

The Causes of Crisis

BY EMILE BURNS

IN HIS ARTICLE on "Economic Crisis and Armaments," in the May issue of the LABOUR MONTHLY, John Knight states, "the chief features of an economy menaced by an over-production crisis" as:—

1. The production of capital goods, that is means of production, is growing faster than the (also growing) purchasing power of the buyers of means of production.

2. The production of consumption goods is growing faster than the (also growing) purchasing power of the consumers of these goods.

He explains further:

In consequence of the increasing disparity between production and buying power, stocks begin to accumulate, larger and larger proportions of current production become unsaleable—and an over-production crisis breaks out.

He then proceeds to examine the situation in Germany, which according to him is "liable to over-production . . . as far as the production of civilian capital goods and of consumer goods is concerned; but these civilian goods play a relatively smaller and smaller rôle in national economy," and therefore the crisis of over-production to which Stalin referred, must be over-production of war materials. He then proceeds to argue that this will arise when the State orders of war materials exceed the purchasing power of the State.

My purpose in examining this argument is not that I challenge the conclusion that an over-production crisis is possible in Germany; on the contrary, I think it is certain to develop (if there is no war or revolution). But I consider John Knight's arguments unsound, and that the over-production crisis will develop in quite a different way.

First, I cannot accept the statement that the production of capital goods can exceed the purchasing power of the capitalists. The whole conception of "purchasing power" as something common to capitalists, the State, and the workers, is used by bourgeois economists to gloss over the difference between the capitalists and the workers; it entirely ignores the distinction between wages and capital. Marx applied the idea of restricted "consumption" (purchasing power) *only to the masses*, not to the capitalists. He wrote (*Capital*, Vol. III, p. 568):—

The last cause of all real crises always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces as if only the absolute power of consumption of the entire society were their limit.

In the same section he states that over-production of the means of production arises, not absolutely, *i.e.*, not because there is no capitalist with "purchasing power" to buy more raw materials, plant, etc.,—but relatively to the restricted consumption of the masses. The capitalist

does not buy means of production because, at that time and place, he cannot use them *as capital*, he cannot find a profitable market for what they would produce if used for production. Therefore the idea of "purchasing power" as applied to the capitalists is wrong. Yet it is under cover of this idea as applied to the capitalists that John Knight goes on to apply it to the state, and to argue that the crisis in Germany will come when the State places orders in excess of its purchasing power.

Where does the purchasing power of the workers come from? From wages, a part of capital used in production. The total wages vary with production; that is, if production falls, total wages fall, though they may also fall from rationalisation or reduction in wage rates; taxation also reduces the effective consumption of the workers.

The State's "purchasing power" is not limited in this way. It can raise taxes and loans; it can also apply inflationary measures which have the effect of giving it money while at the same time putting up prices. There is no economic limit to the "purchasing power" of the State. It is a question of the policy of the capitalist group which controls the State, and its ability (by force or fraud) to extort from the workers and the general body of capitalists the additional taxes and loans they need to carry out their policy.

That is why during a war State orders can expand indefinitely without arousing resistance from the general body of capitalists, so long as the money required is raised by loans from them, inflation, and taxing the workers. The workers may revolt, as in Russia in 1917 and Germany in 1918; but there is nothing that can be called a crisis of over-production resulting from lack of purchasing power by the State.

Similarly, the Fascist State, controlled by the most aggressive and reactionary section of finance-capital, can go on extending its "purchasing power" by force and fraud; the only limiting factor is the growing political resistance of the people. The State will never be in the position, as John Knight suggests, of "ordering more than it can pay for," any more than the capitalists will ever be in that position. Therefore, such a statement as "War materials, just like all other commodities, have to be bought . . . If the State orders of war materials exceed the purchasing power of the State, then we have a genuine case of over-production"—does not correspond with reality.

Stalin, in foretelling a crisis of over-production in Germany, did not say that it would develop because armaments production would outrun the purchasing power of the State. On the contrary, he spoke of the increasing armaments production delaying the crisis of over-production. How will this crisis develop? Stalin gave a general indication. The extreme development of war industry means, he said, "restricting to the utmost the production and, especially, the sale of articles of general consumption—and consequently reducing consumption by the masses and confronting the country with an economic crisis." Thus although the war industry development is at first a

factor that counteracts the crisis, in the sense of giving of more employment and maintaining the consumption of the masses, it also involves the increasing limitation of consumption, which will continue and intensify the crisis at a later stage.

This limitation of consumption takes place in two ways. There is first the increasingly heavy taxation, coupled with higher prices. But Stalin also calls attention to the fact that the production of articles of general consumption is restricted. At first sight this would seem to be a factor delaying the outbreak of an over-production crisis. The point is, however, that imports are largely restricted to raw materials required for armaments production ; it is difficult to obtain raw materials for production for the civilian market at home, or for export articles.

With the decline in production for the civilian market must also go either unemployment, or the switching over of labour to armaments production. In the abstract, this switching over of labour to armaments production could go on indefinitely ; but in the present condition of Nazi Germany the limit is set, not by the purchasing power of the State in general, but by the limited amount of foreign exchange available for importing raw materials (that, by the way, is why the Czech gold was so important to Hitler.) At the same time, rationalisation is going ahead in the armaments industry. Any slowing down of the armaments industry owing to difficulties in obtaining raw materials will therefore necessarily mean unemployment both in the armaments industry and in civilian industry ; the consumption of the masses will fall sharply, and there will be an over-production crisis, not of armaments, but of articles of general consumption and of the means of production required for them (including of course raw materials.)

Whether or not the increasing financial and political difficulties will at the same time lead to a slowing down of armament *orders* is something that cannot be predicted with any certainty ; but it is by no means essential to the development of the crisis. On the contrary, the increased efforts to meet the cost of armaments by taxation and inflationary measures which put up prices will probably bring the consumption of the masses down sharply, thus producing the over-production crisis before the point is reached when the State finds it necessary to cut down armaments orders.

But it is clear that when the over-production of consumption goods develops (and with that, the over-production of raw materials and plant used in the making of consumption goods), it will speedily react on the political and financial position in such a way that armament orders have to be reduced. And that is why the armament orders, which for a period had the effect of postponing the crisis, will in the long run give the crisis an exceptionally deep and violent character. This of course, holds good not only for Germany, but also for Italy and Japan ; and for all three it holds good only unless political factors

intervene—war for Germany and Italy ; revolution for Japan, which is already at war on a large scale.

John Knight's treatment of the crisis in Britain suffers from the same defect as his analysis of the German situation. He anticipates "an over-production crisis resulting from the giving of larger armament orders than the State can pay for." He then goes on to say that this would not apply under a People's Government, which would have at its disposal "considerably more purchasing power than the Chamberlain Government," because it would tax the rich and stop the profiteering in armaments. I don't think this is a very happy line of argument; it raises the question of the State's "purchasing power" for social development in addition to armaments development. If the line of argument is accepted, it seems clear that the combined armaments and social orders of the People's Government would be certain to cause a crisis of over-production "in the sphere of State orders" ; but this is not true. The expansion of State orders, either for armaments or social programmes, may cause political opposition, but they cannot possibly cause an over-production crisis.

In fact, when examining the British situation in more detail in the June LABOUR MONTHLY, John Knight seems to abandon this line of argument, and lays stress on the restriction of the consumption of the masses, through taxation and possibly higher prices, as the factor which will develop the crisis. It seems to me clear that further study of the economic position, both in fascist countries and in Britain, must have as its basis the developing crisis of over-production in the civilian market ; the effect of armament orders must be seen against this background, as a factor delaying the crisis but at the same time leading to further restriction of the consumption of the masses and therefore in the long run intensifying the crisis. The armament programmes, concentration of imports of raw materials to those required for armaments, increased taxation, inflationary measures—these are all important new features affecting the development of the crisis, but it is not a new *type* of crisis that is developing.

The New Situation in China

1 The Protracted War

BY MAO TSE-TUNG

[The following article is the first part of the abridged report to the Sixth Enlarged Plenum of the Communist Party of China, held on October 12, 1938. The remainder will be published in two further articles in subsequent numbers of the LABOUR MONTHLY].

COMRADES, WE ARE opening the Sixth Plenum of our Party at a time when echoes of gunfire can be heard all over the nation and the menace of another great war hangs over the world. What are going to be our tasks? What are our aims? We must achieve long-term unity with all the patriotic parties and our patriotic fellow countrymen in order that we may overcome new difficulties and mobilize new forces. At present we must repulse the enemy's attack. In the future we must carry on our counter-offensive. We must reach the two-fold goal of driving Japanese imperialism out of China and of establishing a new democratic republic based upon Dr. Sun Yat-Sen's Three People's Principles. We must attain ultimate victory! We must attain freedom! These are our aims and they govern the general tendency of my report.

During the past five years our Party has passed through many changes, the principal ones being the change from the state of conflicting parties and classes to the establishment of the National Anti-Japanese United Front and the changes which have occurred between the period of Civil War and the National Anti-Japanese War.

What has caused the formation of the National Anti-Japanese United Front? New historical circumstances have arisen. We all know that since the incident of September 18, 1931, the enemy of the Chinese people—Japanese imperialism—has advanced from invasion of the Four Eastern Provinces to preparation for aggression against the whole of China. Such heretofore unknown historical events have produced both internal and international changes. First, there were the changes in the unstable relationships between the various classes, parties and other organizations. At the same time there were also changes in the unstable international relations. Therefore, our Party, on this historical occasion of new internal relations and following the policy we formulated in 1933 (the three conditions under which we would unite with any element in the Kuomintang to form