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Alan Freeman is an economist who works for GLA Economics, the Mayor of London's Economic Analysis Unit. He is currently on sabbatical and is a research fellow at the University of Manitoba.

At the GLA he has lead responsibility for the Living Wage, Innovation, Cultural and Creative Industries and benchmarking World Cities.

He is the author of 'The Benn Heresy', a biography of the politician Tony Benn. He has published 52 articles on economics and politics and has placed a selection online at <http://ideas.repec.org/e/pfr102.html>. He has co-edited four books including 'Marx, Ricardo and Sraffa', with Ernest Mandel, and 'The Politics of Empire and the Crisis of Globalisation', a collection of critical reflections on the state of the world economy, with Boris Kagarlitsky. With Radhika Desai he has launched a new book series entitled 'the Future of World Capitalism'. ([www.radicaldemon.org](http://www.radicaldemon.org))

His undergraduate degree was in Mathematics at University College London, followed by a diploma in Computer Science at Edinburgh and an Msc in Economics at Birkbeck College, London. His professional career includes 15 years as a programmer, 13 as a Senior Lecturer in Economics at the University of Greenwich, and 7 years in his present job at the GLA. He speaks French, Spanish, Italian, German, Russian and Turkish and has worked briefly as an interpreter for the first four of these languages.

He is co-editor, with Andrew Kliman, of the forthcoming journal Critique of Political Economy ([www.copejournal.org](http://www.copejournal.org)) and co-organiser of the International Working Group on Value Theory ([www.iwgvt.org](http://www.iwgvt.org)). He is coordinator of the UK-based Association for Heterodox Economics ([www.hetecon.net](http://www.hetecon.net))

## **Investing in Civilisation**

**[US] Alan Freeman**

We are capable of shutting off the sun and the stars because they do not pay a dividend. London is one of the richest cities in the history of civilization, but it cannot “afford” the highest standards of achievement of which its own living citizens are capable, because they do not “pay”. If I had the power today I should surely set out to endow our capital cities with all the appurtenances of art and civilization on the highest standards of which the citizens of each were individually capable, convinced that what I could create, I could afford – and believing that the money thus spent would not only be better than any dole, but would make unnecessary any dole. (John Maynard Keynes)<sup>1</sup>

### **The state and crisis: an introduction**

In this chapter I ask how the state might solve the present crisis.<sup>2</sup> I do this by asking how it solved the two comparable crises of 1893 and 1929. In each case, a prolonged world slowdown was followed by financial chaos, then turmoil provoking strong state activity, leading finally to a period of prolonged growth. In narrowly economic terms, this was a solution.

I will present two main conclusions. First, the scale of state action needed is vastly underestimated, above all by economists. Second, this action cannot be purely economic. Past crises on the present scale were resolved through “civilisational” change: far-reaching cultural and social transformations, many of which we still live with, that shaped the entire following epoch. Their profound economic impact is wrongly neglected.

The tendency is to treat such changes as simple products of economic circumstance or technical innovation. In these crises, the direction of causation was the reverse. The invisible hand of the market was paralysed: the visible hand of political action took over. The state was no minor bit player in these processes, in either 1893 or 1929. It structured them, paid for them, and organised them.

My second purpose is to ask how these conclusions might inform programmes of practical action. An error will be made if these are framed in a narrow economic way, as a

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<sup>1</sup> J.M. Keynes cited in Dostaler, Keynes and His Battles.

<sup>2</sup> The debt this chapter owes to Carlota Perez and Christopher Freeman should be obvious. It is dedicated to John Harrison and Andrew Glyn, in great sadness that their pioneering contributions to economic statistics have ceased just as they are most needed. This chapter itself gestated during Graham Hitchen’s ‘Creative Breakfasts’ and thanks are due its stimulating and informative discussions. Of course all mistakes are my own.

quantity of money to be spent on a set of activities. What is required is a vision which informs every economic programme, as did the postwar Welfare State and the UN Charter of Human Rights.

Such exits from crisis constitute a huge upgrading of ‘human capital’ – the productive potential of the beneficiaries of political rights. The economic importance of such rights are, in Bush Junior’s inimitable words, “misunderestimated”. They are falsely represented by economists as a pure cost, a drain, a loss. Civilisation, however, is an asset.

Investing in it requires a vision of the future, expressing how 21st Century society might deliver to its citizens the most advanced possibilities of which it is already capable. This calls for new rights, expressing both humanity’s essence and potential: the right to create, the right to think, the right to care, the right to sustain. These capabilities are already available to privileged individuals. The way out of crisis is to make them the right of all.

The first problems encountered, in framing such programmes, are inequality and sustainability. Civilisation, insofar as it has been realised, has been achieved at risk of planetary destruction and the expense of barbarous poverty inflicted on most world citizens by “western civilisation”. In a world where the average income of the rich countries has reached 20 times that of the poor ones,<sup>1</sup> the spectacle of unbridled greed and excess side by side with mass starvation places, in the path of a radical solution, the temptation to concentrate on simply sharing what we already have, halting progress and growth. These understandable ideas fail to draw on the hope which reality offers.

The contradiction of our age is the coincidence, on the same planet, of once unimaginable sufficiency combined with now unacceptable deprivation. The average product of the world, at \$6,000 per head, is now greater than the average income of the West in 1950. Materially, therefore, there is no need for anyone to lack, and no need to deplete the planet.

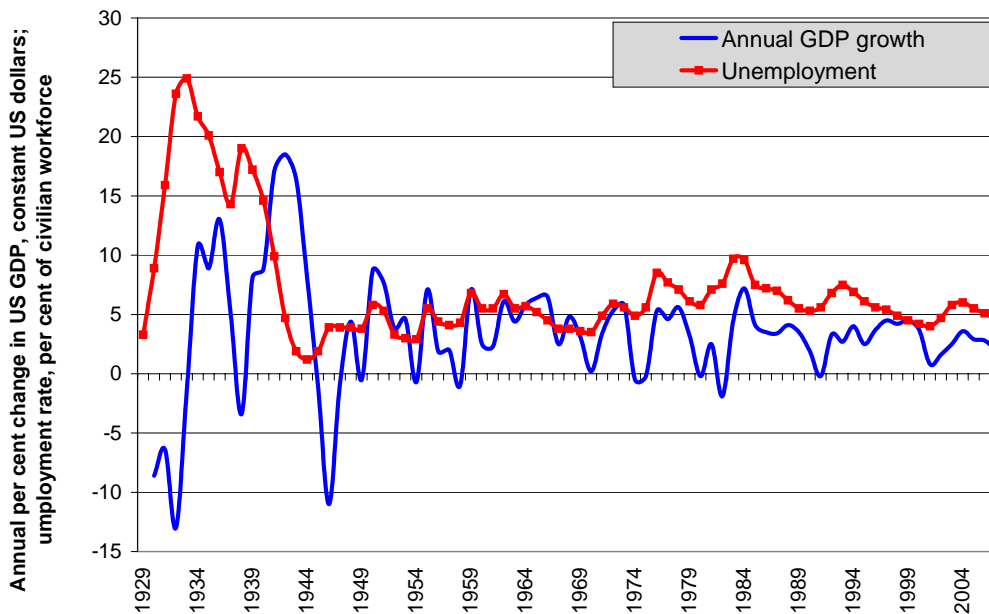
This does not mean, however, that there is no room for change. Economic growth today does require increased burdens on the earth. Seventy percent of the workers of the advanced countries – and forty percent of the workers of China – produce services, not food, not goods. Growth leads, if appropriately directed, not towards depleting the planet, but towards raising the mental and human capacities of its inhabitants to the level that matches what both we are capable of, and what we can provide ourselves with. The problem in summary is to translate this potential into a different kind of world. If, and only if this is done, civilisation can realise its worth.

Deal, Crash and War

Figure 5-1 Unemployment and GDP growth in the US economy 1929-2007

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1 Freeman, A. The Poverty of Statistics.



Source: GDP growth, BEA; unemployment, BLS CPS series and Dunlop and Galenson<sup>1</sup>

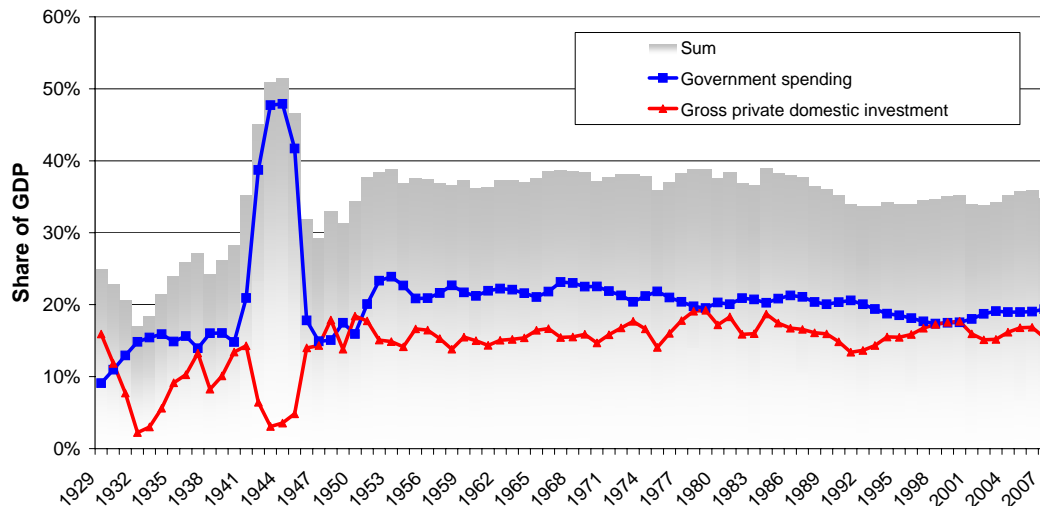
We cannot hope to assess what the state may do in the future without understanding what it actually did in the past. For this reason, I begin with the post-1929 recovery. Figure 5-1 shows the level of US unemployment and its growth rate, showing when recovery in fact took off.

The New Deal, from 1933-1936, brought unemployment down from 25 percent to 15 percent and raised growth to an annual 12 percent. followed however by a mini-recession in 1937-38 and an uptick in unemployment.

This was not only halted by the mini-recession of 1937-38, but pales into the background compared with the war years. Between 1939 and 1944 annual growth averaged 14 percent. Unemployment fell to 2 percent, which would be cause for celebration in any recent decade. The scale of US wartime state spending exceeded anything past or present, accounting by 1944 for 50 percent of GDP. This was also the period of the most rapid growth, and the highest employment, that the U.S. economy has ever seen, making nonsense of all claims that the state obstructs growth, efficiency or prosperity.

Figure 5-2: Government spending and fixed investment in the US economy 2929-2007

<sup>1</sup> Dunlop and Galenson, Labor in the Twentieth Century



Source: BEA

In exactly what sense was the state responsible for this remarkable expansion? Figure 5-2 shows that it did two things. It substituted massively for private consumer spending, which dropped from 83 per cent in 1933 (73 per cent in 1939) to an all-time low of 49 per cent in 1944 and, significantly, did not breach the 70 per cent threshold until 2003. Even more important, it virtually replaced private investment, which sank to two percent of GDP, only just above its 1933 trough. The state became the nation's investor. Its share of the stock of nonresidential investment<sup>1</sup> more than doubled, from 25 per cent in 1933 to 53 per cent in 1945, remaining above 40 per cent until 1973 – significantly, the point at which the US economy's problems first became intractable. It is ironic that the two most radical of Keynes's proposals (see Desai in this volume), advanced with the aim of securing peace – the socialisation of investment and the euthanasia of the rentiers – were actually implemented in wartime.

This poses a contradiction, at the heart of the difficulties we face today: the economic centrality of World War II. This cannot be understated: 1942 is the starting date of every indicator of U.S. recovery, be it employment, output, or profits. The 1893 recovery, analysed later, was also a direct outcome of military expansion, the wave of competitive imperial conquests which ended with World War I.

The economic successes of the wartime state lays to rest the idea that it is inherently inefficient. No nation in history emerged victorious by letting the market decide how many tanks to make. It also settles an obfuscatory debate on whether the state can save capitalism. Of course it can: it already did, twice. The way this was done poses a different question: how might the successes of state intervention be repeated without the costs?

Despite its wartime origins, the ultimate foundation of the state's lasting economic impact at least in the post-1929 recovery were measures we may characterise as "universalist". They were step-change extensions in access, for the non-capitalist

<sup>1</sup> Not shown in the chart.

population, to capitalism's achievements. The national form of the imperial state, however, set absolute limits on this extension and associated them – so far irrevocably – with war. This was particularly clear in the post-1893 recovery, assessed later in this chapter, which was driven by military expansion.

The state thus acted in two contradictory ways. With one hand it destroyed, while the other built. Can these two hands be separated? Yes, but only if the universalist content can be realised outside the military contexts which have, until now, been its precondition. Universalist change has always had the social rationale of a better world for humans to inhabit. Now, however, its economic rationale is transparent: it is the only peaceful way out of crisis.

### **The New Deal, Actually: Civilisation as Economic Capacity**

The American New Deal was not just an economic stimulus. It was not a mere bump-start for a stalled system. Like European welfare states, it expressed a political imperative to address the social consequences of profound and prolonged market failures. Out of a mixture of compassion for suffering, and fear of its political consequences, the architects of these systems set out to give 'the people' access to the attainments which capitalism had, suicidally, confined to the gilded few. Their goals were expressed as political rights. Education, health, housing, and not least, employment, were proclaimed – and, where politically required or imposed, implemented – as guarantees from society to the citizen. This is the origin of the postwar phrase "universal benefit".

The economic benefits of these changes are omitted from mainstream economic accounts, and treated as a pure cost. But not only did they create a new source of mass demand for education and health which three decades of neoliberalism have still not wiped out, they also yielded a quantum upgrade to the productive capacity of the workforce.

This neglected point must be clarified. The economic role of "Fordism" is widely recognised.<sup>1</sup> Ford's cheap cars sold to hundreds of millions of people, becoming the emblem of an age dominated by the mass production of consumer goods: cars, washing machines, vacuum cleaners, fridges, gramophones, radios, telephones, hairdryers, cookers, TVs – future historians may well refer to the postwar era as the Age of Appliances.

It is less well recognised that the state built the roads that the cars travelled on. It also either built, financed or at the very least planned the electricity and telephone lines, the water supplies, sewage works and mass transits which made possible the modern city to which the cars drove and in which the gadgets were made and used. Moreover it went beyond material provision. It created mass education, social housing, health care, pensions and the public realm: broadcasting, civic architecture, parks, museums, and public spaces. It

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1 For more information see Harvey, Aglietta and Fernbach

transformed the way people lived. Not least, by protecting working conditions and wages against the constant tendency of unregulated competition to drive them down to Victorian subsistence levels, it created a working class that could buy what it produced. The state became the custodian, in Marx's terms, of the "moral and historical" component of the wage.

These were, literally, investments in civilisation. They made workers healthier, more knowledgeable and more capable. Raising the school leaving age by two, three, even eight years, they transformed the types of product that workers could make. Their limited and often hesitant implementation was not without contradiction: the additional burdens imposed by the mass entry of women into the workforce have yet to be relieved. The critical point is, however, that, their cumulative contribution to prosperity and productivity were as great as, and probably greater than, the machines this workforce tended. The educated, fit and above all employed populations of the postwar West were national productive assets. Whatever the short term impact of the New Deal and the war, the thirty-year boom that followed both would have been impossible without this investment. How did it come about?

### **The origins of postwar society**

Beyond a vague commitment to Western democracy, the war aims of World War II offered no improvement in living standards. As an advertising pitch, Churchill's offer of "Blood, Toil, Tears and Sweat" did not exactly stack up against "Life, Liberty and the Pursuit of Happiness". The experience of war, as in 1914-18, however created the demand for an equal and just society. Unlike in the first war, however, wartime sentiment in 1945 imposed a universalising agenda on the victorious capitalist nations. U.S., U.K., and Canadian citizens were not prepared for an immediate return to private greed and profiteering. Writers such as Addison have noted the egalitarian ethos that emerged in the U.K. where a majority still felt, as late as 1950, that rationing was the fairest economic system. In Canada, as in the U.S., Gallup polls showed strong popular support for continued state control over at least some aspects of the postwar economy – specifically to maintain retail prices.<sup>1</sup> In the U.S. it took at least five years of the Cold War, and several more of McCarthyism, to turn the clock back and it was not really until the Reagan era that free market values really penetrated beneath the surface of US society.

A vital factor in this – itself a child of war – was a world containing Russia and Red China, each with their own universalising agenda. Notwithstanding the contradictions of "socialism in one country", the appeal of Communism did not stop at any national boundary. In such a world neither victors nor vanquished could survive a repeat of the Versailles treaty,

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1 The Gallup Poll: p342.

which imposed impossible war reparations on Germany after the First World War in the vain hope of removing it as a military threat. Germany and Japan were turned into buttresses against the Red Menace. In Germany, welfare provision was so entrenched that welfare benefits were decreed, under Adenauer, to be constitutional rights.

This agenda was powerfully reflected in the decolonisation movement, and gave rise to the United Nations “Universal Declaration of Human Rights”. Signed on 10 December 1948, three years after the UN’s foundation, this proclaimed a world commitment to the right to health, education, and housing. This extraordinary document still speaks to us, demanding study if only to note how far the world, with its ‘one-dollar-a-day’ Millennial goals, has retreated in its aspirations. The Charter outlined a new conception of the responsibilities of government which its still impressive, if dated, words recall:

“Whereas recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world

“Whereas disregard and contempt for human rights have resulted in barbarous acts which have outraged the conscience of mankind, and the advent of a world in which human beings shall enjoy freedom of speech and belief and freedom from fear and want has been proclaimed as the highest aspiration of the common people...

“Whereas the peoples of the United Nations have in the Charter reaffirmed their faith in fundamental human rights, in the dignity and worth of the human person and in the equal rights of men and women and have determined to promote social progress and better standards of life in larger freedom,

“Now, therefore the General Assembly proclaims this Universal Declaration of Human Rights as a common standard of achievement for all peoples and all nations”

“Freedom from fear and want”, together with “social progress and better standards of life” are not merely political demands, as the detail makes clear. Articles 23 and 24 proclaim the right to work, a decent wage, rest, holidays, and reasonable working hours. Article 25 establishes the right of at least the male worker to a “standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.” Article 26 specifies that “Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit.”

These are economic proposals. When we survey them as economists, we can only be struck by the vast extension of demand implicit in this Zeitgeist. We must also be struck, on reflection, by the implied scale of production. In the guise of a political declaration, this is in reality an economic programme on a grand scale. If it has been honoured in the breach as

much as the making, this only testifies to the contradictions at the heart of the recovery.

This once again calls attention to a vital point: the failure of almost all recent economic analyses of the period to make due account of the increase in productive capacity which arise from these political rights, where granted. The postwar boom was fuelled by two simple factors: the flood of cheap commodities from the global South, and the fact that the Global North found itself in possession of a skilled, educated, healthy working class – for free. One datum illustrates this among many too numerous to list: the cost of health insurance which an employer must meet, for a U.S. auto worker, is around \$1500 greater than for a Canadian worker. Another is the undercelebrated achievement of the Scandinavian welfare states, which lie behind such global brand names as IKEA, Volvo and Nokia. For all the neoliberal talk of balanced budget, these governments alone in the world today show a surplus.

This allows reveals the missing dimension of today's "stimulus" packages: returns to human capital are neither discussed nor accounted for. Posed either as a demand-side prod or at best an investment in physical capacity, the discourse on human capacity remains one of "paying for" or "affording" the very capabilities on which the future of the world economy depends. Creativity, education, knowledge, health, community – these are not costs. They are assets. Without them, advance is impossible. What conditions make them possible?.

### **Imperialism, Actually: Civilisation as a White Monopoly**

The evidence is fast growing that 1929 is the only appropriate recent comparator for the 2008 crisis.<sup>1</sup> But a historical rule drawn from just one example is insufficiently general. I have included the 1893 crisis in this analysis not just because it supports the evidence that the state plays a vital role in recovery: but because it allows us to qualify its civilizing role, grasp its limits, and understand more deeply the intimate connection between it and war.

Economic historians refer to the period 1873-1893 as the "Great Depression".<sup>2</sup> Its culmination was a banking panic as dramatic as the present one, followed by a prolonged slump. US unemployment rose from 3.7 per cent in 1892 to 12.3 per cent by 1894 (14.7 per cent according to some estimates) and as late as 1900 had only fallen to 8.7 per cent. This was followed, however, by the Belle Epoque, a period of great expansion which C. Freeman<sup>3</sup> calls the 'age of steel, electricity and imperialism'. It was the age that built New York. In purely economic terms – growth rate and employment – it was unquestionably a recovery and with minor exceptions, it was not until 1929 that either sank to 1893 levels.

There are great economic similarities between this and 1929. Can we find a common

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1 See Desai, R. and A. Freeman How Bad is US Unemployment?

2 See, for example, <http://eh.net/encyclopedia/article/whitten.panic.1893>

3 Freeman, C. "The Third Kondratieff Wave: Age of Steel, Electrification and Imperialism"

framework to understand them both? Military activity is the outwardly obvious common factor: the 1893 recovery accompanied an unprecedented wave of state-led overseas expansion and led to World War I. Should we conclude that war was the only active factor in recovery?

Not so. On closer examination we can see that the state's intervention was neither purely military, nor purely economic. It rested on and expressed, at the highest global level, a contradiction of which modern history is in many senses a working out. The age opened with Bismarck's Accident Insurance, Health Insurance and Old Age and Disability Insurance bills of the 1880s, setting Germany on a trajectory of state-led social-national construction from which it has never really deviated.

The imperialist party in the UK, the "Unionists" was founded by such radical liberals as Joseph Chamberlain ("Secretary of State for the Colonies" in the 1897) turned to imperial conquest precisely as the means to finance social reform. Belgium's Leopold II, personally responsible for the death of 10 million Congolese, was regarded in Europe as a great philanthropist. The imperial age combined civilising social advance in the West with barbaric conquest everywhere else. In summary, the state acted to secure universalist advances, for the exclusive use of the conquerors. This remains today the force behind the imperative to war.

The contradiction is rooted in the national form of the imperial state, which set an impassable limit on its universalism. This lent it a Jekyll and Hyde character, combining universalism at home with a profoundly retrogressive world programme I term "reactionary-parasitic". Cecil Rhodes, founder of de Beers and of Rhodesia, easily justified the conquest of "new lands from which we can easily obtain raw materials and at the same time exploit the cheap slave labor that is available from the natives of the colonies" as needed "In order to save the 40 million inhabitants of the United Kingdom from a bloody civil war."<sup>1</sup>

The programme was literally reactionary, placing the fate of the nation in the hands of exhausted social élites. We still live with the sometimes farcical results: Britain and Canada, purveyors of gunpoint democracy to the gentry, have yet to abolish hereditary rule – with less than funny consequences in Canada's recent governmental crisis. The spent aristocracies of the old world ancien régimes, the quasi-feudal military castes of the West, and the antiquated or imposed colonial settler populations of the conquered countries, prospered like leeches on the body of newfound prosperity. Wholly new parasitic classes emerged: rentiers, mercenary adventurers, even global gangsters. Reaction acquired the new and monstrous ideology of universal racism, the idea that humanity is the hereditary entitlement of superior or "civilized" peoples. Fascism was only the most developed form of this ideology.

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1 Bigelow, B. and B. Peterson, Rethinking globalization. p44

This set an absolute limit on attainment, famously leading Lenin to characterise the system as “parasitic”.<sup>1</sup> Bearing in mind this historical experience, what practical steps are available today?

### **Crisis: Cause and Cure**

To understand what to do about the crisis, we must first know what caused it. This forces us, however briefly, to address two fundamental theoretical issues. First, was the crisis itself caused by factors “external” to the market, or internal to it? Second, if the market itself is the cause of crisis, how could the state plan an exit, without abolishing it? Orthodox economics gives no answer because it has abolished the question. It is governed by the doctrinal belief that the market cannot fail. Economic commentators endlessly assign external, superficial, causes to the crisis: monetary management, regulation, bonus culture – anything but the market itself. This is why initial reactions to the credit crunch took the form of minor tweaks to put the “show back on the road”. This has not worked because the problem is not the show but the road itself. Moreover it increasingly appears that no temporary expedient remains. Reactions to successive business cycles from 1974 onwards have merely postponed the reckoning – piling their unfinished business onto the bill now being presented for payment.

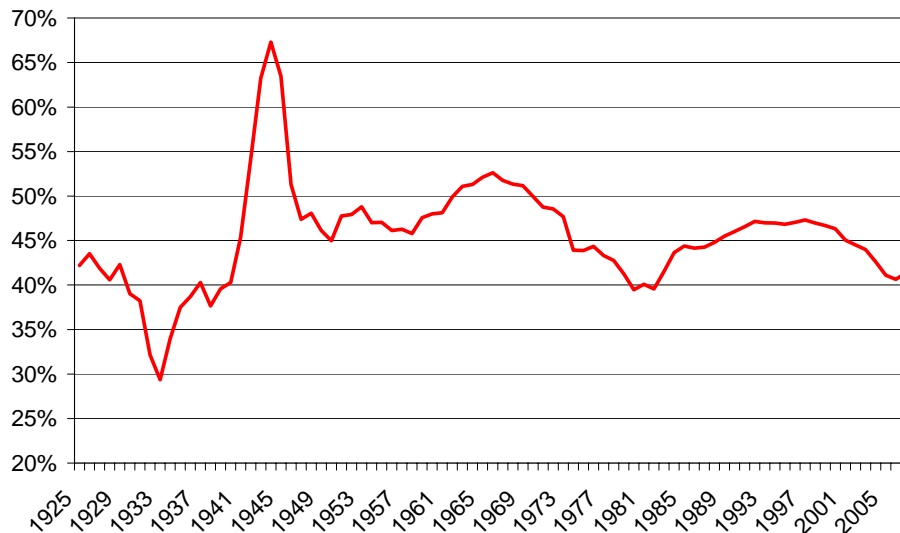
The credit failure did not cause the crisis; it was caused by the crisis. This in turn was an outcome of the normal process of capitalist accumulation. It arose from a prolonged structural malaise in the world economy, at the centre of which stands the fundamental problem of profitability, the root cause of all three crises: 1893, 1929 and 2008. I focus on this. The important ancillary factors of output and distribution are discussed in other chapters in this book, and by myself elsewhere.<sup>2</sup>

Figure 5-3: maximum profit rate (value-added/stocks) of the US economy 1925-2007

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1 Lenin, V. I. *Imperialism, the Highest Stage of Capitalism*

2 Freeman, A. *The New Value Controversy*



source: BEA and author's calculations

To study the problem properly, we should ideally consider the world rate of profit, capitalism being a world system. Since this is not yet available, we use the profit rate of the country at the centre of the storm – the US. Figure 5-3 shows the maximum possible US profit rate – what this would be, if workers were paid nothing at all. There is no “clever” way to improve on this rate by cutting wages, stealing savings, financialisation, or any such measure. It shows the absolute upper limit on what a US capitalist can expect as the average return from longterm capital investment. After an upward surge in the 1980s, it resumed the downward trend along which it has travelled, with ups and downs, throughout the postwar years.

This explains why it is wholly insufficient to ‘fix’ the banking system or any superficial manifestation of the underlying cause. A declining profit rate steadily reduces the opportunities for a return on new capital sufficient to persuade investors to part with their money. It draws investments out of productive, value-producing investment into ever shorter and more speculative spheres – first commerce, then finance, and finally the fantasy world of Mortgage-backed securities, Madoff-style Ponzi schemes, and toxic investments with no underlying assets at all. Such frenzies occur in every crisis: any student of the banking crises of 1893 and 1929 will be struck by their similarity to recent events.

This said, the striking fact is that the profit rate's high point was precisely, when state intervention was at its height. How can this be? Unfortunately, conventional academic Marxism has equipped itself badly to comprehend the reasons. It has adopted a theory characterised by Kliman and myself<sup>1</sup> as “physicalist” and “simultaneist”, according to which the rate of profit, basically, cannot fall. Faced with the fact that it does, even historians such as Brenner<sup>2</sup> who has recorded the course of the profit rate with exemplary

<sup>1</sup> Freeman, A. and Kliman, The New Value Controversy and the Foundations of Economics

<sup>2</sup> See Freeman, A. Why does the Profit Rate Fall? A critique of Robert Brenner's Theory, and Confronting the Evidence: Marx and the Historians on the Profit Rate for a detailed discussion of this

insistence, explain their own empirical evidence in a similar manner to orthodox economics, attributing it to superficial factors like competition, governance, or social structure.

Actually, the fall in the rate of profit is an outcome of growth itself. This introduces the paradox that it can only be restored by putting a halt to growth. Each year, a certain portion of the surplus is re-invested in production. This raises the total stock of capital. Newly-produced surplus value – which cannot rise above the demographic limit set by the size of the working population – produces a return which when divided by a mass of capital which grows without limit, can only in the long run decline. The only way to reverse this is to wipe out the invested capital. The paradox is that to restore capitalism, capital must be destroyed.

The reduction cannot be achieved by cost-reducing technical change, as physicalism predicts. This does reduce the price of the goods in which a capitalist has invested – factories, raw materials, and so on. But though the assets decline in value, the past investment does not. The money spent, and in all likelihood borrowed, remains a part of total invested capital. It survives as a claim on value even when the bailiffs arrive at the gate: first as an undischarged debt, next as a toxic asset, a kind of ghost of capital past. In all manifestations, it subsists as a claim on income, demanding its blood price.

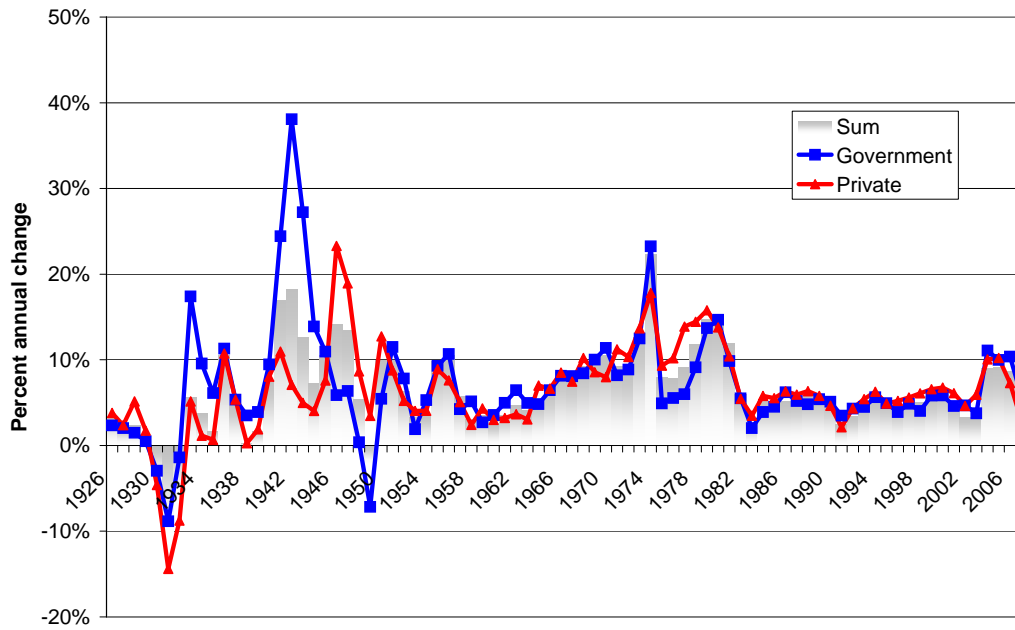
Part of the function of crisis is to reduce all these fictitious assets to their true value. A shortage of liquid capital (a “credit crunch”) coincides with a collapse of debt-inflated asset values (“debt-deflation”) and an investment strike. A positive feedback loop (the “multiplier”) further reduces demand as workers are laid off and wages are cut, turns the reduction of demand into a collapse (“recession”).

However, this is not enough. Even the true value of the underlying stock of capital, invested in the past, must be run down. This is the function of slump. When the underlying stock of capital rises to present levels – both because of its postponement through previous, inadequate measures, and through the longterm process of accumulation itself, slump becomes ‘Great Depression’. This is what is happening now, and what happened in 1893 and in 1929.

This explains the mechanism of the present crisis, but lays bare the underlying difficulty: how can capitalism be “restored” by destroying capital?

The marriage of Vulcan and Mars: War and State Production

Figure 5-4: growth rate of nonresidential net capital stock



Source: BEA

During the war, the state's action simultaneously supplanted, and restored, capitalism. How? At first sight, it is a surgical cure which saves the patient by extracting its heart. As Bram Stoker fans well know, heart problems do not afflict the undead. The state, faithful custodian of their historical interests, laid capital out in a crypt for later revival. The war had created the social solidarity to assure them that the demands of the mob would be restrained in the present and curbed in the future, a promise which McCarthyism and the Cold War delivered on the nail.

As noted, and as figure 5-4 shows, during the war era in the USA, accumulation was the highest ever recorded. Gross private capital accumulation, though dwarfed by government investment, moved positive after 1939 – but the overwhelming vehicle of investment was the state. How can such massive accumulation overcome the general law that accumulation lowers the profit rate? Because state investment demands no return on capital. In Marxist terms it is “unproductive”. The state oversaw a massive expansion of the productive capacity of the nation, without requiring of private capital that it should either invest, or accept a diminution of its returns.

The mass of private capital ran down. But the return to private capital shot up. Taking into account the fact that the growth in the working population facilitates a larger capital stock, Figure 5-4 shows that the USA decumulated, proportionately, at least until 1946 and probably for longer – at the same time that state investment restored and reconstructed national productive capacity, restoring the profit rate to the astonishing postwar level shown in figure 5-3.

War is usually seen as a period of destruction, consuming assets to be rebuilt in “reconstruction”. This is a law for losers. For the US, wars and their aftermaths saw an

intense build-up of capacity. The Marshall Plan was a war baby: the US, emerging as the industrial superpower of the world, financed a universalising, hegemonic project – postwar reconstruction.<sup>1</sup>

Can such a reconstruction be achieved today, and if so, how?

Let's Face the Music and Dance: a 21st-Century Vision

There is an economic solution to the crisis which does not involve war. If the state makes available, to as many people as possible on an equal basis, the capabilities that capitalism has brought into existence, stepping in wherever private capital will not, the crisis will end.

This economic solution would also constitute a huge leap for billions of people and for humanity as a whole. A programme for 21st socialism might consist of little more.

Economic sense, joined with social need, can bring powerful political forces into being. But will any state actually do these things, even partially? We cannot begin from any prior assumption. The most responsible course is to demand such measures from anyone and everyone that claims to want to solve either the economic or the social problems of today. However, a sober assessment of who is likely to respond, is not out of place.

The obstacle in the rich nations is twofold. First, private investors would have to renounce, in peacetime, prerogatives they have so far relinquished only during war. Second, a truly universalising solution would reverse a hundred-and-fifty year trend in North-South inequality, summoning the furious resistance of all classes that depend on reactionary-parasitic privilege – rentiers, financiers, corporate barons, land magnates, settler castes and just plain crooks. It will place at their disposal, in the absence of counter-measures requiring great political will, a mass of ordinary people in the Global North who have no buffer against a dramatic fall in living standards other than the cheap commodities of the South,

This is no reason to give up on such proposals. It does mean, however, that the problem will be posed together with another. Universalising tendencies are unfolding outside the heartlands, in those countries now flexing their economic muscles, as they witness the steady erosion of US powers. The two greatest ironies of recent times are on the one hand the outpouring of hope that China, until recently the target of endless lectures on market virtues, will save world demand and on the other, the tirade of vilification directed at Venezuela for little more than using its own oil to better the condition of its own poor.

For most people in the world, it would be a tremendous advance even to attain the minimum standards of Western welfarism. The temptation is to reduce universalism to the provision of basic material needs, the mere alleviation of “poverty”.

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<sup>1</sup> This differs from Rosa Luxemburg's account, revived in the 1960s by Michael Kidron as the “Permanent Arms Economy”, and from the theory of ‘Military Keynesianism’, which sought to account for Reaganism's economic successes. Both saw military spending as a source of demand. The wartime state restored investment. Its role went well beyond that of consumer of last resort.

This is wrong, and it will not work. Universalism does not consist in levelling down to what the rich are willing to concede, but in levelling up to what the poor are entitled to. Universalism consists in proclaiming, as rights, the most advanced capabilities which society, in its current state of development, holds out the prospect of granting.

The greatest enemy to understanding is, for this reason, a lack of historical vision. Previous civilising waves generalised not the most basic, but the most advanced, capabilities of the age. The question is, then, what are the most advanced capabilities that this age has generated?

My conclusion is controversial: material needs must of course be met, wiping out a hundred years of senseless poverty. In order to achieve this, however, a new focus is required: the expansion of “human infrastructure” – the mental and creative capacities of human beings – to levels now enjoyed by a privileged minority. This is not merely attainable but indispensable. I outline it in the final section.

Inalienable rights for the 21st Century: creation, knowledge, and the pursuit of sustainability

How might Obama deliver on the “Green” industries he includes in his package? He will not succeed if he only subsidises that tiny portion of the economy which now struggles to make green energy or fossil-fuel-free transport. Change requires a population educated, prepared and enabled to switch to their use on a postwar scale.

This is a huge social transformation. A president determined to achieve it will need to defeat the oil lobby, rid the cities of congestion, reconstruct public transit nationwide, reconfigure the whole system of waste disposal and electricity generation, and create enough demand for this struggling minority industry to cut its output prices to a tenth of what they are now. He will have to put sustainability within the reach of the common people. That is, he will have to add ‘living sustainably’ on the human rights agenda.

Or, suppose the UK government wants to make good on its promise of a creative industry boost to new technology. It will not be enough to subsidise high arts, protect infant entertainment industries against collapse, or built another Dome. As long as participation in the arts remains an expensive or élite privilege, creative activity will never be more than a luxury economic sector.

A government seriously seeking to turn this around would need a fundamentally new vision: it would have to make creative activity a general public right. It would have to fund universal free highspeed internet. It would have to fuel stable demand for a mass design industry by writing aesthetic and design principles into all private and public contracts. It would have to expand university education to the great majority of the people, placing a university in every town. It would have to ensure that education, from early years, offered general access to the arts and their informed appreciation.<sup>1</sup>

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1 See Freeman, A. Culture, Creativity and Innovation in the Internet Age for a more detailed

In short, where Fordism created a civilisation based on the mass production and consumption of mechanical capacity, the 21st Century demands one based on the mass production and consumption of mental capacity.

These may be considered utopian ideals. Nothing could be farther from the truth. In any age, that which is socially practical reposes on a substrate of what is materially possible, which it translates into what is politically realisable. The material circumstances of modern society not only permit a green, arts-led future – they demand it.

Chernomas<sup>1</sup> has drawn attention to Keynes's conception of a "Post-Scarcity" society, containing "larger and larger classes and groups of people from whom problems of economic necessity have been practically removed."

Technically, this exists now. Since the 1950s the productive capability of the world has, slowly and almost unnoticed, transformed. Average world real income at \$US6,000 is now greater than that of the average citizen of the advanced countries in 1950, well into the "golden age" of prosperity. To put it another way, actually, the world could afford, if it chose, to implement the UN Charter immediately, now.

World production is no longer bound by material necessity. Poverty exists not because of shortage but because the mass market which such productive capacity requires has been crushed out of existence by a world in which three to four-fifths of the population are worse off than Western workers at the dawn of the Victorian age. In this same world, even in the "advanced" countries, more than fifty percent of the population do not have acceptable health care, will be lucky to receive education beyond the age of 18 or dignity beyond the age of 65, and well over a quarter live under the semi-permanent threat of homelessness through debt and social destruction through unemployment.

The problem, in short, is no longer the shortage of any product, but the social system that distributes it. In righting the enormous burden which this imposes on growth and sustainability we can neither demand that the consumers of capitalism's advanced products should stop, nor that those now producing them should lose their jobs. This is not just politically infeasible but socially retrograde.

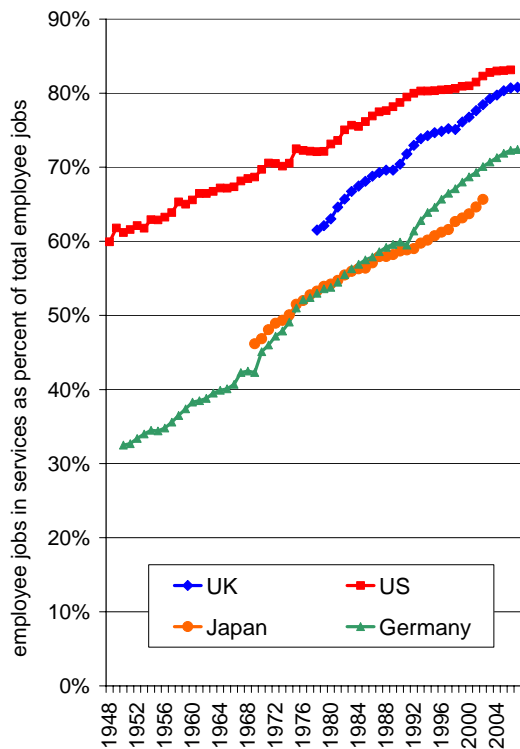
To confine investment to a physical minimum is to miss the point of the current path of world development. "Material" production – of food, buildings, and machinery – has undergone a fundamental shift. Over 70 percent of workers in the advanced countries now produce services. This is a world tendency, a new growth path even for the developing world. Contrary to popular myth, manufacturing employment in China has shrunk. It employs only ten per cent of the population. Within five years, more Chinese workers will soon be producing services than agricultural goods.

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discussion.

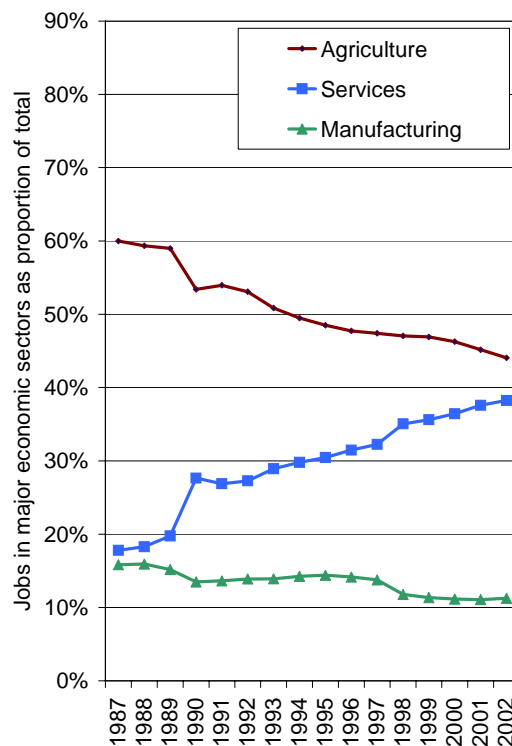
1 Chernomas "Keynes on Post-Scarcity Society"

Figure 5-5: proportion of employment in services in key advanced countries



source International Labour Organisation (ILO) and national accounts

Figure 5-6: proportion of employment in China



source: International Labour Organisation (ILO)

A comparison with the dawn of the industrial revolution may illustrate the issue that arises. At that time, the overwhelming necessity was simply producing enough agricultural goods to survive. “Daily Bread” was everything. Manufacturing was an insignificant blip on the horizon. The dominant economic ideology, that of the physiocrats, treated the land as the sole source of value. Giving voice to the conservative demands of the landowners, it became such an obstacle to advance that the French revolution was provoked by the dismissal of an anti-physiocratic minister.

We must not repeat this error with regard to the relation between manufacturing and services. From Adam Smith onwards, with Marx a notable exception, economists of left and right have treated services as “not real”, “unproductive,” a poor cousin of “true work”. This “machinocratic” view, as I term it by analogy, has missed the key phenomenon of the age: services now dominate both the production and consumption of material goods. These are in no sense “unproductive”. The financial sector, in the narrow sense of financial intermediation, employs in London no more than 200,000 people, among three million service workers. The remainder are, by any reasonable definition, productive. To demand they return to purely physical production is in the precise sense of the word reactionary. The idea that the future of the workforces of London, New York, or Toronto lies in factories is

as backward as nineteenth-century agrarian-utopian proposals that industrial workers should migrate back to the land. A universalist future for the cities consists precisely in the massive expansion of demand for their products that an investment in civilisation would bring.

The three largest media conglomerates today – Time Warner, Disney and Viacom – have a combined capitalisation equal to half that of Exxon. Giants like Sony have made a successful transition from ventures dominated by the manufacture, to multinational giants whose main business, in a nutshell, the sale of artistic products. Material production remains of course vital to what they do. Without amplifiers, cables, electronic technology and the internet, the music and films would not exist. But in what must one invest, to sustain this industry? Who will buy ipods if no-one makes music?

The chief asset of modern civilisation no longer consists in the size and majesty of its machines, but the creative and mental capacity of the workers who make them run. It is not utopian to present the right to be creative, to acquire knowledge, or to live sustainably as necessary and attainable. These are in the truest sense the defining, and oldest, features of humanity.

It is tempting to denounce this as irrelevant to people whose very survival is threatened. Of what concern is learning or music to those who cannot eat? From this point of view, the Simon Bolivar youth orchestra of Venezuela is a frivolous diversion, as is the futile attempt build a ramp of entirely new institutions of higher education in Venezuela. Such reasoning is profoundly wrong. It no longer even makes economic sense – if it ever did – to deprive one person of food so that another can enjoy high art. But far worse: the idea that a person has no desire or capacity for art or education because they have no money sits at the heart of every justification of privilege from Plato onwards. Where did Jazz, Rap, Salsa come from? The idea that art is the preserve of the rich, educated, and white is not only deeply élitist, but refuted by all popular art. Emma Goldman's famous words "If I can't dance, I don't want to join your revolution" are as relevant today as in the heyday of West Coast syndicalism.

The idea that the poor only need to be fed is the starting point of all attempts to preserve privilege. Setting limits on their demands is just another way to remove the limits which equality sets on the consumption of the rich. Of course everyone should eat and be clothed. But anything which stops there is just another way of putting the poor in their places – to maintain the injustices which took their food away in the first place.

Human wants and needs which we now regard as luxury can, and should, be incorporated into a new vision of the future. This is not only the precondition for economic success: it is what civilisation means.

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