THE CAPITALIST CRISIS AND SOUTH AFRICA

By "ECONOMIST"

This is the first part of a two-part article. The conclusion will appear in our July issue.

EVERYWHERE in South Africa today there are uneasy speculations about what the future holds for us and our economy. Cabinet Ministers speak cautiously to farmers about a likely drop in the prices of their products; banks and building societies issue statements about 'tightness of money'; and workers begin to talk about unemployment and depression. Everywhere there is understanding that all the signs point to hard times ahead. But as yet the only suggestion advanced for protecting the wage and living standards of the people comes from the Nationalist Government, faithfully echoing the voice of the Chamber of Mines, calling for an increase in the price of gold. Such "solutions," profitable though they might well be to the mining magnates and shareholders, grow not out of any concern for the future of the working people, but out of the overriding concern of capitalist governments for the profitability of the investments of their class. Can such solutions offer any real prospects to the working people of all races? Is this the only way out of the crisis that everyone senses in the days ahead? To answer these questions, it is necessary to understand the causes and the direction of the present recession in our economic life.

FAST-GROWING INDUSTRY

South Africa's economy developed in a way characteristic of the colonial lands in the modern age. For a long time, development was held back, to maintain the country as a producer only of raw materials into consumers' goods—industrial development when it came, came rapidly. In the 35 years 1915 to 1950, industrial output increased fourteen times. By comparison, the U.S.A. took 66 years for the same fourteen-fold expansion (1871-1937), Japan 38 years (1900-1938) and the U.S.S.R. twenty-two (1928-1950). These comparisons must be taken more as a guide than as absolutes. For it is clear that South African industrial expansion, coming late in history, was able to apply ready-made techniques and processes which others had developed and perfected slowly and laboriously. But even this alone does not explain the remarkable rate of our industrial expansion. There are many other factors that enter into it, and amongst the most important are these:

South African capitalism did not have to battle its way through a mesh of stagnant feudal traditions and interests.

The tremendous aggregations of capital needed for the extensive exploitation of our vast natural resources were attracted rapidly from overseas by the discovery of rich gold and diamond mining fields.

There was a large supply of African labour readily available, unorganised, and consequently subject to a high rate of exploitation which made possible rapid expansion without any substantial rise in the real wage rates.

There has been a large amount of state intervention in industrial production, which has lent a measure of stability to the course of development, and has provided the services which private enterprise needed (railways, electricity supply, steel works, etc.) but which private enterprise did not find profitable enough to undertake itself.

But in all this period of rapid growth, despite the seeming 'boom' conditions, South Africa's economy has been subject to the fluctuations which are normal to capitalism. There have been minor recessions in 1914, 1926 and 1934; and there have been heavy depressions in the periods 1920-1922 and 1929-1932. Both the major crises are, clearly, closely and intimately linked with the world depressions of the same years. Here then is a vital factor in assessing South Africa's economic future. For throughout the period of its growth, internal conditions have been favourable for continuous prosperity and expansion (hampered only by a shortage of skilled labour sufficient, perhaps to slow down the rate of development, but insufficient to plunge the whole country into crisis).

But South Africa was—and still is—dependent on world markets, and on the supply of equipment and capital from abroad. And when the main centres of the capitalist world are themselves gripped by depression, South Africa cannot fail to feel the squeeze. It is thus not possible to understand South Africa's economic position and future in isolation from the situation in the citadels of world capitalism—America and Britain.

THE NEW WORLD

The world of 1956 is not what it was in 1929. The break-up of the old colonial empires is far advanced, and countries like India, Burma and Egypt are taking the first step towards rapid industrial development of their own. One third of the world's people have shaken off the heritage of foreign domination and exploitation, and have passed out of the capitalist world into the camp of socialism. The pioneer socialist state, the U.S.S.R. has transformed and developed its economy to the stage where it now supplies fraternal assistance to the economy of other lands, thus breaking the lucrative monopoly of heavy industry which formerly effectively prevented the advance of the so-called "backward areas." (The U.S.S.R. is, for example, supplying and equipping a new steel-works for India.) And simultaneously, there has been an enormous increase in the productive capacity of the advanced countries, particularly America since World War 2.

Together these new factors of our present-day world scene have combined to greatly heighten the rivalry between the main capitalist powers. All of them now have more surplus capital to invest, more goods to sell, and yet less space in which to invest or sell. This critical contradiction is but one side of the picture. On the other side there is the major and crucial change which has come about in the nature and extent of economic activity by the Governments of the major capitalist powers themselves. In the U.S.A. for example—and it is characteristic of the whole capitalist world—Government expenditure which accounted for only 8 per cent of the national demand in 1929, has increased to 20 per cent by 1955.

This change cannot be underestimated, for it greatly **reduces** the instability of the old type 'laissez faire' economy. And on the same side of the picture, there is the less tangible factor, the fact that from past experience the capitalist class and their economic advisers have learnt something of the political and economic dangers which flow from depressions, and certainly attempt measures to minimise any threatening crisis.

IS CRISIS NECESSARY?

How do these conflicting features of today's world work out to affect the economy of the capitalist world? As always, capitalism is beset by its own internal characteristics. As always, it requires a constant expansion of its productive capacity; but at the same time it forces down the level of the ability of society to consume the output of this constantly growing capacity. Inevitably—unless there is some 'outside' intervention, this contradiction must lead to surplus of goods which cannot be sold, to a surplus of capital which cannot be profitably invested, to a crisis, and to a depression in which the surplus will be gradually devoured as normality returns. Thus orthodox economists turn to solutions of 'outside intervention.' They believe—or act as though they believe—that crisis can be averted "if only . . ." Their "if onlys" are of two kinds: 'if only' enough is spent on armaments and war, and "if only' enough is spent on social welfare.

Already in America armaments expenditure has reached a rate of £15,000 million per year, and has proved to be of decisive importance to the economy. But even on that fabulous scale, the relief it brings can only be temporary. Such tremendous expenditure, in the very moment of increasing the purchasing power of the nation, brings in its train inflation, rising prices, increased taxation, thus reducing still further the real incomes of the mass of the population. Colossal armaments expenditure also distorts the balance of the whole economy; it promotes rapid expansion of the basic industries which are concerned with 'war production,' but only at the expense of other sectors such as agriculture and light industry, which languish. To overcome these new, more acute problems, the economists urge a larger dose of the same remedy—still greater arms expenditure. It is the hopeless tale of the drug addict, "in whom a dose of his drug at first produces a pleasant sense of well-being. But this is soon followed by the painful aftereffects, which in turn can only be relieved by another, larger dose of the drug. And with each successive dose the immediate sense of well-being becomes less while the after-effects become more agonising until through ever more frequent and massive doses of the drug, the addict ultimately destroys himself." (Hyman Lumer: War Economy and Crisis.)

But there are, in the modern world, social pressures against drug addiction; and a tremendously powerful peace movement, whose strength and whose overwhelming clamour for disarmament makes the resort to ever-increasing arms expenditure difficult for any government anywhere in the world.

And so we are left with 'welfare' as the bourgeois expert's solution. But this is even more illusory and self-deceptive. The present capacity of the U.S. economy, for example, would require state expenditure of the order of £30,000 million on social welfare if there is to be any substantial effect on the development of crisis. This means, in plain language, tremendous expansion of expenditure on schools, housing, irrigation, health services. It means large-scale tax reductions, large-scale wage-increases and social-security benefits; and it means, unquestionably, large-scale expansion of East-West trade. Large-scale welfare measures of this sort mean, inevitably, large-scale reductions in profits. Here the economic theorists, the dreamers of ideal 'possible' solutions come up against the cold reality of hard economic facts. For capitalism exists to extract the highest possible rate of profit for the capitalist class. And no such large-scale reduction of profits will ever be voluntarily taken. Such "solutions" apply only to the world of dreams, to the never-never land of capitalism without class divisions, where the state is not the spokesman of the ruling class but an impartial arbiter in the interests of the whole nation. In such a dream world, as Mauric Dobb puts it ". . . all sorts of attractive miracles can be demonstrated."

But not in ours. Unless capitalists are ready to destroy capitalism, or so radically transform it as to lead to its rapid disappearance, the "solutions" and schemes of bourgeois economists can do no more than temporarily delay crisis. And as they stave it off one year, so it reappears the next, intensified. This is the reality. Eisenhower, Macmillan and Eric Louw may, temporarily, drive the crisis down. They cannot drive it out.

THE PACK OF CARDS

Clearly then crisis is on its way in the capitalist world. This statement is not inspired prophecy. It is the conclusion that is revealed, inescapably, by study and analysis of the facts. It is not possible to say **when** it will break, or at what point. But certainly the crisis is maturing despite every manoeuvre which is taken in the hope of postponing or 'conquering' it.

Something of America's economic position is revealed by the following figures:*

* Survey of Current Business: Feb. 1956. U.S. Department of Commerce.

declined by 5%. Thus the disparity between the two crucial items of any economy—productive capacity and consumption—is now intensified.

	1947	1955	% Increase
	In $billion at 1947 prices		
Gross domestic investment	29.7	45.3	52%
Personal consumption	165.0	214.0	30%
Government purchases	28.6	58.5	105%

Gross investment is a rough indication of the productive capacity; but the other two items show the source and the distribution of purchasing power. From these figures it is clear that investment (i.e. productive capacity) has expanded much faster than personal consumption; and accordingly a tremendous increase in Government purchases (two-thirds of which goes on war preparations) has been necessary to keep the balance. If, however, we take the same headings for the years 1954 and 1955, we find that productive capacity rose by 23%, purchasing power (non-government) rose by only 7%, but Government purchases actually The instability of this position is revealed yet more clearly when the 7% increase in personal consumption is examined. For of this increase, small as it is in relation to the increased productive capacity, one third came not out of greater personal incomes, but out of purchases financed by credit. When this has to be repaid, the critical gap looms even wider, and the crisis comes closer and more certain. By the end of 1955, the total debt outstanding for goods purchased on credit amounted to £13,000 million.

Here is the weak, unstable reality concealed behind the glittering boosters pictures of the American economy. There is a precarious credit structure; there is excessive productive capacity in all industries making consumers' goods—television, refrigerators, furniture, etc; there is chronic over-production in agriculture, with farmers subsidised to produce **less** wheat and cotton, and 1 million dollars spent a day by the government to store agricultural surpluses; there is a "bullish" stock-exchange, with share prices at the highest levels ever recorded; there is a significant decline already apparent in two key sections of industry, housing and automobiles; and there is chronic unemployment which even in the boom periods has not fallen below two million.

Newspapers and politicians continue to assure themselves and us that, in the U.S.A., 1956 will be another year of greater-than-ever boom. Maybe it will be so. But it is the boom that goes before the crash. For the economy of this centre of the capitalist world is shaky, as unstable as a house built of cards. The higher it goes up, the more surely must it collapse.

(Next month "Economist" will analyse the effects of this on South African economy)