

# The Crisis: Capitalism's Stranglehold on the Labour Government

There is of course nothing new in governments breaking pledges and turning policy somersaults, but latterly the occasions have become more frequent and more farcical. At every election since the second world war the Labour and Tory parties have undertaken to deal with inflation: to so little effect that prices have risen continuously for thirty years, with the rate of increase getting faster and faster.

It is not at all surprising that this should have happened because the governments have been running a policy of inflation in the belief that this was a way to prevent unemployment from increasing. A vain hope, because at each of the half-dozen recessions since 1950 unemployment has risen to a new higher peak—over a million in 1972 and now forecasts of a possible 1 1/2 millions by early 1976. Instead of stopping inflation, it has been government policy first to promote it and then to try to suppress its symptoms by means of a "Prices and Incomes Policy".

It started in 1947 under Attlee's government and has been re-enacted half a dozen times. A long succession of failures as far as stopping inflation is concerned, but it would be churlish not to acknowledge its one happy achievement—the enrichment in the use of our vocabulary. We have had wage restraints, wage freezes, wage thaws, plateaus, pauses, ceilings, guiding lights, norms, standstills, early warnings, guidelines, slow-downs, explosions, wage-stops, thresholds, curbs, social contracts, and a lot more.

The latest from Mr Wilson "the £6 limit on wage increases", which he admits means a lower standard of living, has a novel refinement. For years the centrepiece of the Labour programme was the "national minimum". The law was to be used to force "bad employers" to become "good employers" by making them put wages up. Now Mr Wilson threatens to use the law to prosecute employers who put wages up too much. They are, he says, "rogue employers". The recipients, of course, could be workers whose wages are only a small fraction of Wilson's own income.

Is it really possible for government ministers not to understand how capitalism operates? And to be unaware of the inevitable consequences of their own policies? Indeed it is possible. During the nineteenth century, although capitalism regularly went through the recurring cycle of expansion, boom, crisis and depression outlined by Marx as the economic law of the system, governments, capitalists and many economists were forever expecting booms to be permanent and being amazed as each crisis blew up. There are plenty of similar examples in our own times.

Any serious student of capitalism knows that the capitalist is in business to make a profit and therefore will not invest more to expand production at those times when there is no prospect of selling the product profitably. Yet in the last recession, in 1971-2, Heath and Barber complained bitterly that though for months on end they pleaded and threatened and offered inducements for increased investment, "nobody would listen". Healey, Chancellor of the Exchequer in the present government, confesses to having been equally ignorant of the facts of economic life. "One thing I have learnt from my experience in the past seven months [as Chancellor]: there is no

chance of investment if business expects a general and prolonged recession, however generous the tax incentives" (Report of speech, *The Times*, 5<sup>th</sup> October 1974).

Later in the same month he was again airing his ignorance, this time as guest speaker at the Lord Mayor's banquet for bankers and merchants of the City of London:

I simply cannot understand how it can make economic sense . . . to keep a million active men and women idle when the nation needs the goods they could produce (*Times*, 18<sup>th</sup> October 1974).

Since when has capitalism been interested in meeting people's needs? And, in a depression, who needs additional production of unsaleable cars, motor-cycles, supertankers, steel and so on?

In one respect nineteenth-century British governments were better informed than governments since 1945. They knew how to prevent inflation and decided that it was in the interest of capitalism to prevent it. There was no inflation for the hundred years before 1914. Prices rose and fell by moderate amounts in booms and depressions, but the level was lower in 1914 than in 1814. Now the price level is more than seven times the 1938 level and rising fast, by far the biggest cause being the depreciation of the currency consequent on government policy.

There were always some uninfluential groups advocating inflation to cure the ills of capitalism. One was dealt with in the *SOCIALIST STANDARD* in August 1906. Using the Marxist analysis the writer of the article showed that it would cure nothing and would simply raise prices: "the workers, as is usual, being the first to suffer". Another example is mentioned in *The Life and Times of Ernest Bevin*, by Alan Bullock (p. 17). Bevin, trade union leader and later a minister in the Attlee government, was present in 1908 at a conference to discuss remedies for unemployment. One proposal was "the issue of paper pounds". A Liberal politician who was there thought that it was "very sensible" but politically impracticable.

After 1945 it was quite different. Influenced by Keynes (or by crude distortions of Keynes) the Labour and Tory Parties and the TUC adopted the doctrine that the government could "manage" the economy in a way that would prevent crises and depressions occurring again. By "maintaining demand" they believed they could always prevent unemployment. Maintaining demand meant in practice printing more money and putting up prices. Keynes, whether he intended it or not, had made inflation respectable.

A number of economists in the past have understood that if an inconvertible paper currency is issued in excess amounts it will correspondingly put up prices. Marx's special contribution was to anchor it to his theory of value. In given circumstances a certain amount of currency will be required. If the currency consisted solely of gold coin it would represent a certain total weight of gold and therefore a certain total mass of value. If the gold is replaced by inconvertible paper money (not convertible into a fixed weight of gold) and is then issued in amounts exceeding the gold it represents, it will simply put up prices. This is the present situation. Currency in Britain in 1938 was under £500 millions. It is now over £6,000 millions. It went up £835 millions in the year to July 1975.

Those who reject this explanation of inflation can apply a test. Let them show when such excess issue took place without raising prices; or when such excess issue was halted and prices did not fall.

In December 1919, after a very fast rise in prices, a ceiling was placed on the note issue and within a year prices were falling fast and wages with them. Lord Rothschild (*Times*, 30<sup>th</sup> June 1975) recalls that German inflation was halted in 1923 by applying the recommendations of a Committee (two members of which were the banker Brand and the economist Keynes) which included the Reichsbank being "forbidden to print more notes".

Some modern "monetarists" have confused the issue by trying to relate price movements to the total of currency plus some or all of bank deposits. Why should the act of lending by depositors to banks affect the price level? Historically there is no justification for the theory. The enormous growth of bank deposits in the last decades of the 19<sup>th</sup> century was accompanied by a *fall* of the price level, not a rise.

Harold Wilson used to be quite confident about how he would prevent inflation. In 1957 some of his articles in *The Guardian* were published as a pamphlet, *Remedies for Inflation*. In Section III "What Labour Would Do" he wrote:

Ever since the Coalition Government's White Paper (Employment Policy, 1944) all major parties have been committed, on Keynesian lines, to using the Budget as a means of avoiding undue inflation or deflation. In inflationary times, therefore, all are agreed in theory on the need for public saving through a large Budget surplus, though we have felt that a number of Conservative Budgets have sacrificed financial stability to a desire for fiscal popularity.

In practice Wilson's government in 1974-5, instead of running a Budget surplus, has shown the biggest deficit in British peace-time history. Wilson says that the Government's latest measures have been forced on it by the threatened drastic fall of the pound under pressure from foreign holders of sterling, just like Labour Premier Ramsay MacDonald in 1931.

There is no sign that the bulk of the Labour ministers and the TUC have given up their delusion that unemployment can be prevented or reduced by a further round of "reflation" (their name for inflation). But at the moment Wilson, after years of promoting inflation because he thought it would prevent unemployment, is now declaring that inflation causes unemployment.

Some of his critics in the Labour Party and trade unions (including apparently Mr Scanlon, leaders of the engineers), think they have Marx's backing for their view that the way to deal with crises is to raise wages further. They are quite wrong. Of course Marx favoured the attitude of workers getting as high wages as they can at any time, but he did not hold that crises could be averted by raising wages. He dealt with the higher wages argument in *Capital* (Vol II, p. 475) and showed how absurd it is. Depressions end when the capitalists see prospects of profit improving. Putting wages up further would reduce profit margins not increase them.

Because Socialists view the thirty-year Labour-Tory experiment with Keynesian fallacies as a complete fiasco for the working class it must not be concluded that we are enamoured with the prospect of returning to capitalism without inflation. With or without inflation capitalism will go on producing unemployment, crises and depressions. With Labour government, or any other government, "managed" or left to market forces, with or without more nationalisation, capitalism has nothing to offer to the working class. The only course for the workers is to replace capitalism with Socialism.

(August 1975)