the case with O.P.A. during World War II, would horrify the rugged individualists of the pre-1941 era but today is a necessary genuflection to the exigencies of the class struggle.

The all-pervading character of state intervention, with its *modifications* of the nature and laws of capitalism, should not come as a surprise to any Marxist, for more than 70 years ago Engels wrote ("Origin of Family," p. 207): "But it (the state power of co-

ercion) increases in the same ratio in which the class antagonisms become more pronounced, and in which neighboring states become larger and more populous. A conspicuous example is modern Europe, where the class

struggles and wars of conquest have nursed the public power to such a size that it threatens to swallow the whole society and the state itself."

T. N. VANCE

May 1951

## On Tanks and Dentures

### The Significance of Bevan's Resignation

"The essence of Mr. Bevan's position is not that he objects to tanks but that he rates them lower than dentures." (The Economist, April 28, 1951)

The dramatic resignation of Aneurin Bevan and his supporters from the administration of Britain's Labour Government has a dual significance which must be grasped separately. On the one hand, it has brought to a head the crisis in Anglo-American relationships. This aspect has, of course, received the greater notice in the world press. It involves both the question of raw materials and the price to be paid for them—both matters now largely controlled by American capitalism—as well as the issue of how extensive and "committed" shall British foreign policy be in terms of American policy. As is well known, it is the charge of Bevan and his comrades that American monopolization of raw materials, plus price control over the world market, have had the effect of slowly but steadily strangling the Labour Government whose economic existence depends on its ability to import, an ability which in turn is dependent upon the delicately controlled economy of the country. The validity of the charge is evident. One need only examine the interim production report

of Charles E. Wilson to verify this. The other charge—*i.e.*, the tendency of the Labour Government to capitulate to American foreign policy—is more closely related to what we may properly call the internal, or domestic, significance of the Bevan crisis.

This aspect concerns nothing less than the future and perspective of not only the Labour Government, but the Labour Party itself. This is the real crisis which cannot be surmounted by some tactical gesture or generosity on the part of America, but will be resolved only after a long and severe crisis within the British labor movement itself. Naturally, socialists are far more interested in this side of the question than the more transitory features, and our article will concern itself with this. Put concretely, whatever may have been Bevan's intentions, he has raised the problem of the future of socialism and the socialist movement in England. Shall the Labour Government, with its accomplishments and its failures, continue along the road of the past six years; shall the limited social transformation already described in detail (*cf.* THE NEW INTERNATIONAL, Jan.-Feb., 1951) be sustained and deepened; or shall everything be sacrificed and liquidated? Even though the backsliding against which Bevan has raised his eloquent voice may not be of the kind

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to liquidate certain structural and juridical changes (such as the nationalizations), every socialist understands that a Tory victory would dissolve the remaining progressive core of such changes and reintegrate them into a purely imperialist, political state structure exemplified most clearly in the person of Churchill.

Thus, when *The Economist*\* sneers contemptuously at Bevan's higher rating for false teeth than tanks (reminding us of a prior episode when the fashionable bourgeoisie jeered at Feuerbach's emphasis, naive though it was, on the human importance of "food") there is a certain profound truth in the charge. One may, without losing or sacrificing a thing, correctly pose the issue of Labour England's future in terms of "dentures" (the whole material, social service, socialistic well-being of the English people) as against "tanks" (the whole program of rearmament, dependency upon a purely military defense position, subordination to America and the Atlantic Pact). There is nothing to fear in accepting the terms of the Tory charge, and analyzing the situation in such terms.

NOW MAY WE BEST SUMMARIZE the roots of this crisis? The Labour Party, precariously reelected to office one year ago after a dismal campaign, has steadily lost the original momentum it developed in its great victory of six years ago. The dynamic movement, centered around the original program of nationalizations and social reconstruction contained in the 1945 electoral program, has tended to run down, despite the considerable

\**The Economist*, because it is a valuable source of economic and political information and analysis, is too often forgiven—especially by Marxists—for its vicious and reactionary editorials and policies.

achievements of Labour's first five years in power. It would be possible for us to indicate this in many ways and by many details, but its most significant symptom is the drop in popular energy and initiative and the replacement of these initial responses to the Labour victory by widespread apathy, indifference and even hostility on the part of the British working class. Government and party leadership bear responsibility for this.

This process has been clearly and effectively summed up by Professor G. D. H. Cole, founder of the Guild Socialist movement in the '30s, and sensitive observer of the changing moods of British political and social life. Writing in the *New Statesman and Nation* (May 5, 1951), Professor Cole poses the problem of how shall socialist democracy effectively counter the organizing ability and capacity of totalitarian Stalinism, with its undoubted successes. In England, says Professor Cole, the same need to organize society effectively exists, and ultimately the same alternative (totalitarian collectivism *vs.* socialism) will be presented. Cole rejects Stalinism, of course, and suggests that, "The only alternative is to diffuse power, to fling power into many hands, to rely on the people throwing up their own leaders in the groups to which they belong. . . ."

But—and here is the correct and profound indictment of the Labour Government—this has not occurred in Labour Britain.

*"In Great Britain no leadership of this second kind is being built. The Labour Government has not tried to build it. Neither in the nationalized industries nor in the trade unions nor in the Co-operative movement has it given its own stalwarts anything challengingly constructive to do."*

The revolt of Bevan and his supporters, in concrete political, trade unionist and administrative terms, reflects this fatal fact. The resignation speech of Bevan concluded with his statement that Britain had shown the world a possible alternative to uncontrolled American capitalism and Russian totalitarianism. It is the development and expansion of this alternative which have been placed in danger by the dual policy of liquidation of the Labour Party's internal program and submission to the American international program. To be sure, both issues are tied together and whatever unexpressed illusions may have existed among right-wing Labour Party leaders as to the possibility of constructing their concept of socialism within their own country and the Commonwealth areas have now been dispersed by disagreeable and sharp realities. As the gap between the unorganized left wing of the party, the critical wing which desires to pursue the original course, and the right-wing leadership grew, so did the gap between the right wing and the Tory Party tend to close up. This expressed itself most clearly on the question of a rearmament program, later concretized in the now famous budget for the year 1951.

IN JANUARY OF THIS YEAR a rearmament program of £4,700,000,000\* for the next three years was presented and adopted by the Labour Government. In the budget for 1951, it was proposed that £1,300,000,000 of this be spent over the next year. The budget of the new Chancellor of the Exchequer had a new ring to it when compared to the other five budgets presented since Labour assumed power; or, one might say, it had a familiar

\*£ equals \$2.90.

ring to it in terms of previous Tory and conservative governments. New financing for further nationalizations was not included, diversion of capital funds for either improvement of the already nationalized industries, or further subsidies to either food or commodity purchasing, or strengthening of the various social services—none of these items was included. Instead, the budget\* was built around the overriding item of military expenditure mentioned above. Capital expenditure is to be diverted to those industries directly related to the rearmament program with the consequence that the expansion of British industry, direct consequence of the planned economy of the past five years, will now come to a halt. Further, as if to symbolize the reversal of the most sympathetic social movement which we have known since the Russian Revolution, the infamous proposal to charge for dentures and eye glasses was presented.\*\* This proposal was deliberately provocative in character since the saving involved was a paltry sum. It was understood as such by all concerned, particularly by Bevan, the man who had created and constructed the National Health Service, one of Labour's proudest achievements.

In a directed economy such as that of Labour Britain, the budget assumes an importance unknown in capitalist countries. It is a *social* document indicating the perspective and policy of the government. As such, it

\*For a systematic and detailed analysis of the budget, we refer those interested to the April 21-May 5 issue of *The Tribune*, organ of the Bevan group.

\*\*In passing, let it be noted that the British people actually pay in advance for these items through the heavy taxation and rates they pay in general for the various social services; together with the fact that both these medical items have a particular importance for the working man since the poor diet in England results in a high demand for false teeth and eyeglasses.

was clearly unacceptable to those who proposed to continue the building and strengthening of the power of labor in the country. The burden of the shift to rearmament was to be borne by the domestic consumer, the working masses. Herbert Morrison, spokesman for the Party's right wing, has admitted that any failure by Britain to obtain sufficient materials to sustain the volume of production upon which present planning is based would weaken the whole economy and depress the standard of living. But he has made it abundantly clear, as *The Economist* is pleased to recognize, that such a fall in production would be at the expense of domestic consumption, rather than the defense and export programs. The budget, then, must be grasped as a tacit banding together of the conservative labor leadership with the Tory imperialists to halt the constructive social program and divert the economy to an active war footing.

The right-wing Labour Party leadership, backed by a majority of the Trade Union Congress General Council, joined in a common front to blast Bevan. The Tories hastened to their support with similar arguments. One of the charges, presented by Attlee, was that Bevan had originally declared his opposition only to the proposal of health service charges, but had then broadened it to differences over fundamentals such as rearmament, and the directed economy itself. This charge is empty since everyone understands that the deepest principle was involved in the plan to liquidate free health service and that this only symbolized the reactionary character of the budget itself. Bevan's resignation speech committed him to unstinting opposition to the Government's financial policy, and to the raising of

serious doubts as to the ability of Labour Britain to defend itself, from a national point of view, by those methods now proposed and the strategy represented by the Atlantic Pact.

In the inevitable and comparative calm which has followed this break in the party ranks, it is clear that such issues with their complex and far-reaching implications, are now being discussed. If we include the trade-union membership, the British Labour Party now has 6 million members, by far the most powerful, solid and imposing movement in the world of labor. The support of Bevan, which ranges from the active and energetic association of those around him to a general sympathy with his ideas, is enormous. Its actual extent, in terms of votes and numbers, will no doubt be measured at the annual Labour Party conference held in October. A period of many months lies before the party membership in which to discuss, weigh and reflect upon the issues. In prior days, the leadership would unquestionably have attempted to expel Bevan and his friends. Today, it dares not take such a step; at least for the present. It dares not even curb him from expressing his viewpoint, despite the standing custom that National Executive Committee members must share responsibility with the party and its government, or resign their post. The possibility for a full, free and healthy discussion unquestionably exists and will take place. The perspective for the formation of a serious, integrated and constructive "left wing" within the Labour Party has thus been opened up, for the first time since Labour took power. This perspective is not to be confused with so-called "left wings" organized by various muddleheaded "Trotskyist" elements, together with their newly-

found Stalinist allies and fellow travellers. Such indigestible sects play no rôle in the Labour Party beyond creating confusion, and have no place in a genuine left-wing development.

WE SHALL MAKE NO EFFORT to predict the speed or extent to which this perspective may be realized. In terms of the habits and traditions of the British labor movement, it may very well not be a rapid or sensational development. English labor and socialism customarily build slowly, but they build well. Nor do we know what its precise organizational forms or consequences will be. But some of the questions it must take up and attempt to solve are evident enough to state:

Precisely how shall we preserve those achievements, both in the economy and in the field of social services, which we have already won?

How shall we deepen, extend and broaden these achievements, thus giving a still more solid base to Labour Britain?

How shall we infuse the structure we have already erected with the dem-

ocratic socialist content required to solve the problem posed by Professor Cole and others? What do we mean by "workers' control of production," and how shall we achieve it?

How shall we assert our independence in the "two-bloc" world; what is a socialist foreign policy for today?

What is the proper rôle of rearmament and military defense in a socialist policy of national defense; how can we successfully ward off the threat of Russian attack? What shall be our relations with socialists throughout the world?

In effect, the embryonic left-wing tendencies within the Labour Party not only have the immediate task of fusing together their efforts and energies, but the long-range task of developing their own rounded program and proposals for the multitude of difficulties. In this sense, then, the Bevan development must be understood as but the latest step in the welcome process of socialist regroupment and rethinking which is now going on throughout the world.

Henry JUDD

# Socialist Policy and the War

## A Discussion of Position on the Third World War

We are still, fortunately, several years away from the outbreak of the Third World War which the victors of the Second World War gave such solemn assurances would never take place. Just how long the interval of frenzied armed truce will last, no one of course is in a position to say with certainty. The war in Korea or a similar localized war between the two big camps may explode unexpectedly and over night into the decisive global war. Such a "premature" development is possible. But while wars do not wait until the belligerents are fully prepared for them—full preparation takes place as a rule only after war has begun—an adequate preparation is nevertheless necessary on one side at least. The main indications are that neither side has yet reached that level, in the realm of political, industrial and military preparation, which it could regard as the minimum required for so enormously risky a trial of strength as the gigantic conflict of the Third World War is sure to be. Until that level is reached, more or less, by one side or both, we are vouchsafed the interlude of the present abominable imperialist peace, and therewith more time in which to prepare our own struggle against imperialism and war. Preparation requires in the first place the clearest possible understanding among us, the socialists, so that we may be in the best position to put forward a correct and effective policy.

That is easier said than done, let us acknowledge. Never before, not in the period of the First World War or of the Second, have the political pressures been applied so heavily to

wrench the socialist movement away from its foundations and aims in order to align it with one war camp or the other. It was to be expected that these pressures would yield the intended results among the weary, the characterless, and the cynical, to say nothing of ordinary poltroons. The imperialists are welcome to these human husks. But in addition to them, there are serious and honorable socialists everywhere, devoted to the cause of emancipation and anxious to work for its victory. They do not want to enter the service of either war camp. But in the absence of a powerful and worldwide socialist movement independent of both sides, they are uncertain of the proposition that it is the socialist duty to oppose support of the war, where they are not skeptical or even hostile toward it. Is the traditional socialist position still valid? they ask; do we not have to support one side or the other as a choice between a lesser evil and a greater? Behind them stand no one knows how many millions who, for all their hatred and fear of the coming war, are asking themselves what amount to the same questions. In the midst of the general decay that is ravaging all the organs of society, subjective thinking, rationalization, superficiality, prejudice, and even outright unreason and hysteria, command the field of politics. But because they force objective political thinking into the background for the time being, is only added reason for Marxists—the scientific socialists—to insist upon its indispensable importance.

TO ESTABLISH A SOCIALIST POLICY toward the coming war, it is necessary

to start by going back to the First World War. There are good reasons for such an approach to the problem. First, there is no period in the history of the socialist movement so filled with the most extensive and thorough-going presentation and counter-presentation of views on the war question as the period of 1914-1918. Second, it is in this period that the war position of modern revolutionary Marxism was so emphatically set forth, mainly by Lenin, that it is generally regarded as the position which Marxists hold and should hold toward the Third World War. Third, calling back to mind the First World War will afford an instructive comparison with the coming war.

We will dwell mainly upon Lenin's position, not at all because a quotation from Lenin is enough to solve the problem we face today, but because the *method* he employed in arriving at his views remains the model for Marxists today.

All class societies are based upon social contradictions and conflicts. The important ones are always resolved in the long run by the application of superior force, be it with or without bloodshed. The problems of a given class society, capitalism included, can be resolved in a progressive or in a reactionary way. Wars are one of the means by which society's problems are resolved. Depending upon its character war is therefore either progressive or reactionary. From the socialist standpoint, war is a barbarous—an ever more barbarous—means of solving social problems. But since war is inherent in class society, and can be done away with only in a classless society, there is no way of avoiding the choice between supporting progressive wars—whose conse-

quences favor the march to socialism—and opposing reactionary wars—whose consequences retard this march. These considerations were as self-evident to Lenin as to every other Marxist. They precluded the pacifist or any other abstract or absolutist position applicable to all wars, at all times and under any conditions. Therefore, as Lenin wrote repeatedly during the war, "to be a Marxist, one must appraise each war separately and concretely." Such an appraisal requires more than the setting forth of the general conditions of an epoch. It is necessary, he added, "to distinguish a given concrete phenomenon from the sum total of different phenomena in a given epoch. An epoch is called an epoch precisely because it embraces the sum of different phenomena and wars, typical and non-typical, great and small, characteristic of the advanced countries, and also characteristic of backward countries."

When the First World War broke out, the Socialist International collapsed. Most of the Socialist parties rushed to the "defense of the fatherland" and supported their respective governments in the war. It is not without interest that they sought to justify their betrayal of socialism in general and of their own solemn pledges at the international socialist conference in Basel two years earlier, by reference to Marx and Engels. Lenin, refusing "to depart from the Marxian rule to be concrete," wrote his most illuminating polemics against the social-patriots (he preferred the more accurate term, "social-chauvinists"), by dealing precisely with the position of Marx and Engels. He showed that where their support of wars fought in the nineteenth century satisfied the interests of democracy and socialism, support of the war fought by the same

countries in 1914 was contrary to these interests. The politics of the belligerents had changed in the intervening period, and war being (as he liked to quote from Clausewitz' famous dictum) the continuation of politics by other means, the character of the war they were now waging had changed accordingly, dictating in turn a change in the politics of the socialist movement.

THROUGHOUT THE NINETEENTH CENTURY, in fact, beginning with the Great French Revolution at the end of the eighteenth century, wrote Lenin, Marx could take the side of the bourgeoisie as a class and even of bourgeois governments in a whole series of wars. In that period, the bourgeoisie could and did play a progressive rôle; under exceptional conditions, even a representative of the Prussian Junkers like Bismarck could play a progressive rôle. It was the period of the struggle of young capitalism against outlived, reactionary feudalism. It was the period of the struggle to establish the national state, to end feudal particularism, dispersal and dismemberment, to throw off the foreign yoke or prevent it from being fastened upon the nation. All this came under the heading of a great and progressive historical task. Despite the early illusions of Marx and Engels themselves, capitalism had not yet created and developed a new class, the proletariat, of such strength, degree of organization, experience and consciousness as would enable it to perform this task. It could be carried out only by the bourgeoisie, or even by such a reactionary substitute for the bourgeoisie as Bismarck. Under such conditions, Marx and Engels, studying concretely each particular war, decided their position by answering the question: "The success of which bourgeoisie is more desirable?"

They were guided, wrote Lenin, by these considerations:

... first, for the *national* movement (of Germany and Italy)—a desire that they develop over the heads of the "representatives of medievalism"; second, considerations of the "central evil" of the reactionary monarchies (the Austrian, the Napoleonic, etc.) in the European concert of powers. These considerations are perfectly clear and cannot be disputed. Marxists never denied the progressivism of bourgeois national movements for liberation directed against feudal and absolutist powers. . . .

Supposing that two countries are at war in the epoch of bourgeois national movements for liberation. Which country shall we wish success from the point of view of modern democracy? Obviously, the one whose success would give impetus to, and would aid, the tempestuous development of the bourgeois movement for liberation; the one which will more strongly undermine feudalism. Supposing now that the *determining* feature of the objective historic circumstances has changed, that capital striving for national liberation has been replaced by international, reactionary, imperialist, finance capital. Assuming that the first country possesses three-fourths of Africa, whereas the second possesses one-fourth, and that the objective meaning of their war is the redivision of Africa. Which side should we wish success? This is a question which, if put in this old form, is absurd, since the old criteria of judgment have disappeared: There is neither a long development of the bourgeois movement for liberation, nor a long process of collapse of feudalism. It is not the business of modern democracy either to help the first country to assert its "right" to three-fourths of Africa, or to help the second country (even if it were to develop economically faster than the former) to take away those three-fourths.

Modern democracy will remain faithful to itself only if it does not join one or the other imperialist bourgeoisie, if it says that "both are worst," if it wishes the defeat of the imperialist bourgeoisie in every country.

Lenin did not draw the conclusion, from his analysis of the world war, that the question of democracy, pri-

marily in the form of the right of nations to self-determination which justified their defense in a war, was in no way involved. The "national element" in the war was represented by the struggle of little Serbia against the Austro-Hungarian monarchy. Were war confined to a duel between these two, then notwithstanding the shady and reactionary régime then ruling Serbia, it would be necessary and proper for all socialists to support her against the Habsburg monarchy. But the war was far more than a duel between these two; the national element "occupies an entirely subordinate place and does not alter the general imperialist character of the war."

Similarly even in the case of Belgium whose neutrality was "shamelessly violated" by the German imperialists. To illustrate his approach to the problem, Lenin wrote:

Suppose all nations interested in maintaining international treaties declared war against Germany, demanding the liberation and indemnification of Belgium. In this case the sympathy of the socialists would naturally be on the side of Germany's enemies. The truth, however, is that the war is being waged by the "Triple" (and Quadruple) Entente *not* for the sake of Belgium. This is well known, and only the hypocrites can conceal it. England is robbing German colonies and Turkey; Russia is robbing Galicia and Turkey; France is striving to obtain Alsace-Lorraine and even the left bank of the Rhine; a treaty providing the sharing of spoils (in Albania and Asia Minor) has been concluded with Italy; with Bulgaria and Rumania there is haggling as to the division of the spoils. In the present war, conducted by the present governments, it is impossible to help Belgium without helping to throttle Austria or Turkey, etc. What meaning, then, has the "defense of the fatherland"? This is the peculiar characteristic of the imperialist war, a war between reactionary bourgeois governments that have historically outlived themselves, conducted for the sake of oppressing other nations. Whoever justifies partici-

pation in this war, perpetuates imperialist oppression of nations.

Lenin never tired of emphasizing the "peculiar characteristic" of *this* war, the features which distinguished it from preceding wars. It is *not* a war for the defense of the German or the French or the Russian or the British nation. The defense of the nation from the threat of foreign subjugation (where that is not simply a cover for imposing the nation's own yoke upon another land) is an elementary democratic right which Marxists had supported in the past and would continue to support in the future. The Marxist opposition to *this* war is based upon the fact that the main belligerents are fighting it in order to deprive peoples and nations that are not fighting the war of their democratic right to self-determination.

In reality, the task of the struggle of the English and French bourgeoisie is to seize the German colonies and to ruin a competing nation which is distinguished by a more rapid economic development. For this noble aim, the "advanced" democratic nations are helping ferocious Tsarism still more to choke Poland, the Ukraine, etc., still more to throttle the revolution in Russia. Neither of the two groups of belligerent countries is behind the other in robberies, bestialities and endless brutalities of war. . . .

Again Lenin writes, this time in the resolution of a war-time Bolshevik conference abroad:

The real substance of the present war is a struggle between England, France and Germany for the division of colonies and for the plunder of the competing countries, and an attempt on the part of Tsarism and the ruling classes of Russia to seize Persia, Mongolia, Turkey in Asia, Constantinople, Galicia, etc.

BUT DOES NOT GERMANY ALSO threaten the sovereignty, the national independence, of France and Russia? And do not France and Russia threaten the national integrity of Germany? It is with such claims that the pro-war



socialists justified support of their governments, support of the war as the means imposed upon them for the defense of their fatherlands. Lenin denied that. It is chauvinism to support the war in Germany, for her bourgeoisie is not fighting to save the country from becoming a colony or vassal of Tsarism but to keep its own foreign colonies and add to them; it is chauvinism to support the war in France, England and Russia, for their ruling classes are fighting not to save their countries from the rule of German militarism, but to keep their own foreign colonies and to add to them. This aspect of Lenin's analysis, and therefore of his position, is of paramount importance and deserves added emphasis especially because it is so widely unknown or neglected:

England, France and Russia are fighting to retain possession of the colonies they have grabbed and to rob Turkey, etc. Germany is fighting to gain possession of these colonies and to rob Turkey, etc., herself. Let us assume that the Germans even take Paris and St. Petersburg. Will this change the nature of the present war? Not in the least. The object of the Germans—and, what is more important, the politics they can pursue if they are victorious—will then be to take possession of the colonies, to dominate Turkey, and to seize alien territory, for example, Poland, etc.; but it will not be to impose an alien yoke on the French or the Russians. The real nature of the present war is not national, but imperialist. In other words, the war is not being fought because one side is overthrowing the yoke of national oppression while the other side is striving to retain it. It is being waged between two groups of oppressors, between two sets of robbers to decide how the loot is to be divided, to decide which of them is to rob Turkey and the colonies.

Lenin insisted, elsewhere, that this applied not only to France and Russia but even to violated and occupied Belgium:

The Anglo-French bourgeoisie is de-

ceiving the people when it says that it wages war for the freedom of peoples, including Belgium; in reality, it wages war for the sake of holding on to the colonies which it has stolen on a large scale. The German imperialists would free Belgium, etc., forthwith, were the English and the French willing to share with them the colonies on the basis of "justice." It is a peculiarity of the present situation that the fate of the colonies is being decided by war on the continent. . . . It is not the business of socialists to help the younger and stronger robber (Germany) to rob the older and fatter bandits, but the socialists must utilize the struggle between the bandits to overthrow all of them.

Given the actual alignment of the two imperialist blocs, given their aims in the war which were only a continuation of the politics pursued up to the time of the war, Lenin called for opposition to the war on both sides, for independence of the socialist movement and the working class from both war camps, and for utilizing difficulties of any and all kinds encountered by the war camps to advance the struggle for the socialist revolution, democracy and peace. He did not of course descend to that vulgarity which argues that since "they" are all capitalist countries, they are all alike. He was not blind to the political differences between one belligerent and another; on the contrary, he pointed them out. Only, these differences were not, taking all the belligerents on the whole, of the kind that determined the character of the war. He was not blind, either, to the question raised in millions of minds: Whose victory will be the lesser evil from the standpoint of the working class? This question he answered, as it were, on two levels which were closely connected with one another.

Under given conditions, it is impossible to determine from the standpoint of the international proletariat which is the lesser evil for socialism: the defeat of

one or the defeat of the other group of belligerent nations.

The emphasis here belongs upon the "standpoint of the *international proletariat*." First, because in this imperialist war, unlike the national wars of the preceding century, the bourgeoisie plays a progressive rôle on neither side. But second and more important: the very conception of victory (or defeat) by one imperialist bloc being a lesser evil excluded, in practice, the conception of the revolutionary intervention by the European proletariat to put an end to the imperialist war by putting an end to all the imperialist régimes.

For the same reason, he trenchantly opposed the slogan of "Neither victory nor defeat." Such a slogan implied the restoration of the *status quo ante bellum*, that is, the continued rule of the imperialist powers, the continuation of the imperialist rivalries, the recreation of the very conditions that had led to the war. Lenin was not looking backward to the pre-1914 days, but forward to the days when the resurgent proletarian movement would intervene independently in the growing crisis of the war as it finally did in 1917 and 1918. Rejecting the theory of the "lesser evil" for the war of 1914, Lenin put forward the idea that it is necessary for all revolutionary socialists to work for the transformation of the imperialist war into a civil war. "Revolution in war time is civil war." In place of "civil peace" and "national unity," he advocated independence of the proletariat and continuation of the class struggle in all the belligerent countries to the point of revolution against the imperialist régimes.

WHAT IF PROSECUTION OF THE CLASS struggle imperils the military position of the government, even to the point

where it may be defeated by the enemy and lose the war? No matter. The class struggle must be continued in all countries regardless of the cost to the existing governments. This was Lenin's famous (but not always very clearly understood) theory of "defeatism" or "revolutionary defeatism."

It was motivated by two considerations. One was that it had to be and could be applied to *all* the warring countries. To dispute the "slogan," wrote Lenin, it would be necessary to prove "that a revolution in connection with it [the war] is impossible," or "that coördination and mutual aid of the revolutionary movement in *all* belligerent countries is impossible." The other was that the proletarian classes could follow a policy of intensified class struggle against their own governments as the main enemy—a struggle that would be facilitated by military defeat and would at the same time contribute to military defeat of their own country—because even if such a defeat were to occur the country would not run the risk of being subjugated by the enemy. Moreover, whatever disadvantages would ensue from such a defeat (disadvantages to the nation itself, not merely to its ruling class) would be far more than compensated by the advantage gained at home for the revolutionary struggle and victory of the working class.

But while it was impossible to determine whose defeat would be the lesser evil from the standpoint of the *international* proletariat, Lenin did not hesitate to say that it was quite possible to make this determination *from the standpoint of the Russian proletariat*. Over and again, Lenin repeated in his wartime speeches, articles and letters:

From the point of view of the working class and the laboring masses of all the peoples of Russia, by far the lesser evil

would be the defeat of the Tsar's armies and the Tsar's monarchy, which oppresses Poland, the Ukraine, and a number of other peoples of Russia, and which inflames national hatred in order to increase the pressure of Great-Russia over the other nationalities and in order to strengthen the reaction of the barbarous government of the Tsar's monarchy.

Again, in a private letter to a comrade:

In order that the struggle may proceed along a definite and clear line, one must have a slogan that summarizes it. This slogan is: For us *Russians*, from the point of view of the interests of the laboring masses and the working class of *Russia*, there cannot be the slightest doubt, absolutely no doubt whatever, that the *lesser* evil would be, here and now, the defeat of Tsarism in the present war. For Tsarism is a hundred times worse than Kaiserism.

Shortly after this letter, but still in the year 1914, after writing what is quoted above about the "standpoint of the international proletariat," he adds:

For us Russian Social-Democrats, however, there cannot exist the least doubt that from the standpoint of the working class and of the laboring masses of all the peoples of Russia, the lesser evil would be the defeat of the Tsarist monarchy, the most reactionary and barbarous government oppressing the greatest number of nations and the greatest mass of the populations of Europe and Asia.

Again, in a resolution written for a Bolshevik conference the following year:

... the defeat of Russia represents the least of all evils under all conditions.

Finally, just a few months before the first revolution of 1917 in Russia, and still making it clear that he was speaking not simply of the defeat of Tsarism by the socialist proletariat but of its military defeat by Germany, he wrote:

Whatever the outcome of the present war may be . . . it will prove that the Russian Social-Democrats who said that the defeat of Tsarism, the complete military defeat of Tsarism, is "at any rate" a lesser evil were right. For history

never stands still, it is moving forward even during the present war; and if the proletariat of Europe is unable to advance to socialism at the present time, if it is unable to cast off the yoke of the social-chauvinists and the Kautskyans during this first great imperialist war, Eastern Europe and Asia can march with seven-league strides toward democracy only if Tsarism meets with utter military defeat and is deprived of all opportunity of practising its semi-feudal imperialist policy.

THE MILITARY CRACKUP OF TSARIST arms followed only a few weeks after Lenin wrote these words, and Tsarism was "deprived of all opportunity of practising its semi-feudal imperialist policy." The March, 1917, revolution exploded all over the Russian empire, collapsing the most reactionary régime in Europe and heralding the beginning of the end of the international slaughter. The revolution was unique, not only in that it was supported by all the classes in Russia but even by British imperialism; and its consequences were also unique. It produced two powers, the official power represented by the Provisional Governments that were successively established, and the unofficial power of the Soviets which democratically represented the vast masses of the peoples of Russia. The first stood for the continuation of the war launched by Tsarism and with the war aims of Tsarism as embodied in the notorious secret treaties with its allies; the other represented a populace that longed for nothing so much as an end to the war and the establishment of democracy.

Lenin was the first to reorient himself in this new and unforeseen situation. Never a prisoner of dogma in general, nor of his own tactics and slogans in particular, he immediately grasped the new element in the situation, especially with regard to the

problem of war policy, and adjusted himself to it instantly. Toward the so-called "revolutionary defensists," he proposed not the slightest concession. The fact that Tsarism had been overthrown by a revolutionary people did not of itself change the character of the war. The new bourgeois régime was a capitalist régime and pursued the same war aims as the régime that had just been crushed. The Provisional Governments continued their alliance with the Western imperialists and were still bound by the secret treaties which they not only refused to denounce but even to make public. Hence, said Lenin, we, the Marxists, the socialists, the advocates of democracy, we continue to oppose the war as an imperialist war, and to remain intransigently opposed to those who are waging it.

But the masses, what is our attitude toward them? Do *they* want a war to conquer Galicia and Constantinople for a Great-Russian empire? Not at all! It is vitally important for the Bolsheviks to distinguish between the "defensism" of Miluyukov, Lvov and Kerensky, and the defensism and even pro-war spirit of the masses:

The masses regard this thing from a practical, not a theoretical standpoint [were Lenin's first words upon returning to Russia from Switzerland]. They say: "I want to defend the fatherland, but not to annex foreign lands." When may one consider a war as one's own? When there is a complete renunciation of annexations.

The masses approach this question not from a theoretical but from a practical viewpoint. Our mistake lies in our theoretical approach. The class-conscious proletariat may consent to a revolutionary war that actually overthrows revolutionary defensism. Before the representatives of the soldiers, the matter must be put in a practical way, otherwise nothing will come of it. We are not at all pacifists. The fundamental question is: which class is waging the war? The capitalist

class, tied to the banks, cannot wage any but an imperialist war. The working class can. . . .

From this distinction, which was both cause and effect of the new situation created in Russia, and to which Lenin attached the greatest possible importance, he drew the conclusion that, without at all adopting a position of support to the war, it was necessary to renounce the slogan of transforming the imperialist war into a civil war, as well as the thought that a defeat of Russia at the hands of Germany represented, for Russian socialists, a lesser of two evils. Defending his new thesis on war policy before the historic April, 1917, conference of the Bolsheviks three weeks later, he enlarged on his views in a way that merits extensive quotation:

We have no doubt that, as a class, the proletariat and semi-proletariat are not interested in the war. They are influenced by tradition and deception. They still lack political experience. Therefore, our task is patient explaining. Our principles remain intact, we do not make the slightest fundamental concessions; yet we cannot approach those masses as we approach the social-chauvinists. Those elements of our population have never been socialists, they have not the slightest conception of socialism, they are just awakening to political life. But their class consciousness is growing and broadening with extraordinary rapidity. One must know how to approach them with explanations, and this is now the most difficult task, particularly for a party that was but yesterday underground.

Some may ask: have we not repudiated our own principles? We have been advocating the transformation of the imperialist war into a civil war, and now we have reversed ourselves. We must bear in mind, however, that the first civil war in Russia has come to an end; we are now advancing toward the second war, the war between imperialism and the armed people. In this transitional period, as long as the armed force is in the hands of the soldiers, as long as Miluyukov and Guchoy have not resorted to violence, this civil war is transformed



for us into peaceful, extensive and patient class propaganda. To speak of civil war before people have come to realize the need of it, is undoubtedly to fall into Blanquism. We are for civil war, but for civil war waged by a class-conscious proletariat. Only he can be overthrown who is known to the people as a despot. There are no despots in Russia at the present moment; it is the soldiers and not the capitalists who are in possession of the guns and cannons; the capitalists are in power not by force but by deception, and to speak of violence now is impossible, it is nonsense. One must know how to look from the Marxian standpoint which says that the imperialist war will be transformed into civil war as a result of objective conditions and not as a result of subjective desires. For the time being we are abandoning this slogan, but only for the time being.

"FOR THE TIME BEING" PROVED TO be a long time. The slogan of transforming the imperialist war into a civil war was never again put forward by the Bolsheviks in Russia. Instead, Lenin denounced those who charged him and his party with advocating civil war in Russia as despicable liars and pogrom-instigators. With the change in conditions, it turned out that it was the monarchists and other reactionaries who sought to "transform" the imperialist war into a civil war, even going to the extent of making a tacit alliance with the Germans for the purpose of jointly crushing the, to them, menacing working-class movement represented by the Soviets (even the Soviets led by the Mensheviks and Social-Revolutionists before the Bolsheviks gained the Soviet leadership).

With Tsarism in power, and even now after the March revolution, with the bourgeoisie in power, only an imperialist war can be and is being conducted; only an imperialist peace can be expected to terminate the war. However, in addition to the bourgeois power, we now have a working class

(and soldier and peasant) power. The working class is now freely organized into powerful institutions of its own, the Soviets. Its power is so great that the reaction dare not or cannot crush it. So great indeed is its power, Lenin repeated insistently, that it can take over complete state power peacefully, without civil war, without violence. If it takes power, and only in that event, a democratic peace is possible. No government of Europe can withstand the forcefulness of an appeal for a general democratic peace, without annexations and tribute, made by a Russian working-class government. Or, if one does withstand the appeal for a while and impose a war on such a Russian government, the nature of the war will thereby be transformed. In that case, the Russian working-class government, having renounced the secret treaties and all annexations and taken a firm position for the self-determination of all peoples and nations, will be fighting a just war deserving the support of the workers and peasants in general and of socialists in particular. Precisely because the working class is now so organized that it can take all the power into its hands peacefully, it is necessary to abandon all talk of civil war, all talk about transforming the imperialist war into a civil war, all talk about defeatism. And, until the working class takes power and puts forward its peace program as a government, the Bolsheviks, still refusing to support the war led by the Russian bourgeoisie, recognize, as Lenin said again and again, that the war cannot be brought to an end by the Russian soldiers simply "sticking their bayonets into the ground," that is, by one-sidedly abandoning the war front and therewith assuring the victory of German arms.—Thus Lenin.

IN SUM, WITH THE OVERTURN of Tsarism and the appearance of a free working-class movement which could speedily develop into a socialist movement striving to take power, Lenin replaced the old war policy of the Bolsheviks for "transforming the imperialist war into a civil war," with the new policy of transforming the reactionary war into a progressive war, the imperialist war into a just and democratic war.

A few months after the March revolution, Lenin made this exceptionally clear in his writings on the economic, political and military catastrophe to which the country had been brought by the bourgeois Provisional Government. To rise out of the catastrophe, he proposed a series of practical measures (nationalization of banks, compulsory trustification in industry, complete control of distribution, steep income tax, universal labor service, democratic controls everywhere)—measures which "will not yet be socialism, but . . . will no longer be capitalism." His observations on these practical measures, particularly in relation to the war which was still going on (the Kaiser's armies were already deep in Russian territory), are so indicative for us today that they must be quoted at length. In speaking of "the connection between home policy and foreign policy, or, in other words, the relation between a war of conquest, an imperialist war, and a revolutionary, proletarian war, between a criminal predatory war and a just democratic war," he wrote:

All the measures to avert catastrophe we have described would, as we have already stated, greatly enhance the defensive power, or, in other words, the military might of the country. That, on the one hand. On the other hand, these measures cannot be put into effect without transforming the war from a war of conquest into a just war, from a war waged

by the capitalists in the interests of the capitalists into a war waged by the proletariat in the interests of all the toilers and exploited. . . .

The defensive power, the military might of a country whose banks have been nationalized is superior to that of a country whose banks remain in private hands. The military might of a peasant country whose land is in the hands of peasant committees is superior to that of a country whose land is in the hands of landlords.

Reference is constantly made to the heroic patriotism and the miracles of military valor displayed by the French in 1792-1793. But the material, historical economic conditions which alone made such miracles possible are forgotten. The abolition of obsolete feudalism in a really revolutionary way, and the introduction throughout the country of a superior method of production and a free system of peasant land tenure, effected, moreover, with truly revolutionary-democratic speed, determination, energy and self-sacrifice—such were the material economic conditions which with "miraculous" speed saved France by *regenerating* and *reconstructing* her economic foundation.

The example of France shows one thing and one thing only, namely, that in order that Russia may be capable of self-defense, in order that she may display "miracles" of mass heroism, the old system must be swept away with "Jacobin" ruthlessness and Russia reconstructed and regenerated *economically*. And in the twentieth century this cannot be done merely by sweeping away Tsarism (France did not confine herself to this 125 years ago). . . .

[Russia is] continuing to wage an imperialist war in the interests of the capitalists, in alliance with the imperialists and in accordance with the secret treaties the *Tsar* concluded with the capitalists of England and other countries, promising the Russian capitalists in these treaties the spoliation of foreign countries, Constantinople, Lvov, Armenia, etc.

This war will continue to be an unjust, reactionary and predatory war on Russia's part as long as she does not propose a just peace and as long as she does not break with imperialism. The social character of the war, its real meaning, is not

determined by the position of the hostile troops (as the Social-Revolutionists and Mensheviks think, sinking to the vulgarity of an ignorant muzhik). The character of the war is determined by the *policy* of which the war is a continuation ("the war is the continuation of politics"), by the *class* that is waging the war, and by the aims for which it is being waged.

You cannot lead the masses into a war of conquest in accordance with secret treaties and expect them to be enthusiastic. The advanced class in revolutionary Russia, the proletariat, is coming more and more clearly to realize the criminal character of the war, and not only have the bourgeoisie been unable to persuade the masses to the contrary, but the realization of the criminal character of the war is growing. The proletariat of *both capitals* of Russia has definitely become internationalist!

How, then, can you expect mass enthusiasm for the war?

The one is intimately bound up with the other, home policy with foreign policy. The country cannot be made capable of self-defense without the supreme heroism of the people in carrying out great economic reforms boldly and resolutely. And it is impossible to arouse the heroism of the masses without breaking with imperialism, without proposing a democratic peace to all the nations, and without transforming the war in this way from a predatory and criminal war of conquest into a just, revolutionary war of defense.

Only a thorough and consistent break with the capitalists in both home and foreign policy can save our revolution

and our country, which is gripped in the iron vise of imperialism.

With this outline of the development of Lenin's ideas through the different stages of the First World War, we are better equipped to establish the lines of socialist policy toward the Third World War, both before it breaks out (if the altogether too patient peoples of the world allow it to break out at all) and once it is under way. We do not consider it necessary here to check Lenin's policies against the actual events, not because the mere enunciation of a policy by Lenin is enough to demonstrate its correctness but because the subsequent course of the March revolution and the subsequent course of the First World War and the peace that followed it are well enough known to obviate the need—at least at this point and among Marxian socialists—of adding anything to the justification of Lenin's policy which was so richly supplied by the living events. But it is necessary and profitable to compare the character of the Third World War with that of the First to see wherein they are similar and wherein they differ.

(Concluded in next issue)

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# Workers' Control of Production

*Its Meaning for the Socialist Movement*

## Introduction

In a letter addressed to "Berlin comrades" in 1931, Trotsky attempted a reply to the question, "What is Workers' Control of Production." His letter was later published under the title, *Ueber Arbeiterkontrolle der Produktion*, in the form of a brochure, together with other material on Germany. We have translated intact, with the exception of outdated references to the German Stalinist party, this little known contribution of Trotsky to clarification and concretization of this problem.

The many re-evaluations and studies of the Russian Revolution; the wave of "nationalization" in Western Europe after the last war, culminating in the experience of the British Labour Government; the Yugoslav "Basic Law on Management of State Economic Enterprises by the Workers' Collectives" adopted in June of last year; the recent "co-management" act in Federal Germany—all these events have contributed their appropriate share to a revival of the two basically related questions of workers' control of production, and management of the economy of a workers', socialist state. Yet, it must be confessed, there is an amazing paucity of material, both historic and analytic, dealing with such questions.

The letter of Trotsky, which sketches the broad outlines of the first problem, gives us the classic revolutionary content of the slogan of "workers' control," conceived of primarily in *political terms*, as an aspect of the overall revolutionary program. Even here one may note the flexibility

and suppleness of his thought which, rejecting dogmatic schemas (how often has this very slogan been advanced in the most sterile of fashions!), insists upon a "concrete" examination of relationships within the economy as the "starting point" and, with equal firmness, insists that we conceive of "workers' control" as the beginning of a long-range development to the point where the institutions affecting such control have become the actual "organs of workers' power" in the socialist society itself.

It may be asked—and it should be asked—how much of Trotsky's thesis is of value and relevance today, in 1951? Does it relate to the problems of Labour England, for example, where nationalization takes the form of public corporations, responsible to the state, and over whose management the institutions of labor have but the slightest managerial or controlling influence? And how does it relate to Western Germany, where trade union "participation" has begun to assume advanced forms? Certainly, the specific historic *process* described by Trotsky, under which "workers' control" over capitalist industry was imposed by the whole proletariat, led by its revolutionary party, has not at all followed the course he foresaw. But does this invalidate his approach, or simply demand its rectification?

It is not our intention here to attempt a reply to these, or corollary, questions. We are simply interested in beginning, and stimulating, some discussion around the subject. In this sense, Trotsky's outline provides, we

think, an excellent point of departure. We limit ourselves to suggesting two possible angles from which one may consider Trotsky's contribution, readily acknowledging that many other approaches are possible.

First, we wish to point out Trotsky's lucid suggestion that studies of the concrete circumstances and conditions (the meaning) of workers' control have never been carried out, at least to the extent of having a source to which one may turn to get the "feel," the sense of what this concept means in real life. Partly, this is due to the objective fact that the "sharpening of the class struggle" which Trotsky considered indispensable to any widespread existence of such control, has not been the condition of political life since Trotsky wrote his letter. But only partly so. In many instances, and in one or another condition (we have already mentioned such cases), the possibility for the development of this concept has existed, or does exist. The terrain has been fertile, but no seeds have fallen upon it. In many instances (Labour Britain, Germany today), the law and other codified measures touching on what industrial sociologists like to call "industrial relations" have furnished ready tools by which labor unions, provided the will and initiative existed, could invade the forbidden centers of management and control. Alas, the conservative labor leadership has readily accepted apathy and decline in proletarian consciousness as its excuse for allowing all opportunities for development to lie idle. Curiously enough, only the Fabian Society in Labour Britain has considered the question and published material which, among other things, establishes the neglected opportunities.

Therefore, one aspect of this broad

problem is to attempt an approach at such studies, detailing of experiences, etc., which can approximate an answer to the question of what this looks like, in day-to-day life. "We must begin from the bottom," says Trotsky, and this is still so.

Secondly, and here we find ourselves touching the broader and more theoretical side: what place does this concept occupy in the contemporary world of socialist thought, that world which has so drastically changed since 1931? If Trotsky's concept of the imposition of workers' control has proven incorrect—or, at least, unrealizable—must we change the concept itself, or evolve a new way of applying it? What is its meaning, for example, in Labour England, where the decline and dispersal of bourgeois state power has *not* been accompanied by the development of the kind of dual power Trotsky predicted, but rather by the construction of the external, *structural* forms of dual power without their dynamic inner content? How does this concept look, in reality and in perspective, in our America? These are some of the first, by no means exhaustive, thoughts which are raised in reading the thesis of Trotsky. (Sections in brackets will be my interpolation; the remainder is a translation of Trotsky's text.)

H. J.

●  
A LETTER TO A COMRADE, BERLIN, 1931:

In response to your question, as an introduction to an exchange of views, I shall attempt to sketch here some general considerations evoked by the phrase, "Workers' Control of Production."

The first question posed is the following: can one think of Workers' Control of Production as a fixed—to be sure, not eternal—long-lasting re-

gime? To answer this question one must clearly define the class nature of such a regime. Control is in the hands of the workers. This means that ownership and the right of disposition remain in capitalist hands. The regime therefore has a completely contradictory character in that it is of an *interregnum* (transitional) kind.

The workers need control not for platonic purposes, but to influence in a practical way both production and business operations carried on by the owner. However, this situation may not be attained without control, one way or another, passing beyond one or another of the boundaries relating to the direct function of the right of property disposal. In a more developed form, workers' control thus means a kind of *economic dual power* in the factory, bank, business enterprise, etc.

Should the workers' participation in management be of a lasting, stable, "normal" kind, it would have to be based upon the "class-collaborationism" not, however, upon the class struggle. Such a "class-collaborationism" can be realized only by the trade union top leadership and the organized bourgeoisie. Not a few of such attempts have been made: in Germany ("economic democracy"); in England ("Mondism"); etc. But in all these instances workers' control *over* capital was not involved, but rather of the labor bureaucracy's zealous solicitude *for* capital. Such solicitude, as experience shows, may continue for a long time, even beyond the proletariat's patience.

The closer it is to production, the more impossible becomes such a regime since it involves the immediate life interest of the worker. The entire process unfolds before the eyes of the worker himself. Workers' control ex-

ercized by factory councils is conceivable only under conditions of sharp class struggle, but not under that of "class-collaborationism." Thus, this same dual power must exist in the concern, the trust, the entire branch of industry, the whole economy.

WHAT STATE REGIME CORRESPONDS to workers' control of production? It is obvious that the state would not as yet be in the hands of the proletariat. If such were the case, we would have not workers' control of production but rather control of production by the workers' state as preparation for a regime of statified production founded upon nationalization. For us, the concept of workers' control exists within the scope of a capitalist regime, under bourgeois domination. However, a bourgeoisie which feels itself firm in the saddle will never tolerate dual power in its concerns. Hence, workers' control is realizable only as a consequence of a precipitous change in the relationship of forces, to the disadvantage of the bourgeoisie and its state. Control can be forcibly imposed upon the bourgeoisie by the proletariat only along the road toward that moment when power and then property is also taken away from capitalist production centers. Thus, a workers' control regime, by its very nature, can only be thought of as a provisional, transitional regime during the period of the shattering of the bourgeois state, the offensive of the proletariat and the retreat of the bourgeoisie; *that is*, the period of the proletarian revolution in its widest sense.

Is the capitalist already no longer master, that is, no longer entirely master in his factory? Then it follows that he is also no longer completely master in his own state. This signifies

that a dual power regime in the workshops corresponds to a dual power regime in the state. But this relationship must not be understood mechanically; not in the sense, that is, that dual power in the shop and dual power in the state will see the light of the world on one and the same day. The advancing regime of dual power, one of the probable stages of the proletarian revolution in every country, can develop in various ways, out of various elements in various countries.

[At this point, Trotsky begins a general polemic against the German Communist Party, then in the midst of the famous "Third Period." Emphasizing the fact that the Russian "soviets" were primarily an *organizational form* which revolutionary leadership had infused with revolutionary content, he ridicules the then prevailing "fetishism" of Russian forms, the concept that Soviets are inevitable and the mechanical application of the slogan of "soviets" as employed by the German Stalinists. On the contrary, Trotsky opposes the idea of organizing Soviets alongside of the works' councils in Germany, and makes the basic point that it is precisely the historic role of those organizational forms which affect workers' control of production (councils, committees, etc.) to develop into organs of workers' power (soviets) after the victory of the socialist revolution. On the political front, says Trotsky, workers' control is the means of achieving a practical united front of the working class. Its foundation and the development of its forms, far from conflicting with other revolutionary forms—as the Stalinists charged—is the best guarantee of their development. Trotsky continues as follows:]

Once astride the way leading to con-

trol over production, the proletariat will unavoidably be further pushed in the direction of the conquest of power and the centers of production. Questions of credits, raw materials, markets, etc., involve matters of control beyond the confines of isolated enterprises. In such a highly developed industrial country as Germany it suffices alone to raise the question of exports and imports in order to immediately pose the matter of workers' control of public expenditures, and to counterpose the central organ of workers' control to the official organs of the bourgeois state. By their very nature, the unavoidable contradictions of the regime of workers' control must inevitably become aggravated, as measured by the extension of its area of control and its accomplishments. They will soon prove to be unbearable. . . .

We must begin from the bottom, in the factory and workshop. We must test out and adapt these questions to a typical industry, bank and business undertaking. We must take as a starting point particularly crass cases of speculation; with the same purpose in mind, concealed lockouts, malevolent depreciation of profits with the object of cutting wages or unwarranted exaggeration of production costs, etc.

[Concluding, Trotsky urges his supporters in Germany to actively participate] . . . in the *study* of the concrete conditions around the struggle for workers' control [for] . . . revolutionary development should be adapted to the concrete relationships within factory and workshop.

LEON TROTSKY

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## Co-Determination in Germany

*Presenting the Background of the Issue, and an Opinion*

The issue of co-determination, the struggle which the German trade unions have waged, hesitantly and timidly, for an equal share of power in the management of industry, has been debated widely by Socialists and in trade union circles in Germany. Co-determination, if it be interpreted in a very wide and loose sense as a beginning in a fight for economic democracy, might be the great social stake around which Western Europe's masses could rally against Stalinism. However, this is a very remote possibility. The aims of those who actively pursue the struggle are far narrower, and the real tendencies governing them go in quite a different direction.

Co-determination is not an anti-capitalist concept of dynamic social-economic democracy; rather it represents a stage in the struggle for control over the capitalist economy. If the trade unions conduct this struggle weakly, then its final outcome cannot be favorable to them, but this does not, of course, affect its nature. The German trade unions are more than eager to arrive at some sort of compromise with management; and this cannot be ruled out, especially since management (big-business) no longer has the allies which it was able to count on during the Weimar era. Should the trade unions be able to realize their aim, it would mean a profound change in their functions. Such a change is becoming imperative; for the trade unions as institutions, large-scale participation in the national economy may be a question of survival.

The trade union officialdom has

sought to represent their struggle as one for "economic democracy." Their concept of democracy, therefore, presumes homogeneity, or at least reconcilability, of the major social interests. And, indeed, should they attain co-determination, a degree of intergrowth of the managerial and trade union bureaucracies is very likely (the interests of the popular masses will then be opposed to these interlacing apparatuses but this is not a consideration which can enter the ideology of trade union officials). A writer in the German left-wing monthly, "Pro und Contra" (W. K-r, in the November 1950 issue) states this succinctly:

The trade unions can secure their power over industry only in a centrally directed and bureaucratically controlled economy. The future is theirs, provided they remain tame, prove themselves useful, especially to the state and those conservative forces which want to save themselves in the transition to a bureaucratic economy, and provided they can tie the workers to such a development.

In the following a factual and historical analysis of the above-outlined tendencies and of German trade union ideology has been attempted. The importance of both obviously derives from the general international validity of the phenomena.

I.

In January 1951 the metal and coal trade unions of the Ruhr industrial complex officially announced that they would strike to enforce their demand for legislation of the principle of co-determination in their respective industries. This demand, however, was meant to secure the continued existence of co-determination, not its initiation.

Trade union participation in the management of these heavy industries originally arose from the necessity to restore them to whatever extent was permitted by the occupation powers; restore them, that is, under conditions of great adversity as regarded the workers. The reader need scarcely be reminded of the starvation diet imposed upon the Germans during the first years following the war, the terrible housing shortages, the worthlessness of currency, etc., which imposed extreme hardships upon everyone. In time these conditions were relieved, but until then trade unions were the indispensable disciplinary and organizational factors in the industrial restoration, at the same time that it was vital to their members' survival to promote it.

Trade union participation was therefore furthered by the British who in December 1945 took control of coal and in August 1946 of iron and steel. Management at the time, too, viewed favorably this possibility of an alliance with the trade unions, conditioned as it was upon the revival of its plants, which was indeed the greatest and most immediate need. It has been charged by some (viz. Freda Utley, "The High Cost of Vengeance," *Regnery*, 1948, who refers to "rumors" in this connection) that an agreement existed between the trade unions and the British according to which the latter would permit bi-partite boards of directors in the heavy industries, while the former would refrain from organizing strike actions, etc., against dismantlements. And indeed, no such strikes were officially sanctioned. The organization of united fronts of workers, civil servants, academicians and business people on this issue against the occupation powers, proposed by some young

Social Democrats, is said to have been sharply opposed by the leading trade union officials at the time, on the shabby excuse that they could not agree to what they termed "class collaboration." Whether or not the rumored deal existed, the trade unions did not merely contribute to industrial revival, they were essential to it and, their severe political shortcomings notwithstanding, their role was indisputably progressive.

BEGINNING IN OCTOBER 1947 and culminating in Military Law 75, the coal, iron and steel industries were "deconcentrated." They were divided up into 25 separate companies which were operated and administered by a trusteeship association, pending final disposition of their ownership. This association was to consist and still consists of representatives of labor, management and "the public" who were recommended at the time by the Bizonal Council (then the German quasi-government) and appointed by the British and Americans. The trustees form a sort of tri-partite board of directors; subordinate to them, theoretically at least, are the boards of directors of the 25 "broken up" companies, and these boards are bi-partite bodies of management and labor, the latter being represented by plant employes and by officials of the trade unions. The over-all supervision—determination of production quotas and allocation of end-products—still remains with the International Ruhr Authority, created in December 1948 as a successor to the British-American control boards on the insistence of the French; the High Commissioners of the three Western allies still retain power of decision in the Authority; however, Germany participates with three votes.

As indicated above, the trusteeship

association in the steel and iron industries and the corresponding bodies in coal are temporary: they run the plants until the question of ownership has been settled. Thus their final disposition has naturally been of intense concern, both to international labor and the Western occupation powers, the Adenauer regime and the industries' managers and stockholders. . . . The former has stressed the social nature of the enterprises and has proposed their internationalization together with the other heavy industries of northwestern Europe, with labor possessing a strong voice and all participating nations having equal status.

So far, however, the latter forces have proven stronger. The nationwide popular referendum which was to take place on the question as to whether the industries were to be socialized or returned to private management has yet to be held; the revised Ruhr statute has left the disposition of the enterprises to "the determination of a representative" of the German government. With Adenauer heading the latter, such a representative's decision need not be guessed at; anyway, there would certainly be no formal announcement for reasons which will be seen further on. Last year the right wing of Adenauer's party, the Christian Democrats, won the elections in North-Rhineland-Westphalia; coincident with these elections a plebiscite was held on a new state constitution which included a provision for the socialization of heavy industries whose insertion had been compelled by the Social Democrats, backed by the trade unions. On the morrow of the elections Adenauer declared flatly that the socialization provision of the constitution would be disregarded.

Of chief importance, however, is

the fact that the old management had been allowed by the Allies to represent the industries in the temporary but at any rate public administrative bodies. For this was bound to give it the opportunity to rebuild the apparatus upon which its future power would rest as well as to re-establish its authority. Hence as the High Commissioners relinquish their control over the industries, investing the German government with growing powers to reorganize the corporate set-up, the old management once more becomes securely entrenched. The recent establishment by the Adenauer government of its own "decartelization" office which initiates and passes on plans involving reorganization has already superseded in practice the steel and iron trustees and the coal board. Furthermore, while the revised Ruhr statute at first provided for compensation to the industries' stockholders, now, not compensation for old stocks and bonds but their replacement is being considered; the stockholders, fronting, to be sure, for the big industrialists, have recently been emboldened to attempt to win back the legal basis for their old-line corporate set-up by hiring Robert Patterson as their advocate.\*

All this tends to privatize the industries, thus furnishing a legal pretext for excluding trade union representatives from management boards and forestalling socialization. The trade unions, if they were to retain the position they had gained, had to have it "legalized" (through enactment of relevant legislation) since stockholders, when voting for a board of directors, are not in the habit of including rep-

\*Patterson, as undersecretary of war in 1942, was instrumental in stopping all anti-trust action against offending American corporations for the duration of the war.



representatives of labor. Discussions with management, which the latter had constantly delayed, began only when the trade unions prepared to strike; the bills which would confer legal status upon co-determination, however, have yet to clear the parliamentary committee at Bonn. Once management indicated readiness to compromise, the trade unions, with wonted timidity, withdrew their strike threat.

## II.

THE WEIMAR CONSTITUTION provided for the creation of works councils which were to participate in the socialization of industry, were to exercise control over such industries and were to have supervisory powers in the production and distribution of goods; the latter powers were to extend throughout the economy. The works councils were not granted legislative, but only executive powers.

This constitutional provision was the result of vast waves of strikes and bloody uprisings, fought chiefly against the "Free Corps," that irregular formation of erstwhile officers and adventurist ex-soldiers which, with the collusion of the Ebert-Noske government, infiltrated the major industrial regions of Germany in 1919 in order to subdue the armed workers. The strikes had no purpose other than the defense of the workers' councils and to enforce the demand for socialization against the government's wishes. The councils were the organs of struggle not merely for more equitable economic conditions but for an entirely new economic and political status for the workers. The Social Democratic leadership, in order to blunt the great political potential of the councils, was compelled to accept the idea but managed to limit it to the purely economic sphere, attempt-

ing to retain unimpaired political power for parliament and the state and party bureaucracy. As it turned out, even the fairly wide powers which the constitution provided for the councils were never enacted into law, excepting the shop councils whose functions never went beyond matters of grievance, social insurance, seniority, etc.; and which, moreover, were confined to unorganized enterprises.

The trade unions had been opposed to the whole idea of councils from its inception—in Germany the councils had arisen in opposition to the unions and of necessity challenged their existence. The trade unions, having accepted the government's war policy, were committed to the war effort. They had helped enforce the labor conscription law; they did not and could not sanction strikes and, in the face of wide-spread and growing misery, could do no more than petition the government by means of personal and parliamentary representations. The workers, having had the education and training of half a century of socialism and trade unionism, tended to break away from the official trade unions (just as the more radical workers began to break away from the Social Democratic Party, to join the Independent Social Democratic Party which was founded in 1916 by the pacifist opposition within the former party—Bernstein, Kautsky, Hilferding, etc., and to which Rosa Luxemburg, Mehring and Liebknecht also belonged). They formed their own organs, formally within the trade unions but independent of them, led by men who had remained loyal to their principles (R. Mueller, Daeumig). The strikes which took place during the war were all initiated through these councils or combinations of councils. The official trade union

leadership asked, and was allowed, to participate in the strike committees. Unable to repudiate the strike movements, it sought thereby to restrain them or, at any rate, to prevent a total loss of contact with their mass base.

It follows from their opposition to the councils, which with the end of the war tended to develop from a local scale into national organizations, that the trade unions were also opposed to socialization, inasmuch as the control over socialized industries would have been in the hands of the councils. The conservative character of the trade unions was an indisputable fact; they could be relied upon to brake wherever possible the potential forces of the council movement. There is conclusive evidence that they did so with the close collaboration of big business and the army. In return, the trade unions were guaranteed exclusive bargaining rights, the eight-hour day, abolition of "yellow dog" contracts, etc.

IN THE LIGHT OF THE EVENTUAL destruction of the trade unions by the Nazis, it might be argued that the role they played in 1918/19 showed a complete lack of foresight. (Indeed the disarming of the Berlin workers and the demobilization of all, including friendly, troops by the Ebert government, made the merest scrap of paper out of the constitution which was promulgated in summer 1919 amidst the forays of the Free Corps and the Black Reichswehr.) However, apart from the absence of what they could regard as a reasonable alternative for the course of action they followed, they had been imbued by the "ideology" of the peaceful, substantially a political evolution of capitalism into a type of socialism which differed from the former only in that

the private managers would become state functionaries (Bernstein). In such a set-up, clearly, there would be a place for the trade unions, although they would be part of the state.

Up to the outbreak of World War I collaboration between unions and employers had become more and more extensive. Following the repeal of Bismarck's anti-socialist laws, the trade unions evolved into formidable institutions, acquiring practically co-equal status on the bargaining tables of major industrial sectors. This status was broadened during the war when the government extended a sort of formal recognition and legality to them. Ideologically they may be said to have split off from the Social Democratic Party's (SDP) Marxist-socialist position when they refused to be organizationally associated with the SDP at the latter's party congress in 1892, insisting on a separate and centralized trade union organization, rather than accept local, independent bodies, with the centralized SDP acting as the unifying organ. Although a majority of the trade union membership as well as leadership was socialist, the latter always took pains to delimit its functions and politics from those of the SDP.\*

The trade unions were not, of course, apolitical; and, while attempts were made now and then to have non-

\*Thus A. v. Elm, a member of the trade union federation's executive council and a parliamentary delegate of the SDP, stated: "I wish to deny categorically that the trade unions, in their statutes or programmatic declarations, have ever committed themselves to the ultimate aim of the SDP, i.e., the transformation of capitalist private property in the means of production into social property. The trade unions are organizations with the express purpose of struggling for the greatest possible advantages for the working class within the framework of the existing state; the trade unions have, so far, declined to discuss the question of the future social order." Cited in Brunhuber, *Die heutige Sozialdemokratie*, 1905.

socialist politicians represent their interests, on the whole the SDP was the trade unions' mouthpiece in the political field (due in part to the proverbial weakness of German bourgeois liberalism and the consequent sharpness of class divisions, emphasized as it was by a great cultural chasm). The class struggle concept on which official SDP policies were based up to 1914 and which the trade unions did not accept was no obstacle, because of the prevalence of strong reformist elements in the party.

The exigencies of the war caused the trade unions to become, within certain limits, public, that is, state agencies. They helped organize the distribution of food and scarce essentials; they supported the families of inductees, pending the establishment of a regular subsistence system; they were instrumental in administering the labor conscript law; and they were essential in maintaining industrial discipline. This must have greatly increased the self-confidence of the trade union leadership; it must have created ambitions in them to expand their power within the state at the same time that they had a greater incentive than ever to preserve the state which was the object of their affections and the source of their authority, present or future. Indeed, there appeared learned treatises which attempted to prove that great strides toward "state socialism" were being made in war-time Germany. The gains achieved in this period contributed to the conservative role they were to play in the months following the armistice as well as to a definitive formulation of their "ideology."

The latter finds its most authoritative expression in Fritz Naphtali's book, "Economic Democracy, its character, methods and aims."\* published

in 1929 in the name of the German Federation of Trade Unions. The concept of economic democracy, which is today once more the animus of trade union action in Germany, connotes equal power for both labor and management in the affairs of industrial units and the economy as a whole. The state, being regarded as a supra-class organ of all of society, acts as a mediary; basically, however, the interests of the two "partners" are regarded as harmonious.\*\* The role of shop councils, the only organs in which a measure of workers democracy prevailed, is briefly referred to as being negligible in the trade unions' struggle for equal economic power which can be waged only by the infiltration of trade union officialdom into the desired positions. Once the desired equality of economic power had been achieved, economic democracy was considered to have been attained. This, however, was the prerequisite to achieving socialism. (Socialism thus is extraneous to the trade unions' "immediate" aim of economic democracy. It could, of course, not be ignored in view of the socialist convictions of their membership.)

Naphtali goes on to give a critical exposition of initial achievements of economic democracy. As such he considers the American anti-trust legislation, the numerous public enterprises within Germany (though he deplors the absence of trade union representa-

\*The German title is *Wirtschaftsdemokratie, ihr Wesen, Weg und Ziel*. It has not been translated.

\*\*Lassalle as well as Rodbertus regarded the state as a supra-class organ. Lassalle's influence outweighed that of Marx in the early German Social Democracy of the Gotha programme. Marxist influence gained predominance in the 1880s, i.e., the period of repressive anti-socialist legislation. But the influence of Lassalle remained strong and is clearly traceable especially in the statist concept of socialism which the official Social Democracy has always adhered to.

tives), the state-supervised administrations of the coal and iron industries—on whose boards, as he readily concedes, management is represented by its own as well as "public" members—and the tri-partite federal employment service, created in 1927 on the initiative of labor, whose success and efficiency he justly praises but whose significance for "economic democracy" he overrates. As a further contribution toward that aim he cites the consumer cooperatives and the wide participation of labor unions in various enterprises. The former, to which 20 per cent of German households belonged in 1929, were a fairly potent force in holding prices down on certain key consumer goods. The latter consisted chiefly of Labor Banks and construction works. The labor banks received their capital from the numerous left-wing and labor organizations and disposed of it in accordance with accepted banking practices. The construction works were instrumental in relieving the housing shortage for the low-income groups, at the same time giving employment to workers in the field. Finally, the very fact of the growth of labor law, labor courts for the judicial arbitration of disputes, etc., is regarded by him as "economic democracy."

Naphtali is by no means unaware of the continued social and economic predominance of management and he speaks of the eventual need of a curtailment of this predominance in the interest of balanced economic powers. His book being a theoretical exposition, he does not say how this is to be brought about. However, he views the prevailing technological tendencies as necessitating increasing state intervention in the economy which he regards as being, on the whole, beneficent to the trade unions and in consonance

with a general tendency towards socialism. The very existence of great trade unions, he implies, tends to compel cooptation of their officials to existing administrative and consultative boards or the creation of tri-partite agencies.

The orientation of the German trade unions as expressed by Naphtali thus went far beyond the plant or industry level, concerning itself ultimately with the economy as a whole. Factors of traditional socialist ideology, shared by members and leaders, played an important role in this orientation. However, there existed vital tendencies in the socio-economic fabric which compelled the trade unions to deal with broad aspects of their relations with the state and the economy. As is well known, during the 1920s there took place in Germany, a forced draft, a rationalization of the physical plant of industry which was brought about by cartelizations and powerful combinations of management. The semi-public character of industry was such as to prompt Hilferding to speak of the "growing together of the body of corporation functionaries with the state apparatus." The Reich itself had vast interests in a number of key industrial fields: in addition to its outright ownership of tele-communications and the railroads, it participated to the extent of 10.1 per cent in the coal industry; of 8.1 per cent in coke, 7.2 per cent in lignite, 18.8 per cent in iron ore, 74 per cent in aluminum, 76.8 per cent in electricity (all figures for 1925). Municipalities and provinces had large self-supporting enterprises. These figures and facts convey the trend toward the amalgamation of state and economy which, under Hitler, was accelerated by the creation of industry groups, headed and staffed by indus-



try's managerial personnel, representing a particular industry and at the same time possessing the authority of an agency of the state.

### III.

THE IDEOLOGY EXPOUNDED by Naph-tali has not been abandoned; nor has it been further developed. Dr. E. Pott-hoff, of the Economic Research Insti-tute of the DGB (*Deutscher Gewerk-schaftsbund* — German Federation of Trade Unions) refers to the new in-dustrial order as proposed by the trade unions as being related to the developments after 1918 "which were interrupted by National Socialism."\* This attitude, that fascism was but an "interruption," a sort of irrelevant inter-lude, pervades both trade union and SDP bureaucracies. It is due to the general historical and political re-trogression Germany has suffered as well as to the fact that these bureau-cracies received their charters from the occupation powers with whom they have usually maintained close re-lations and on whose continued pres-ence in the country they rely.\*\* Hence they have been unable to wage any serious struggle for certain basic democratic reforms which for Ger-many are political necessities. For ex-ample, they could not enforce the so-cialization laws, introduced into vari-ous state legislatures over the past years, with the backing of large popu-lar majorities, laws which, unlike those nationalizing industries in Eng-land, embodied provisions for broad

\**Gelst und Tat*, July 1950, p. 289. This magazine has been, until its recent ex-piration, the theoretical organ of the post-World War II SDP.

\*\*One of the many instances bearing on this dependence is the "conditions" to the fulfillment of which Schumacher ties ac-ceptance of rearmament; the "conditions" amounting to greatly augmented and in-tensified military occupation of Western Germany.

democratic administrations in which workers and communities were as-signed preponderant powers. To ac-tualize these laws the resistance of the occupation authorities would have had to be overcome. This could have been attempted only by means of strikes, refusals to collaborate. Given the vital relationships between the of-ficial trade unions and the organiza-tion authorities, and of the control exercised by the latter on economic restoration and the direction it was to take, militant action was a very risky undertaking. Even if socialization had been achieved, the Allies could easily have starved it to death.

Considering this dependence of the labor movement upon the occupation powers, it is not difficult to see why its leaders and spokesmen are incapable of a critical evaluation of the role played by these powers. Such evalua-tions have therefore been left to tiny groups of individuals of varied politi-cal and "non-political" persuasions. Labor, unable if not unwilling to deal with what has hitherto been the cen-tral factor in Germany's situation, cannot develop either its ideology or its socio-political potentialities.

IN VIEW OF THE DIMINISHING ROLE played by the occupation powers, and given the virtual absence of strong in-ternal adversaries; given, furthermore, the at least theoretical possibility of assuming the leadership of a country which, but for the potential inherent in the labor movement, lacks coherent progressive, genuinely national social forces, it would not be far-fetched to assume that the trade unions' drive for co-determination might be an in-itial step in the direction of realizing this potential. However, this is not in-dicated when we examine the state-ments made by trade union leaders

and spokesmen on the issue.\* If the system of co-determination were to be carried out in a political spirit, that is, with a will to alter social and eco-nomic relations, it would obviously have distinct possibilities. However, the trade union bureaucracy expressly states that it wishes an equal share of the power of capital, and that of care-fully defined spheres. It does not mean by this that struggles, serious struggles, will not be waged to gain its ends but it does mean that it views as and wants society to be an essentially static entity in which forces can be equalized and balanced.

From the assumption of the equal-ity of capital and labor follows the proposed bi-partite structure of the entire German economy. Labor must have a share in the decisions of capital especially where the workers' interests are directly affected, such as in wages, hours, production schedules and mar-keting planning.

On the plant level the proposal of the DGB provides for the addition to the boards of directors of a corre-sponding number of trade unionists, appointed by the official trade union. Subject to the supervision, hence in-tervention, of this bi-partite board of directors of, say, a complex of plants,

\*From an article on co-determination, signed Kb, in *Neuer Vorwaerts*, central organ of the SDP, in a recent issue: "It is now decisive that all forces be concen-trated upon the task . . . of steering social tensions into democratic channels. With-out co-determination, no economic democ-racy and without economic democracy no political democracy. Where these interac-tions are prevented or disturbed, revolu-tionary tensions arise. Co-determination . . . means partnership, its rejection would spell a struggle which would end in the destruction of one or both partners. Today more than ever the democratic state is in danger. It is threatened by the reaction-ary dictatorship of the entrepreneur; but it is also threatened, in case the reason-able . . . proposals of the trade unions . . . are rejected, by the radicalization of the workers. . . . The consequences of this would be unforeseeable."

are the executive boards of individual plants, and these, too, consist of equal numbers of managerial and labor rep-resentatives. The latter must be mem-bers of the plant's labor force, subject to their trade union's approval. Inas-much as the board of directors can overrule the executive boards, the ac-tual powers of a plant's labor repre-sentatives are highly circumscribed. Clearly, the power of the official trade union's appointees on the board of directors is not challengeable by the trade union's members by means other than those customarily engaged against employers.

The proposals of the DGB have left the shop councils untouched. Today they function, wherever they exist, chiefly as contract enforcement and grievance agencies of a plant's work force. They imply a good deal of local autonomy, but are the merest survival of the post-World War I shop council movement and, given present condi-tions, they must not be overrated.

On the supra-plant level, the DGB proposes to discard the prevailing sys-tem of district chambers of commerce which have functions similar to those in the United States but have the character of public corporations, with their decisions carrying corresponding force. The DGB would reorganize these institutions as Economic Cham-bers in which labor would share equal powers with management. Further, it proposes bi-partite provincial cham-bers and bi-partite provincial and fed-eral economic councils whose func-tions would be advisory only. The employers' federation has agreed to the establishment of these advisory bodies but remains strenuously op-posed to changes affecting the district chambers, wishing to substitute for them advisory labor-management dis-trict boards.

The trade unions have no intention to, nor can they confine co-determination to the plant level or even to the industry level. That would reduce them to a mere handmaiden of capital which has a highly concentrated and efficient apparatus outside its own economic and administrative organization—that is, the government, which the trade unions have no intention to touch but wish only to “advise.” It need hardly be pointed out that the decisions which any one board of directors can take are very limited in scope and would probably not differ very much if taken by trade unionists. (This is especially true in Germany with its stringent shortage of capital, where the self-financing practices of great enterprises exacerbate social conditions and lend urgency to the SDP’s and trade unions’ demands for centralized financing, with labor sharing control in it.)

THE GERMAN TRADE UNIONS must pursue their struggle for co-determination if their role is not to be progressively reduced in an economy in which “bargaining” takes place within evernarrowing bounds and upon which the world-wide shortages of raw materials, the effort to regain a share in the world market and the consequent necessity to raise productivity, impose a great deal of centralized planning. On the other hand, the trade unions are faced with what is to them the insidious threat of permanent unemployment, with the example of Berlin an extraordinary but eloquent warning post.

Unemployment in West Berlin amounts to 285,000 out of about 1.1 million employables, and to speak of the disintegration of the Independent Federation of Trade Unions there is no overstatement. The pressure exerted by such a vast labor pool has been

such as to induce workers to violate trade union contracts in collusion with employers, and has tended to make such contracts superfluous. They work overtime without demanding extra pay; they voluntarily acquiesce in the reduction of wages and social benefits and forego holiday and vacation allowances. Furthermore, they have had to accept the competition of the lowly-paid public works laborers, which has brought the trade unions into frequent conflicts with the social-democratic administration which institutes the projects. The former’s finances are such as to have moved the CIO and AFL to subsidize them.

In Western Germany there is, to be sure, no such acute threat to the trade unions as in West Berlin, but it cannot be discounted, if only because the reasons for it are of a more fatal nature. Unemployment over the past 2½ years—since currency reform—has varied between 11 per cent and 15 per cent of the employables. Its causes were, to the extent of about 50 per cent, the influx of refugees from formerly German territories in Eastern Europe and the return of prisoners of war. But whatever the causes, its permanency, coupled with the urgent pressure to seek employment exerted upon the employable members of a family by a terrific gap between real wages and prices\* necessarily weakens the trade unions.

The trade unions, then, must formulate new tasks for themselves if they are to survive. Unable and unwilling to proceed along independent lines, to take leadership into their own hands, they must continue to attempt to integrate themselves into so-

\*Minimum needs of a family of four require a monthly income of DM 340.—The average income of industrial workers is DM 250.—monthly. This is a 30 per cent differential between wage income and prices.

ciety as it is. Co-determination is the chief means by which they expect to attain integration on a stable basis. This may prove to be realizable; if so, great conflicts between officialdom and the rank and file are bound to arise. The fruits of this are difficult to

foresee in the absence of the political resurgence of the working masses.

EUGENE KELLER

(NOTE: I have omitted consideration of the problem of Stalinism in relation to co-determination because it requires considerable treatment on its own. I shall deal with this aspect of the question in a later article.—E. K.)

## Perspectives of British Labor

*An English Comrade Contributes His Views*

*In the January-February issue we printed several contributions to a discussion of the nature and perspectives of the British Labour Government. A British comrade herewith contributes his views. We hope to present a comment on these views, as well as additional material in a future issue.—The Editors.*

Marxist evaluation of the post-war situation was based on three main propositions: (1) The imminent collapse of capitalism—the British economy in particular; (2) the exposure of Social Democracy as agents of the employers, resulting in splits and the emergence of revolutionary currents; and (3) the exposure of Stalinism as a counter-revolutionary force.

It was upon the edifice of such ideas that the movement was largely built, and as we know, events have proved them incorrect. Russia emerged strengthened—despite Stalin, they were compelled to effect a social transformation in the property relations of the countries they occupied. As a result of these events and the struggles in the Far East, international capitalism is immeasurably weaker than before. On the other hand, the working class movements are much more powerful.

On a broad historical scale, these

events constitute a decisive turning point in the struggle for socialism and planning. Although we are faced with many generations of struggle, of wars and revolutions, the bourgeoisie now tolerate measures hitherto opposed, partly because they have no alternative, and partly as a means of retaining their hold and control as best they can. This is an important factor which must be understood—for it demands a new evaluation and opens up new possibilities.

IN GREAT BRITAIN, Social Democracy, with a powerful working class movement behind it, and an enfeebled capitalist class in control, (coupled with the whole international situation) has carried out measures, and introduced a degree of control not thought possible on the basis of the previous record of Social Democracy.

It is inevitable, with such a shift of class relationships, that the organized working class would improve its position relative to that of the employing class. Wages, which accounted for 39 per cent of the national income in 1938 (after taxation) increased to 48 per cent in 1949. In particular, the lower income groups have benefited considerably, largely as a consequence of labor scarcity.

It would be grossly sectarian to dismiss the record of the Labour Government as being merely a more intelligent way of managing capitalism. The shift of class forces has started a process which can have profound consequences. It has resulted in the raising of the general level of consciousness to a very high level. Full employment is already considered as a natural part of life. The need for a healthy democratic control of nationalized industries subject to an overall national plan is the subject of many discussions.

The labor movement now discusses the mechanism and tempo of achieving socialism. Its temper reflects both its invincible strength and confidence on the one hand, and its seriousness and self-restraint on the other. All are essential ingredients for the future socialist society.

While it is true that the labor movement has begun to make slight infiltrations into the general structure of capitalism, and that it provides a point of departure which can result in a peaceful social transformation peculiarly adapted to British conditions, who must not be deceived into thinking that this is a foregone conclusion, or even probable in such an unstable world.

The degree of intervention in the mechanics of the system is far from adequate. The property relations in particular, are no different at all—5 per cent own 75 per cent; it was 80 per cent over 50 years ago. Never before have the employers enjoyed such profits as at present. In addition, as the employers have regained their strength, so the labor leaders have “regained” some of their traditional timidity.

AT THE PRESENT TIME, not only has

progress virtually ceased, but retrogressive measures have been introduced of sufficient magnitude to provoke a minor crisis in the leadership.

Nevertheless, it cannot be denied that past Marxist analysis would label the present leadership a left-wing leadership on the basis of its record. The fact that it is called right wing is indicative of the way the whole movement thinks in a more socialistic direction. The labor leaders, by the logic of past events, and based on the supreme power of the working class, have developed a vested interest in remaining in power with its accompanying advantages. Their tenacious struggle against Tory electoral tactics reflects a new-found boldness and confidence—it also serves to quiet criticism within the labor movement on other issues.

By a series of temporary expedients—(the U. S. Loan, Marshall Plan aid, etc.) the British economy has not only made a rapid recovery, but achieved an overall balance for the first time since 1870. What is not so readily appreciated is the very precarious character of this stability. The slightest fall in American demand immediately provokes a crisis of major dimensions. In the event of even a mild economic recession, the Labour Government would face a situation demanding much more radical solutions.

IT IS AGAINST A BACKGROUND of such experiences that there is a confused but growing realization that within the British labor movement there exists the basic ingredients and possibilities for pointing a third way out of the present situation—that we *must* try to indicate a path separate from either Moscow or Wall Street. Attlee reflected this pressure when he went to Washington; Bevan reflected it

even more so during the recent Budget crisis.

For Marxists, this represents a heaven-sent opportunity—not to act as self-appointed leaders with a monopoly of wisdom—but to make a genuine attempt to establish ourselves as responsible and respected leaders in the movement. Many of our ideas are common currency, and Stalinism has seldom been so weak. To talk of the “oppressive Transport House bureaucracy” is so much rubbish, for we have more than enough opportunities to express ourselves.

To operate as an illegal grouping, filled with pessimistic forebodings of coming slumps, “splits” in the Labour Party, and condemning the labor leaders as “traitors” is the best formula for disaster one could possibly conceive. To operate in terms of evolving into a revolutionary party seizing power in a revolutionary situation, accompanied by the development of Soviets, is like listening to a voice from a forgotten age.

The British labor movement has within itself more than sufficient of the organizational forms necessary to effect the transition to socialism. By working loyally within that framework and assisting every development which is in our direction, we will be operating in a manner best suited to British conditions. There can be no doubt that the future will produce many surprises—but for the *present* and *immediate* future this is the **ONLY** formula for real influence and success.

This does *not* imply that organizational forms are not necessary. There are many organized groupings already in existence, but all accept the Labour Party as the medium via which their ideas will be realized. Every movement which has split off in the past

has been doomed to failure, for the working class does not easily change its allegiance—and this will be even more so after the experiences of the past six years. When it seeks an alternative leadership it looks for new leaders *within* the Labour Party.

We must avoid *at all costs*, repeating earlier mistakes of a too rigid approach to problems. The basic laws of the class struggle can operate in many ways and adopt many guises. Formulas for future successes will not always be found in the books of the old masters. In building up a current of thought consciously accepting ideas at present only half appreciated, many comrades who were shattered by the new post-war factors will regain confidence in Marxist ideas and realize that it was not the Marxist method which was at fault but too rigid an interpretation of its ideas.

Without being sectarian on the one hand, or completely losing our identity in the broad mass on the other, this does attempt to indicate a basis for the regroupment of Marxist elements in Britain—and most important—one which endeavors to adapt Marxism to the peculiarities of the British political scene.

JIM HINCHCLIFFE

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# BOOKS IN REVIEW

## South Africa

THE ALL AFRICAN CONVENTION  
(The Awakening of a People), by  
I. B. Tabata. Johannesburg People's  
Press, 1950, 161 pgs.

Our attention has recently been called to this remarkable booklet, the work of a South African nationalist and socialist. It is not our intention in this brief notice to do more than call attention to a work which, while lacking the polish and sophistication of other Marxist studies, more than counteracts this by the depth of its analysis, the concreteness of its suggestions and the feeling of reality and *engagement* running through its pages.

To our knowledge, it is the first extensive study of South Africa which presents the problems of that country in a revolutionary light, and from the standpoint of an African whose people represent the overwhelming proportion of the population. Unlike so many studies which proceed inward from political generalities and abstractions, this work builds itself outwards from the concrete problems of the African miners, farmers, tribesmen, workers, etc. The great movement of South African nationalism, represented by the All African Convention, thus takes on a shape and form which the reader can readily grasp. The unique organizational form of this movement (a federated and affiliated body of all African groups and movements) is splendidly described, as well as its relationships with other non-European minorities (Indian people, Colored people, etc.) In centering his work upon the Africans themselves, Tabata has supplied a new understanding of that most difficult and complex of all problems common to national liberation movements: the relationship between the masses of workers and farmers and their petty bourgeois leaders or would-be leaders. The details of the struggle for the formation of the present All African Convention supply the bulk of the material presented and take the reader up to the 1950 period, i.e., the period of the infamous *Apartheid* acts.

To be sure, certain shortcomings must be noted, but they do not detract from the seriousness of this work. International issues or forces affecting the South African white rulers, or the oppressed peoples, barely enter into the development of Tabata's thesis. More important, his analysis of the reasons behind the unprincipled and changing positions of the South African Communist Party is faulty. No doubt the South African Stalinists are mainly "white intellectuals with roots in the *Herrenvolk* class," but their politics cannot be explained in this fashion, as their present opposition position would indicate. A reconsideration of the role of Stalinism, its links with Russian foreign policy and its true objectives in South Africa are urgently required—particularly in view of the false notion that Stalinism supports colonial movements on a progressive basis.

The fact that African nationalism has produced this mature and advanced work, certainly one of the most original documents we have ever seen from the colonial world, cannot be underestimated. In it, the progressive forces of that unfortunate land have a most valuable guide in the long and difficult struggle against imperialist white rule. It merits a wide circulation among those concerned with colonial problems.

H. J.

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