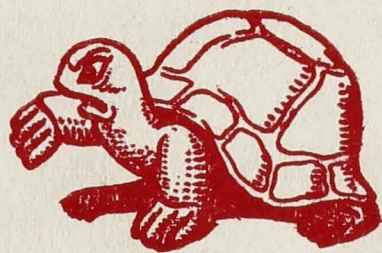


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CAPITALISM
IN THE
MODERN WORLD

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TWO SHILLINGS AND SIXPENCE

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CAPITALISM IN THE MODERN WORLD

PREFACE

SOcialists, from the very beginnings of the Socialist movement, have denounced the iniquities and inefficiencies of the capitalist system and have sought to replace it by a system of production for use based on social ownership and democratic control. In earlier days, wherever capitalism existed, its operations were marked by ruthless exploitation of the workers, who were not only compelled to live under conditions of grinding poverty and continual insecurity but were even denied the right to combine for the collective defence of their interests on the plea that such combinations violated the freedom of each individual to sell his labour power in a 'free' market.

Conditions not much better than these continue to exist in many parts of the world, or have been re-imposed in countries where Fascism or some other wholly reactionary régime has been imposed on the people; but in the more advanced capitalist countries the workers' conditions have been greatly improved, thanks to the development of Trade Unions and to the conquest of voting rights by the mass of the people. Legislation has reinforced collective bargaining in securing for the workers at any rate a minimum area of economic rights; and in a number of countries there have been real and substantial gains through the provision of social services—so that it is not altogether meaningless to speak of advances towards the 'Welfare State.' Capitalism itself has not been unaffected by these developments, which have brought with them various forms of public control over the working of capitalist enterprise and, in some countries, actual socialisation of a part of the economy. The purpose of this pamphlet is to consider in what respects, and how far, capitalism has changed under the impact of these forces, and how, and to what extent, the changes in its working call for modifications in the policies to be followed by Socialists in seeking to bring the capitalist system to an end and to achieve Socialism.

CAPITALISM IN THE MODERN WORLD

G. D. H. COLE

1. BEFORE 1914

CAPITALISM, as Marx knew it and described it in the *Communist Manifesto* more than a century ago, was a system in many respects notably different from the capitalism of to-day. It was, in the first place, much more intensely competitive, and a much larger part of the productive apparatus was in the hands of small firms directly managed by their owners. There were, indeed, already some big businesses employing large bodies of workers; and joint stock companies, with considerable bodies of shareholders, were already operating in certain fields—notably railways and shipping. There were also great colliery owners—mostly ancestral landowners who had developed coal mines on their estates—and quite big iron-making concerns, as well as large textile factories whose owners (or their fathers) were of the ‘new rich.’ But in 1848 limited liability—the basis of modern company finance—had not yet spread beyond certain limited ranges of undertakings to the general run even of big manufacturing enterprises; and the typical undertaking in the great majority of industries was still quite small. Even joint-stock banking was hardly past its infancy; and credit arrangements were still largely in the hands of local banks conducted by groups of partners who owned most of the capital they used.

There was little combination of employers, even in the same trade and locality, except when they temporarily joined forces for the purpose of reducing wages or of resisting demands for higher wages or improved conditions. The typical employer was either an individual managing his own business or a partner acting in conjunction with a few others like himself. There were indeed sleeping partners who had invested their money without themselves taking an active part; and there were wealthy entrepreneurs who were connected with a number of separate partnerships and had considerable masses of capital under their effective control. But in the field of manufacturing industry there were hardly any monopolists or even firms big enough to exert an effective control over the supply of a particular range of products. Outside the so-called ‘natural monopolies,’ such as gas and water supply and some forms of transport, the conditions of production were highly competitive, and the weaker competitors were continually being driven to the wall, especially in periods of bad trade. If

many fortunes were being made, there were also many failures and bankruptcies; and unsuccessful employers were continually being driven down into the ranks of the employed. It was a hard world, which offered, together with large chances to make fortunes, considerable risks of failure and defeat for the individual entrepreneur who was either unlucky or not efficient enough to make his way in face of the keenly competitive conditions.

Capital Accumulation in the mid-Nineteenth Century

This situation offered considerable openings for the ambitious skilled workman who could from one source or another get together the modest capital needed for making a start as an independent producer. The social mobility of mid-nineteenth century capitalist societies was high, the rapid advances in production offering many opportunities for upward movement. Such opportunities, however, could be seized only by relatively small minorities of the total population; and for those who failed to seize them the scales were weighted heavily against the enjoyment of a satisfactory standard of life. Under the prevailing conditions it could not be easy to procure capital for industrial investment; and there was accordingly a high premium on business savings made by the entrepreneur and used for the expansion of his own undertaking.

The desire to accumulate capital for this purpose combined with the highly competitive conditions to render employers most reluctant to raise wages, which they felt would be frittered away in increased consumption instead of the money being put to productive use. Certain kinds of skilled labour were no doubt scarce, and the possessors of these skills were in a strong bargaining position—or at any rate would have been but for the formidable obstacles that were put in the way of working-class combination even after the Combination Acts had been repealed in 1824-25. But the factory system, in its earlier stages, had involved the employment of a high proportion of women's and children's labour and of unskilled male workers; and labour of these kinds was on the whole plentiful as well as wholly unorganised: so that its wages could be kept down without much difficulty, and could be cut heavily in periods of trade depression and consequent scramble for jobs. Very high profits were thus possible despite the intensity of competition because of wide differences in efficiency between firm and firm; for even if the marginal firms were continually being driven out of production there remained very wide differences in costs among those which were left in being. There was no doubt a tendency for workers to shift from worse to better paid occupations—especially from agriculture to the towns—and this was a factor making for an improvement in the *average* conditions of the working classes; but this effect was largely offset by the facility with which wages could be cut in times of depression; and in the 1840's in particular a long series of bad years reacted with very great weight on the conditions of the main body of industrial employees.

Marx on the 'Laws' of Capitalist Production

Marx, surveying this state of affairs in the 1840's, believed he could see in it the operation of certain laws of capitalist production. He believed

that, as capitalist techniques developed further, more and more of the small entrepreneurs would be driven out of the market by the greater efficiency of the bigger firms and that accordingly there would be a growing stream of displaced small employers and artisans, and also of small peasant farmers, flung down into the ranks of the wage-earning class. He believed, too, that capitalism would add to its productive power faster than the power of the consumers to buy its products could increase in face of the weak bargaining position of the main body of workers, and that accordingly the intensity of capitalist crises would grow greater. He believed that the capitalists, faced with a tendency for their rates of profit to fall because of the intense competition to sell their products, would seek to intensify their exploitation of labour by every means in their power and would succeed in this to the extent not merely of preventing the workers from getting the benefit of the increasing productivity, but even to that of throwing them into 'increasing immiseration' as the difficulties of capitalism grew more severe. Before very long he believed that capitalism would find itself involved in a 'final crisis' from which it would be unable to recover, and that, when this stage was reached, the workers would be able to use their collective power to overthrow capitalism and take the control of society into their own hands.

These opinions were at any rate very plausible at the time when Marx originally formulated them during the 1840's. They were not, however, verified by subsequent events. Even during Marx's lifetime the average material conditions of the workers substantially improved as a result of higher real wages, at any rate in Great Britain. It is true that the main part of this improvement accrued in the earlier stages to the more skilled workers, who were the first to organise in effective Trade Unions and had also the advantage that their kinds of labour were relatively scarce. But migration from agriculture to industry and from worse to better paid occupations was also a factor in improving the average position of the main body of the working class; and not long after Marx's death the less skilled workers also succeeded in many cases in establishing fairly effective Trade Unions. Moreover, the crises of capitalism, though they continued to recur, did not in fact get more intense. Even the so-called 'Great Depression' of the 1870's, despite the heavy unemployment it involved in certain trades and despite its adverse effects on agriculture in particular, was accompanied, save in a very few worst years, by rising average consumption due to the cheapening of imported products; and there was never again so great a danger of sheer capitalist collapse as there had seemed to be in the Hungry Forties.

Shareholders and Managers

Moreover, though in many industries the scale of production tended to grow greater and there was a continuous erosion of small, marginal entrepreneurs and a continued increase in the proportion of the total product produced by the larger firms, these changes were accompanied by notable changes in the structure of capitalism itself. The most significant of these changes was the development of joint stock enterprise, in which the ownership and the management became increasingly separated. There grew up, on the one hand, large bodies of shareholding investors who played no

part in the management of the enterprises they collectively owned, and on the other an increasing corps of salaried managers and technicians who had little or no share in the ownership of the enterprises they conducted. There continued, no doubt, to be many family firms of varying sizes in which the functions of ownership and management were still largely combined; but side by side with these, and on an ever-growing scale, were the great joint stock concerns in which ownership and management were largely divorced. In some of these latter, the control passed into the hands of rich financiers, to whom the actual managers acted mainly as salaried servants; but in others the salaried managers became the effective controllers and determiners of high policy.

As long as the typical business unit was the fairly small firm managed by a group of owning partners or by an individual managing owner, there was not much reason for the growth of a high managerial class. The salaried managers were servants of the owners, and did in the main as they were told. However, as the scale of production increased, both the complexity of managerial tasks and the need for specialised technical employees grew with it, and also there was more need for non-productive clerical and financial employees. These had, in the main, to be promoted from the ranks of the manual workers, or recruited from among those who had achieved a higher sort of education and training than the general run of the population. The growing demand for such superior employees, side by side with the parallel growth of the non-industrial professions, led to changes in the educational structure designed to increase the facilities for higher and for specialised education and training; and this, too, provided opportunities for upward social mobility into the middle classes.

Thus, although the process of throwing the unsuccessful members of the more privileged social groups down into the ranks of the proletariat continued, as Marx had said it would, the effects were more than offset by the increase in new forms of privilege through the upgrading of persons into the professions, greater and lower, and into the grades of managers and technicians. Instead of the increasing polarisation of classes into the two extremes of capitalists and proletarians there developed a much more differentiated society, with a rapidly growing number of inactive shareholders, large and small, interested in the maintenance of capitalist production and also a rapidly growing body of superior white-collar employees, managers and technicians holding positions of graded privilege that lifted them out of the working class into some degree of middle-class respectability. To be sure, the degree of privilege or social superiority enjoyed by many of these newcomers was very small; but, however small it was in some cases, there were many in which it was substantial, and it was at any rate fully enough to prevent that simple confrontation of a growingly wealthy capitalist class and a growingly impoverished proletariat which Marx had confidently prophesied.

The Growth of Working-class Power

These changed conditions were far from preventing the working-class movement from developing as a more and more effective and powerful

social force. The growth in the scale of business enterprise made it easier for Trade Unions to organise the workers and to increase their bargaining power; and the spread of Trade Unionism also helped to develop the workers' political consciousness and aided them in their struggles to get the franchise extended and to use their votes, when they got them, for influencing the social policies of the parties that were contending for political power. Slowly but surely, political conditions came to favour the development of what is called the 'Welfare State.' Marx had regarded the State as essentially a class-agency, devoted to the interests of the ruling class and to the coercion of the main body of the people in the interest of the capitalists as a class. But as the workers won the right to vote, the political parties that depended on their votes for the chance of gaining governmental power were forced more and more to pay some attention to the claims of the 'lower orders,' and presently there arose large Labour and Social Democratic Parties with extensive programmes of social legislation and of progressive taxation of the rich.

The State, in the more advanced capitalist countries, even if it retained much of its old class character, ceased to be simply an instrument of class-oppression and became in some degree also a means of protecting the subject classes' interests and of bringing about some redistribution of income between the rich and the poor. Nor was it practicable for the capitalist classes to maintain, in face of a working class endowed with voting power, their old attitude of refusing the workers recognition of their right to bargain collectively, or to invoke as confidently as before the help of the State in repressing working-class 'indiscipline.' Even if the advance towards universal suffrage and parliamentary democracy had only a limited effect in altering the class character of the State, that limited effect was real, and its reality deterred the workers of the more democratically governed countries from continuing to regard the State as simply an enemy to be overthrown by revolution and inclined them to look on it rather as an instrument to be captured and used to serve their own purposes. Under these conditions, the Social Democratic Parties of such countries, even where they continued to use the revolutionary phraseology of Marxism, became in practice more and more reformist and evolutionary in policy and outlook.

In Germany

This change occurred even in Germany, though the German Reich—and much more its dominant component, Prussia—had not, up to 1918, adopted the parliamentary democratic form of government to anything like the same extent as Great Britain or France or the Scandinavian countries, or of course the United States. The Reich, up to the first world war, had a democratically elected Parliament—the Reichstag—but not responsible executive government. Prussia had neither, but in spite of these unregenerate elements the attitude of German Social Democracy, inspired by its electoral success, became more and more assimilated to that of the Socialists in the more democratic parliamentary States. Eduard Bernstein's attempts to get the theory of Marxism revised so as to fit the practice better were defeated at the Party Congresses; but in practice his advice was largely followed,

and the revolutionary aspect of German Marxism dropped more and more into the background as the party gained in electoral achievement and in parliamentary influence.

German capitalism developed fast through the later decades of the nineteenth century and up to 1914. But, because it had to develop within a social and political structure still largely dominated by Junker and military influences rather than by the capitalist class, German capitalism took a different form from that of Great Britain. British capitalism had grown up in the eighteenth and early nineteenth centuries as a force largely independent of the State, strong enough to conduct its affairs without calling on the State to help it except by defending capitalist property rights against lower-class and Radical attacks. German capitalism, on the other hand, developing substantially later, had to adapt itself to the claims of the land-owning and military classes to a very much greater extent and had to rely on the help of the State in its attempts to gain access to world markets and to provide itself with the funds needed for rapid industrial development.

German capitalism passed through no period of laissez-faire individualism comparable with that which existed in Great Britain through most of the nineteenth century. Its development was much more centrally planned to serve State interests, and its capitalists had less of a free hand in dealing with their workers. The pioneer developments of the modern Welfare State, especially in the field of social insurance, took place in Germany, rather than in Great Britain or other less undemocratic countries, largely because the German State, dominated by feudalism and militarism, was in a better position to give orders to its capitalists and favoured social reforms that its rulers believed would win popular support and advance its national strength. Paradoxically, welfare activities were carried furthest not in the most democratically governed of the advanced countries, but in the politically reactionary, though industrially progressive, German Reich; and from Germany the influence spread to other capitalist countries in the form both of similar social legislation and of modifications of the laissez-faire tradition in the relations between the State and the business world.

2. THE RUSSIAN REVOLUTION

WHILE, in the advanced capitalist countries of Western Europe and in the United States, the capitalist system was following courses remarkably different from those which Marx had described and prophesied as the fulfilment of the capitalist destiny, in Russia, and to a much less extent in other parts of Eastern and Central Europe, capitalism was following at a much later date a course mainly similar to that which it had followed in the West in the eighteenth and early nineteenth centuries: so that the Marxist diagnosis seemed to fit accurately enough the course of events in these parts of the world long after it had ceased to fit the course of development in the West. Russia was, of course, never a country of highly developed

capitalism: right up to 1917 it was preponderantly an agricultural society of peasant cultivators with a small, though rapidly growing, sector of highly advanced, large-scale industrial enterprises, to a considerable extent under foreign management and in part financed by foreign capital. Politically, it was, up to 1905, a complete autocracy, without any central representative institutions; and the successive Dumas after 1905 had only very limited powers and represented only a small section of the people. The presence of a vast rural population living in deep poverty and affording an ample supply of cheap, unskilled labour for the growing industries would have made it exceedingly difficult to create powerful Trade Unions even in the absence of government repression, which was in fact continually invoked to hold in check any tendency towards collective working-class action.

No Reform Without Revolution

In such a situation only tiny minorities of scarce skilled workers could hope to exert any peaceable bargaining power; and what working-class organisations were able to exist were driven to assume revolutionary forms and to seek as their first objective the overthrow of the reactionary Czarist State with its all-pervading police power. Both in the industrial centres and in the landlord-ridden countryside the arbitrary oppression of the existing régime made revolution seem the necessary pre-condition of reform; and the Marxist account of the State, as essentially the organ of the class-enemy, seemed to correspond very well with the actual situation—though in fact the Czarist State was the organ not so much of the Russian capitalists as of the pre-capitalist forces which still held the sheer preponderance of political and social power. The Russian Marxists took over the Marxian doctrine of the class-struggle from the West and applied it almost unchanged to the very different conditions that existed in Czarist Russia. The only substantial modification they deemed necessary was that, whereas in Western capitalist countries there was need only of a single revolution, to overthrow capitalism and place the workers in control of the social structure, in Russia there would need to be two consecutive revolutions, of which the first—the bourgeois revolution—would establish capitalism in place of autocratic control, and the second would in due course overthrow capitalism and establish Socialism as its successor. Bolsheviks and Mensheviks—the rival factions of Russian Social Democracy—were in agreement concerning the need for these two revolutions: they came to differ only, first, about the speed with which the second could follow the first, and secondly, under Lenin's influence, on the question whether the bourgeois revolution could be carried through its necessary stages, as State Capitalism, under working-class control, in view of the weakness of Russian capitalism, which in Lenin's view—and in Trotsky's—rendered the Russian capitalist class incapable of steering the country through the post-Czarist phase of development to the point at which it would become 'ripe' for Socialism.

Bolsheviks and Mensheviks

The Mensheviks, holding that Russia would need to remain under capitalist rule for a considerable time after the overthrow of Czarism, had

much in common with the reformist Social Democrats of the West, but differed from them in being revolutionaries as against the Czarist régime. There was, accordingly, no vital difference between Bolsheviki and Mensheviki in relation to the February Revolution of 1917; for both factions accepted the need for the forcible overthrow of Czarism. Their differences related to what was to be done when Czarism had disappeared from the scene; and on this issue they were deeply divided. The Mensheviki were in general in favour of an attempt to construct a democratic parliamentary State, much like those of the more democratic countries, on the ruins of the old régime. The Bolsheviki, on the other hand, followed Marx in regarding the bourgeois democratic State as a sheer façade behind which the capitalists were able to carry on the exploitation of the workers, and were determined to replace it at the earliest possible moment by a new kind of State resting on the organised power of the working class—that is, by the dictatorship of the proletariat over the whole society. Hesitant at first about the ripeness of the Russian proletariat for such an assumption of exclusive power, they came over speedily to the view that it was expedient to proceed to the second proletarian revolution as soon as possible; and they accordingly raised the cry, 'All power to the Soviets' as the direct expression of working-class authority.

The Soviets, however, were at this stage still mainly controlled by the anti-Bolshevik parties—the Mensheviki and the predominantly agrarian Social Revolutionaries; and the Bolsheviki accordingly set to work to capture the Soviets from their rivals and deferred their attempt to carry through the second, proletarian revolution until they had achieved their capture, at any rate in the key centres. As soon as, in alliance with the left wing of the Social Revolutionaries, they had won control in the Petrograd and Moscow Soviets, they were ready to strike, or rather were induced by Lenin and Trotsky to abandon their hesitations and, with the aid of the major part of the Petrograd garrison, to take power into their own hands, with the Bolshevik Party acting in the name of the entire proletariat and claiming to assume the task of creating the new Russia as its historically representative *élite*.

Dictatorship—Proletarian or Party?

Thus was established, in the name of Marxism, what was in effect the dictatorship, not of the proletariat, but rather of the Bolshevik Party, though at the outset the rule of the party necessarily depended on Soviet support. The next task of the Bolsheviki was to weed out of the Soviets the opponents of Bolshevism who continued to be powerful in many of them. This had to be done, at the outset, on a basis of partnership with the Left Social Revolutionaries, without whom the Bolsheviki would not have been strong enough to establish their control, especially in the rural areas. But almost at once the Bolsheviki set to work to disrupt the Left Social Revolutionary Party and to establish the one-party system under which Russia and its successor, the Soviet Union, have been governed ever since.

All these things were done in the name of Marxism as interpreted by

Lenin, to whom, rather than to Marx, the conception of one-party dictatorship is due. To the extent to which the Bolshevik Party could be properly held to be the true and adequate representative of the entire proletariat as a class, they can be held to have remained true to Marx's doctrine; for Marx had undoubtedly advocated the overthrow of the capitalist State and the substitution of proletarian rule. There is, however, as Rosa Luxemburg was prompt to observe, a vital difference between the dictatorship of a class and that of an *élite* party claiming to act exclusively on its behalf; and what was actually set up in Russia by the second revolution of 1917 was in practice the rule of the Bolshevik Party rather than of the proletariat as a class.

The Nature of the Russian Revolution

However one may describe the system of government set up in Russia after the Bolshevik Revolution, one thing that is clear is that this revolution was not primarily directed against a ruling capitalist class, or against capitalism; for neither before nor after the earlier revolution of February, 1917, was Russia in essence a capitalist society or its ruling element a capitalist State. The February Revolution overthrew an outmoded autocracy, under which capitalism could play only a minor role: the October Revolution overthrew, not a capitalist régime, but a confused structure to which no definite positive character can be assigned—a government which, well before its fall, had shed its chief capitalist members and had shown its entire incapacity to govern. It was indeed much nearer to being a moderate Socialist than a capitalist government, and, as far as its intentions can be known, it looked forward to the future form of Russian society being settled by a Constituent Assembly in which Social Revolutionaries would hold a majority of seats. The Bolsheviks' argument for dissolving the Constituent Assembly was not that it stood for capitalism, but rather that it stood for nothing capable of creating a viable structure of government, and that it had in effect ceased, even before it met, really to reflect the views of those who had elected it—or at any rate of the part of the people in which the reality of constructive power was placed.

The Bolsheviks stood, not for the rule of a numerical majority of the whole people, in accordance with the principle of parliamentary democracy, but for the rule of a class—the industrial proletariat. They understood that they could not establish this class-rule without the support of a substantial fraction of the numerically preponderant peasant population; but they had no intention of accepting the peasant class as constituting, on equal terms with the industrial workers, a part of the new ruling class. They wanted the peasants—or at any rate the poor and middle peasants—as inferior allies against the reactionary classes—against militarists, capitalists and feudalists; and they wanted to strengthen the industrial proletariat by the largest practicable infusion into it of elements drawn from the peasants. But in their view the only class capable of carrying through the Socialist revolution was the industrial proletariat, which alone was the advance guard standing for the essential revolutionary idea of industrial development to be achieved under its ideological influence.

Not What Marx Expected

The Russian Revolutions of 1917 thus signally failed to correspond to the historic revolution against capitalist rule which Marx had forecast and sought to bring about. Socialist in a sense the October Revolution no doubt was; for it brought about, at any rate in industry, a social structure based on public ownership and collective exploitation of the powers of production—though it should be noted that this was not the case in relation to agriculture, the occupation of the great majority; for in agriculture the Bolsheviks, in order to get peasant support, renounced for the time being their own policy of socialisation and took over the policy of the Left Social Revolutionaries, which encouraged the peasants to share the land out among themselves. Even, however, if we allow that the Bolshevik Revolution can be correctly called Socialist, despite this vast exception, it was certainly not, save incidentally, anti-capitalist. Lenin himself coined for it, in its industrial aspect, the name 'State Capitalist,' indicating that even industrially Russia was not yet ripe for Socialism, and could not be ripe until the new State had carried industrial development a long way further under proletarian class control. Private exploitation, instead of being allowed to develop into the ruling power of society as a sequel to the bourgeois revolution, was to give place to 'State Capitalism,' in which power would rest not with the private capitalist class but with the proletarian State.

3. WHERE MARX WENT WRONG

MARX, in characterising the state of society, mainly in the Western countries, as he saw it in the 1840's, had in effect subsumed under the name 'capitalist' all the forces that controlled the existing States, though in fact these States rested on varying admixtures of capitalism and of other feudal, aristocratic and militaristic elements. He had assumed that these other elements had been in fact subordinated to the influence of capitalism as the dominant economic system embodying the most up-to-date stage of the advancing powers of production, and he had paid scant attention to the non-capitalist forces still operating in Western societies. This attitude arose out of his belief that the economic forces were always the real determinants of the movement of history; and this belief led him to make out contemporary society as much more fully capitalistic than it actually was.

It was by no means really the case that the State, as it existed in the German Reich and in Prussia, was merely a superstructure designed in the interests of German capitalism. It was quite as much an instrument designed to protect the feudal interests of the Junkers and to further the maintenance of the autocratic power of the Emperor and the predominance of a military caste that despised the bourgeoisie and set the highest value on the military prowess of the army. Marx was of course well aware that in the German Revolution of 1848 it was the capitalist class that went down to defeat at the hands of these other forces, and that the proletariat was still far too

weak to wrest the leadership of the revolution from the bourgeoisie. In the Communist Manifesto he was only announcing the appearance on the scene of history of a new force—the proletariat—which would presently grow strong enough to stake out its effective claim to power. But, despite this awareness, he wrote in terms which emphasised the coming struggle between proletariat and bourgeoisie, rather than the actual struggle between the revolutionary bourgeoisie and the older ruling classes.

Bourgeoisie and Proletariat

The former, he believed, was what was destined to matter in the long run, and what he wrote would serve to urge on the proletariat when its hour arrived. This implied that, in due course, the bourgeoisie would successfully liquidate or subordinate to itself its feudal, autocratic antagonists, who stood for an outmoded, or soon to be outmoded, form of aristocratic class-rule. In France, in Great Britain, and in the United States, the bourgeois rule had already been established (though in fact France was to revert almost at once to Napoleon's plebiscitary monarchy). Germany was backward in not having yet seated its bourgeoisie firmly in power, but was bound to catch up speedily as it developed its economic structure. The non-capitalist elements in the German ruling élite could accordingly be regarded as non-essential, and already on the way out. When the critical hour arrived, the great struggle would be between the proletariat and a bourgeoisie that would have established its primacy over feudalism and military autocracy as independent social forces.

This vision of the future, to be sure, did not quite fit in with Marx's many gibes at the ineffectiveness and cowardice of the German bourgeoisie, which he held would lead it always to draw back at the critical stage of the bourgeois revolution, for fear of letting loose the proletarian forces beneath it and allowing itself to be swept away by proletarian revolution. These gibes in fact represented a much more realistic appreciation of the situation than the basic assumption that the essential struggle would take place between the bourgeoisie as rulers and the rising proletariat. For, in reality, the bourgeois revolution never did take place in Germany: what occurred was that the bourgeoisie, without ever fusing entirely with the older ruling class, increased its influence and status within a structure that remained basically militarist and autocratic. When at length revolution came to Germany in 1918, it was directed not against a dominant capitalistic régime, but against an imperial structure still predominantly controlled by aristocrats and militarists, and German capitalism played in it only a minor part, caught up at the outset between the main combatants and achieving a major role only when the German proletariat, having shown in its turn the incapacity and cowardice of which Marx had earlier accused the German bourgeoisie, had suffered defeat at the hands of the reactionary Free Corps after failing to take advantage of its victory at the time of the Kapp putsch. The all-economic interpretation of the revolution as a struggle between bourgeoisie and proletariat works out no better in the case of Germany than in that of Russia. In neither case was the bourgeoisie one of the two major combatants, or the power of capitalism the principal issue.

The two cases were, however, fundamentally different. The German Revolution was indeed like the February Revolution in Russia in that each overturned a reactionary, largely pre-capitalist régime, and thus left a power vacuum which needed to be filled. But, whereas the Bolsheviks filled the vacuum with the dictatorship of a class, or at any rate of a party acting in the name of a class, the German proletariat failed to fill it at all, and thus allowed the Weimar Republic to stagger on without any clearly defined power basis until it was overthrown by the Nazis, who were predominantly neither bourgeois nor proletarian, but an embodiment of the old militarist nationalism and imperialism in a new non-aristocratic form. The outstanding difference between Germany and Russia was that, though both were primarily autocratic States, and neither was effectively under capitalist class-rule, German capitalism was far in advance of Russian, and had come to be much more closely integrated into the social structure: so that Germany possessed a much larger and more developed proletariat, and should, therefore, on the basis of Marxist ideas, have been in a much better position to carry through the proletarian revolution and establish itself in power as the ruling class. Yet it was in Russia, and not in Germany, that the revolution took the form of proletarian dictatorship. Why did this singular departure from Marxist expectation occur?

Evidently it occurred because neither the leaders of German Social Democracy nor their followers, despite their professed Marxism, wished to assume dictatorial power on behalf of the working class. Such actions were desired only by a small minority, whose attempts to seize power were easily foiled. The question is, how did this attitude, this wish to halt the revolution at the parliamentary democratic stage, come to be the predominant mood of the German working class?

The Trend of Development

The answer, I feel sure, is that Marx's original diagnosis of the trend of social development had been wrong in certain signal respects. He had been wrong in supposing that capitalism would speedily pass its zenith and become involved in contradictions that would find expression in recurrent economic crises of continually growing severity. Crises had no doubt recurred; but up to the 1920's no capitalist crisis had been even as severe and prolonged as that of the 1840's, of which Marx had been an observer when his theory took shape. German capitalism in 1914 was still undoubtedly an expanding system: its potentialities were by no means exhausted, and for that reason, on Marx's own showing, it was not yet due to be superseded. The same could be said of both American and British capitalism, and indeed of the capitalist system in all the economically advanced countries.

Secondly, Marx's prophecies of the increasing immiseration of the workers, based on the growing difficulties which capitalism was expected to encounter, had not been fulfilled. On the contrary, the material condition of the workers in the advanced countries had shown an almost continuous tendency to improve, subject only to occasional and passing

secondary setbacks in periods of economic depression; and even these temporary setbacks had been largely offset for the majority of the workers, at any rate up to 1896, by falling prices. It could be argued that thereafter, as the price trend was reversed, there was some threat to working-class standards of living in the early years of the new century; but it is questionable whether there was any fall in real standards even during the years of rising prices up to 1914. Certainly, if there was any decline, it was far too small to serve as a basis for any theory of a lasting trend towards increasing immiseration.

The Class Structure

Thirdly, Marx had been wrong in his prophecy that there would be an intensified polarisation of classes as a consequence of capitalist concentration and the flinging down of the intermediate petit bourgeois groups into the ranks of the proletariat. On the contrary, the groups intermediate between the bourgeoisie and the proletariat had increased greatly in both absolute and relative numbers with the rapid growth of the professions and of the white-collar employees holding superior jobs as managerial employees, technicians, and renderers of such services as education and public administration. The older types of self-employed artisans had no doubt declined; but their place had been much more than filled by the rapidly growing new petite bourgeoisie of professionals and white-collar employees. Even if many of the latter were showing a tendency to imitate the manual workers by forming Trade Unions and professional associations and were even in some cases showing signs of a readiness to link up with the working-class movement, this did not alter the fact that the groups below the level of the bourgeoisie were becoming more and not less differentiated and were by no means being reduced to a vast homogeneous exploited mass preparing itself for revolutionary action against the bourgeois exploiters.

On the contrary, these newcomers, when they put forward demands, called for measures to ameliorate their conditions under capitalism rather than for the ending of the capitalist system, on which they depended for their petty privileges and superiority to the main body of the working class. Most of them had come to believe that there was no valid reason why their position under capitalism should not be bettered; and indeed it was already being bettered, if only to a small extent, by the early ventures of political parties in the direction of the Welfare State. It is true that, up to 1914, these measures had gone only a very little way; but at any rate in Great Britain the Liberal Government had made a real beginning with the Old Age Pensions and social insurance Acts between 1906 and 1914, and, much more effectively, the advance of capitalist productivity had brought with it, apart from legislative action, a substantial upgrading into the groups standing just above the general skilled manual working-class level.

The Pressure for Social Reform

In these circumstances, the preponderant tendency of popular, including working-class, opinion was towards, not revolution, but pressure for social reform, to be exacted from the capitalists by political and economic agitation

and propaganda—for more welfare under capitalism, rather than for the overthrow of capitalism by forcible means. This remained the case even during the period of intense labour unrest during the years before 1914, when Syndicalism became the creed of the Trade Unionist majority in France, when the I.W.W. became for a time a considerable disturbing force in the United States, and when there were great strikes in Great Britain among the miners and the transport workers. For these ebullient movements, though their leaders often used revolutionary phraseology, never in effect swayed more than minorities of the workers in the countries where they appeared. Only in France did they ever capture the allegiance of the main Trade Union bodies; and in France, after a very few years of intense activity, industrial militancy had begun to decline well before 1914, and never spread to the main body of the Socialist Party. In the United States, the I.W.W. was never more than a small minority movement, wholly without effect on the A.F. of L. and on the main body of working-class opinion. In Great Britain, the Trades Union Congress and the Labour Party both remained throughout firmly in the hands of the moderates of the right wing. Nowhere in the advanced Western countries was either Trade Unionism or Socialism in 1914 a revolutionary force. Men in the main do not resort to revolution when they think they can see a prospect of improving their situation by less drastic means; and up to the outbreak of war there were very few who did not believe in this prospect, or who deemed the capitalist system to be doomed to perish speedily because of its contradictions.

4. CAPITALISM BETWEEN THE WARS

WAR altered the situation, because it would clearly expose the governments and economies of the belligerent countries to severe strains and might, if it were protracted, lead some of them to sheer collapse. This, however, was clearly most likely to occur in the countries that were least equipped to stand the strain—that is to say, in those in which the economic structure was weakest and the government most unpopular with the people. It was no accident that among the belligerents Russia was the first to collapse; for it was the weakest both politically and economically of the major powers. Nor was it an accident that collapse came next in the ramshackle Austro-Hungarian empire rather than in Germany or France or Great Britain. Finally, it required military defeat to cause the powerful German State structure to dissolve in ruins, after enduring an almost intolerable strain.

Of all the great belligerent States, only Russia suffered the eclipse of its capitalist structure, which as we saw had never dominated the Czarist State. In the other countries capitalism, even where it was momentarily shaken, survived the strain of war, and was able to reconstruct itself even where the pre-war political structures dissolved. In all the advanced Western countries what emerged after the fighting was not revolutionary Socialism,

but intensified pressure for social and political reforms, expressing itself in evolutionary Social Democratic and Labour Parties with programmes aiming at the Welfare State. Only in France did the Communists win a majority in the Socialist Party; and even there they remained much too weak ever to attempt to make a proletarian revolution.

Capitalist Contradictions

The war of 1914-1918 had, however, seriously dislocated world capitalism, and it began in the 1920's to be seriously suggested that the 'contradictions' of capitalism were more pressing than they had seemed up to 1914, and that the 'final crisis' might after all be on the way. The post-war slump showed that the pre-war equilibrium of international capitalism had been badly disturbed; and it took a long time to stabilise currencies and re-establish a stable basis of exchange. Unemployment was for a time widespread; and the trend towards progressive social policies, marked for a year or two after the end of the fighting, was soon slowed down, or even reversed. By the later 1920's, however, a large measure of success in restoring capitalist prosperity seemed to have been achieved; and pro-capitalist economists were writing confidently about the improving prospects of the capitalist world.

Then came, in 1931, after premonitory rumblings in 1929 and 1930, the great American depression, which spread rapidly to Europe and to the less developed countries, which suffered most of all from the heavy deterioration in their terms of trade as the advanced countries cut their imports of raw materials and foodstuffs in a frantic scramble to rescue their balances of payments from collapse. In every country subject to the operations of the capitalist market there was severe and prolonged distress. Production fell off sharply; unemployment reached unprecedented heights; and it seemed to many that capitalism had lost all power to cope with the crisis, and had reached and passed the limits of its expansive power.

It had been an axiom among economists of all schools, orthodox or Socialist, that capitalism was of its essence an expanding system and could not long survive if it ceased to advance. Amid the general disaster, Marxists gleefully returned to their old-time prophecies, predicting that the 'final crisis' was at last well on its way and that the bankruptcy of capitalism had been sufficiently demonstrated by its failure to find means of saving itself. While the crisis was at its deepest the Nazis came to power on the ruins of the Weimar Republic; and the Marxists promptly dismissed Nazism, or Fascism, as the final stage of capitalism in decline, and even exulted in its victory as preparing the way for Socialist revolution, despite the fact that its first act was to destroy the working-class movement root and branch. In Great Britain the crisis had already toppled from office the ineffective Labour Government and had almost wiped out the Labour Party as a parliamentary force. Even in the United States, where production and employment suffered the biggest falls of all, the prestige of capitalism was badly shaken in its very citadel, and President Roosevelt, taking office when things were at their worst, resorted to the drastic expedients of the 'New

Deal' in order to alleviate, if not cure, the disease of the world's greatest capitalist economy.

Capitalism and Unemployment

Right up to the great economic crisis of the early 1930's, it had been an axiom among capitalist economists and politicians that the State could have no responsibility for providing employment, if the capitalists were unable to find enough jobs to go round. The only means of curing a depression was supposed to be a resort to drastic 'economies' in public spending that would actually at the outset make matters worse still, but would presently lead to a fall in incomes and prices that would in the long run restore the lost equilibrium and enable production to be profitably resumed. It was Roosevelt in the United States who first practically abandoned this policy and, by a series of unorthodox devices, including increased instead of diminished public spending, attempted to 'prime the pump' of private enterprise and at the same time to put a limit on wage reductions by enforcing certain minimum rates of pay. He also flouted economic orthodoxy by devaluing the dollar in terms of gold and embarked on a policy of job-finding as the alternative to a general system of doles, to which there was strong opposition on capitalist moral grounds. Clumsily and within limits, the New Deal worked; and the great depression slowly lifted in the United States and in the other capitalist countries—lifted partially, but by no means completely; for right up to the outbreak of war in 1939 unemployment remained high, though well below that of the worst years.

Keynes on the Means to Full Employment

Roosevelt acted, on the whole, experimentally, and not in pursuance of any clearly formulated economic theory. It was the British economist, J. M. Keynes, who formulated a theory which departed dramatically from the prevailing orthodoxy by asserting that it was the duty, and well within the power, of Governments, without destroying the capitalist system, so to influence its operations as to prevent any recurrence of the disastrous slump of the 1930's.

Briefly, what Keynes argued was that the maintenance of employment at a satisfactory level depended on the keeping up of an adequate level of demand, and that this level depended most of all on holding up investment at a height great enough to absorb all the savings the recipients of income were ready to make. If, for any reason, the willingness of business men to borrow funds for spending on capital development fell off, Keynes argued that the Government should take measures either to stimulate them to invest more or should itself embark on public spending on a large enough scale to fill the gap, creating the requisite resources by public borrowing and not by taxation, which would necessarily reduce private spending, and thus leave the crisis unresolved. If total demand, made up of consumers' spending *plus* investment *plus* the cost of government and defence, were too small in total to absorb the whole potential product of the economy at remunerative prices, it was, Keynes urged, the clear duty of the Government, by

increasing its own spending or by reducing tax burdens, to restore total demand to the level required for full employment; and this, he argued, could be done without in any way destroying the capitalist basis of the economy. He denied, what orthodox economists had previously assumed, that there was any necessary tendency for private capitalism—left to its own devices—either to maintain full employment or to return to it when it had been lost. On the contrary, he argued that depressions tended to be self-perpetuating, and that the survival of capitalism depended on the adoption of measures calculated to ensure full employment through the active intervention of Governments for its maintenance.

Keynes's theories were at first hotly contested by the majority of orthodox economists. But before long most of the younger economists rallied to them, and Keynesian economics became the new orthodoxy of capitalist progressives as well as of most of the evolutionary Socialist proponents of the Welfare State.

The Keynesian Challenge to Marxism

The economic theories of J. M. Keynes offered a direct challenge to the Marxist view that capitalism was destined to perish because of its 'contradictions,' plunging from crisis to deeper crisis until it reached the 'final crisis' from which no recovery would be possible without a radical change of system. If Keynes was correct, though there were forces within capitalism that made for recurrent depressions and crises, it was well within the power of Governments to correct such tendencies and to maintain employment at a continuously high level by taking the steps needed for sustaining total demand.

Keynes saw as the main cause of depressions a falling off of the willingness to invest by buying capital goods below the amount that the recipients of incomes were attempting to save out of their incomes. At the outset, he described the situation as one in which 'saving,' as the act of abstention from spending, exceeded 'investment,' the act of using the saved money for buying capital goods, and pointed to the false identification of these two quite different acts in the writings of previous economists. Later, he revised his statement, on the ground that real saving and investment were bound to be equal, because the withholding of any part of income from spending was bound to inflict equivalent losses on the producers, who would be forced either to curtail production and employment or to sell their goods at prices too low to cover their costs: so that the attempted excess savings would be 'spilt on the ground' and would simply disappear, leaving the deficiency of investment unremedied.

State Intervention

In such a situation, the remedy lay in state intervention, which could take a number of alternative forms. The State could, for example, reduce taxation, so as to leave more money in the hands of the possessors of income, who would thereupon spend more; or it could take steps to increase private investment by means of subsidies or other steps designed to increase profits; or it could itself enter the investment field by undertaking additional

public works; or, finally, it could directly stimulate consumption by offering increased social benefits. All these measures would help to offset depression by providing additional employment. Usually they would involve budget deficits, on account either of tax remissions or of higher public spending; but when employment and production had been brought back to an adequate level these measures could be cancelled; for the higher level of demand would tend to perpetuate itself, just as the lower level had tended to do before the corrective measures produced their effect.

Consumption and Investment

As between measures designed directly to increase consumption and measures designed directly to raise the level of investment, Keynes favoured the latter, because in his view the main cause of depression had been the falling of investment below the appropriate level. He recognised, however, that increased investment would lead to increased consumption and increased consumption to increased investment, because the former would add to the total of wage incomes, which are spent mainly on consumption, whereas the latter would improve the profitability of production and would thus encourage entrepreneurs to invest more. He also stressed the futility of attempting to combat depression by reducing wages, as such reductions would reduce effective demand, and would thus make the situation worse. He also argued that in many cases lower wages and reduced demand led to such falls in prices that the workers who could find jobs suffered no real reduction in purchasing power, the burden falling on those who were thrown out of work or were employed only part-time.

Thus, Keynes accepted the view, previously denied by orthodox economists, that capitalism was apt to fall into recurrent crises due to a deficiency of total demand; but he rejected the Socialist conclusion that nothing could be done under capitalism to correct this tendency, so as to keep employment steadily at a satisfactory level, and thus rejected also the view that capitalist crises were bound to become increasingly severe, and presently to bring capitalism to final disaster. At first, Keynes's views were strongly combated by most orthodox economists, who had clung, despite the facts, to J. B. Say's celebrated 'théorie des débouchées,' according to which every act of production automatically guaranteed the effective demand for the product through the incomes paid out in the course of production—a doctrine which left the occurrence of depressions unexplained. Keynes, by pointing out that incomes could be, not only spent on consumption or investment, but also, alternatively, withheld from spending on either, provided an explanation of depressions which gradually found acceptance among most of the younger economists, even those hostile to Socialism.

Keynes and the Socialists

The majority of Socialist economists in the capitalist countries readily accepted Keynes's central doctrine, that the Government possessed the means of maintaining full employment; for as social reformers, though they wished in due course to supersede capitalism, they by no means wished it, while it lasted, to be unable to make concessions to working-class claims,

The policy of wringing one reform after another out of capitalism could be practised with success only if capitalism was prosperous enough to afford the cost; and only in prosperous times were the workers in a strong position for pressing their claims. Accordingly, capitalist prosperity suited the opponents of capitalism best, unless they sought its overthrow by revolutionary action; and most Socialists in the Western countries eagerly took up the Keynesian demand that the Government should make themselves responsible for maintaining full employment by the means which Keynes had pointed out—though some of them questioned the efficacy of these means, unless they included a large extension of direct public employment, to be achieved by socialisation of essential industries and public control of investment under national economic planning. Indeed, except for those who looked to the winning of Socialism by revolution, no other attitude was really possible. The Trade Unions were bound to prefer conditions of full employment, which strengthened their bargaining power; and so were the main body of consumers.

The social reformers were therefore very ready to be convinced by Keynes's arguments; and even capitalist Governments had to promise to do their best to maintain a high and stable level of employment, whereas previously they had denied any responsibility for doing so. This was the easier during the years after 1945 because in most countries there was so much needing to be done to make good war destruction and to catch up with wartime arrears of ordinary development that the problem was for some time that of shortages rather than surpluses of manpower; and even when the arrears and the destruction had mostly been made good the existence of a 'cold war' situation involved enormous expenditure on armaments, leaving too few workers to carry out the volume of civilian production that the countries really required. For, from the standpoint of maintaining employment, it makes no difference, in the short run, whether the demand is for unproductive armaments, or for capital goods to be used in making civilian goods, or for consumers' goods and services. All these forms of employment immediately give rise to incomes, and thus increase demand, unless the increased incomes are withheld from spending in any form. In the long run, indeed, it does make a considerable difference on what the money is spent; for unless enough goes into civilian investment the capacity to produce will not increase fast enough to meet rising needs, and unless enough goes into increased consumption there will not be enough outlets to absorb the higher output which higher investment brings about.

Arms-making and Employment

Some Socialists, especially on the revolutionary side, have argued that it would have been impossible for capitalism to be made compatible with full employment without the additional demands for armament-making and the diversion of a large force of potential producers into the armed forces. They have contended that disarmament would bring back the old conditions of a surplus of workers unable to find jobs, and have denied that the Keynesian devices could avail to maintain employment at a sufficient level if the demand for armaments were to disappear or to be drastically cut

down. It is indeed very possible that a sudden cessation of the demand for armaments would bring with it a sharp fall in the level of employment; but it does not follow that the Governments would be unable to cope with such a crisis by transferring the displaced workers to civilian tasks, though success in this might require very extensive government action along the lines contemplated by Keynes—and though it might take some time, and require an exceptionally high level of investment in new capital goods, to equip industry with the plant and buildings needed for meeting the changed structure of demand. Disarmament without resort to the Keynesian methods would probably lead to a severe slump, which would tend to perpetuate itself; but sufficiently drastic government action to stimulate employment should avail to bring about a fairly speedy return to full employment.

It is an important part of Keynes's doctrine that, whereas earlier economists had argued that capitalism had an inherent tendency to lead to equilibrium under conditions of full employment, and had explained slumps as due to the intervention of special unfavourable factors, such as monetary upsets, Keynes insisted that equilibrium could exist at any level of employment, and that any level of employment, once arrived at, tended to be self-perpetuating: so that depressions would not wear off of themselves, and positive action was needed to achieve recovery. This indeed follows from a correct interpretation of Say's 'Law.'

Keynesianism and Socialisation

Keynesian Economics cannot correctly be called 'pro-capitalist': they are fully compatible either with a wide measure of socialisation or with private capitalist ownership. Keynes himself argued that the case for and against socialisation needed to be considered separately for each industry or service and was in general irrelevant to the essential task of maintaining full employment, which he regarded as depending on the existence of a high enough level of total demand—and this in turn as depending on the monetary and budgetary policies pursued or authorised by the Government.

Keynes was essentially an advocate of a planned economy, and thus found himself broadly in alliance with the reformist Socialists, though he differed from them in attaching less importance to public operation of industry. He was, however, a thorough-going opponent of Marxist Economics; for he denied that the capitalist system suffered from unavoidable and increasing contradictions inherent in its very nature, and would necessarily perish because of this. He did not deny that there were in capitalism tendencies conducing to depression and unemployment, and requiring corrective action; but he regarded these tendencies as capable of being corrected by appropriate action and rejected Marx's opinion that crises are bound to become more and more severe. Keynes attached great importance, in his analysis, to what he called 'liquidity preference'—that is, to the desire of possessors of money to hold it in liquid form rather than to lock it up in long-term investments. The willingness to invest he related to what he called the 'marginal efficiency of capital'—by which he meant the investor's expectation of the profit to be derived from locking up his money in capital goods. If total demand is expected to be adequate, the

prospect of profit will be good, and adequate investment will occur; but if, for any reason, potential investors regard profit-prospects as poor they will prefer to hold resources in liquid form; and investment will sag, with the consequence that depression will ensue. Keynes held that a redistribution of income in favour of the poorer classes would normally result in a higher ratio of consumption to saving, as the poor in general save less out of their incomes than the well-to-do. Correspondingly, redistribution in favour of the rich would tend to increase the ratio of attempted saving to consumption, but would not necessarily increase investment, as the fall in consumption would worsen prospects of profit and thus discourage investment. The higher savings might thus be wiped out, and depression might follow, leading to equilibrium at a low level of both production and consumption, accompanied by a high level of liquidity-preference, until appropriate action was taken to restore a higher level of investment by some combination of the monetary and budgetary devices which he recommended.

Why do Slumps Occur?

Keynes, while he pointed out the measures that could be adopted for counteracting depressions, gave no clear account of the reasons why these occurred. His explanation in terms of 'liquidity-preference' and a falling 'marginal efficiency' of capital did not explain why either of them occurred. If, as he argued, any level of employment tended to be self-perpetuating, why did not a high level, once attained, continue indefinitely? The cause of depression might, according to his account, lie in bad monetary or budgetary policies that discouraged investment; for example, the restoration of the gold standard at an unduly high parity with the dollar in 1926 had, in his view, led to depression in Great Britain by causing a sharp fall in British exports and had thus brought on a balance of payments crisis which the orthodox set out to correct by deflationary measures that in fact made the situation worse by inducing depression in the home market as well. In this view he was undoubtedly correct; but he never, I think, offered this as a universal explanation of the causes of depression, though he was always disposed to attach great importance to the monetary factors as influencing business expectations and thus acting on the willingness to invest.

Keynes indeed began primarily as a monetary theorist, and developed his general economic theories largely on the basis of his monetary studies; and, writing during a period of severe unemployment and depression, he made the maintenance of employment at a high level the pivotal point of his economic doctrine. He was at no stage a Socialist, and had no sense of identity with the working-class movement, tending to despise the workers (and indeed most persons outside a narrow intellectual *élite*), as stupid and liable to be led astray by their emotions from rational thought and conduct. He saw the world around him, not as an arena of class-war, but as the prey of stupidity and as the victim of institutions that its leaders did not know how to control aright. His remedies were essentially those of better handling and adaptation of these mechanisms, rather than of their overthrow

and replacement by revolution. This attitude brought him into broad agreement with the moderate Socialists, who wanted to make the capitalist system work effectively until they were in a position to supersede it. Thus Keynesianism became, in practice, the working policy of moderate Socialists as well as of progressive Liberals who had thrown over the classical doctrines of laissez-faire. Keynes's Liberalism had in it hardly a trace of the old laissez-faire attitude, which he denounced sharply in one of his best books, *The End of Laissez-faire*, in which he pointed out the inapplicability of the classical doctrine to modern economic conditions and called for public intervention to regulate the economy in the general interest.

5. CAPITALISM AND COLONIALISM

TO Marxists, of course, Keynes's views were entirely unacceptable, because they involved a denial of the Marxist conception of the inevitable destruction of capitalism on account of its inherent contradictions, and called upon the friends of progress, not to wage war on capitalism but to endeavour to amend and reconstruct it on more progressive lines. While many orthodox economists were going over more and more to Keynes's side, in respect both of his diagnosis and of his proposed remedies, the Marxists—or at all events the Communist followers of Marx—continued to prophesy the impending downfall of capitalism and to seek, within the Marxist system, for explanations of the collapse having been so long deferred.

Most of them found the explanation that satisfied them in the development of colonialism and imperialism and in the economic effects of these developments. Capitalism, they argued, had been enabled to keep on growing, and to avert collapse, by steadily extending its power over the undeveloped countries, which had provided it both with expanding profitable markets and with sources of cheap foodstuffs and materials for its industries, and had thus enabled it to find outlets for its increasing product on profitable terms. This process of colonial expansion was also invoked to explain the absence, in the capitalist countries, of the 'increasing immiseration' that Marx had prophesied; for Marxists argued that colonialism had made it possible for the workers (or at least the skilled workers) of the capitalist countries to improve their standards of living by sharing in the exploitation of the workers and peasants of the underdeveloped countries, who had to sell their products to the capitalists of the advanced countries on highly disadvantageous 'terms of trade,' and had thus allowed these capitalists to make concessions to the claims of their own workers out of the excess profits of colonial trade and investment.

Capitalism and Colonial Exploitation

It is an unquestionable fact that the capitalist countries have profited greatly by obtaining the raw products of the under-developed countries on terms of exchange highly favourable to themselves, and that they have under capitalism contributed little or nothing to raising the living standards

of the economically under-developed peoples. Even where enterprises owned by foreign capitalist investors have paid wages to native employees in excess of local peasant incomes, there has usually been no tendency for the higher earnings to spread to the main body of the native population; and often the incursion of foreign capital has had disastrous effects both in destroying native crafts and in breaking up traditional community ways of living, without providing any satisfactory substitute. Only in a few areas, such as Ghana, which are deemed unsuitable for white settlement, has the near-monopoly of a kind of crop in large demand in the world market brought about a marked advance in living standards for the main body of peasant cultivators; and even in Ghana much primary poverty remains untouched, and the advances achieved are precarious both because they depend on the expansion of the market for cocoa and because they are threatened by the continuous destruction of the fertility of the soil, due to faulty methods of cultivation and of control over it.

In general, the record of colonialist exploitation is bad, above all where minorities of settlers from the advanced countries have taken away the best land from the native peoples and have established political as well as economic ascendancy. In some areas, notably Malaya, Chinese settlers have shown themselves able to compete successfully both with native cultivators and with plantations owned by white capitalist concerns; and there have emerged 'mixed societies' presenting very difficult problems of community living. Other areas, without having passed formally under political rule by the imperialist countries, have been subjected to foreign exploitation of their resources—e.g. oil in the Middle East—or to foreign interference with their internal affairs—e.g. China before its Communist Revolution. In almost all these countries, thanks largely to the growth and spread of medical knowledge, populations are now increasing very fast, mainly through a decline in infant death rates; and this increase is causing in many cases an actual decline in living standards because of the extreme difficulties in the way of raising productivity without both major land reforms and large supplies of capital for economic development, or without rapid advances in technical and professional, as well as in general education. Both the United Nations and the United States have started schemes of Technical Aid to the less developed countries, but only on a scale that is insignificant in comparison with the needs.

Since 1945 there has been a great growth of nationalist feeling in the under-developed countries, which are revolting more and more against their subjection to the capitalist countries; but the immediate consequence is to deter capitalist investors from lending capital for use in these countries, except where they feel strong enough to exact their own terms for the security and profitable employment of their investment. Thus, though oil concerns have been pouring money into the Arab countries which contain large oil resources, and have allied themselves in these countries with the most reactionary feudal rulers against the peoples, in most other areas foreign investment has fallen off to a low level, with the result that the under-developed countries, instead of beginning to catch up with the advanced capitalist States, have been falling economically further and further behind.

The Rise of Colonial Nationalism

There does thus arrive a dilemma for capitalism, which needs expanding markets for its increasing output and also needs ever-increasing supplies of certain materials from the under-developed areas, but finds its advance checked not only by the rapid economic development of the Soviet Union, which has succeeded in industrialising itself at a great pace without the aid of foreign capital, but also by the growth of nationalism in countries not under Communist rule, but seething with discontents that threaten the security of foreign funds invested in them.

It may be asked why these countries do not, in more cases, follow the Russian example and industrialise and modernise themselves out of their own resources. The answer is that the Russians were able to achieve this only because of the vastness of the natural resources of their great country and of the relative plenty of land in relation to population, and that, even with these advantages, they achieved what they have achieved only under dictatorial rule and at the cost of immense sufferings to the people, whose consumption was ruthlessly held down in order to provide for a very high rate of investment (and of spending on armaments) at the expense of consumption. Smaller countries, with fewer natural riches and with heavier pressure of population on scantier areas of cultivable land, cannot possibly emulate the Soviet Union's success in this process: only China, which has now embarked on a similar course, may be in a position to bring about like results. Moreover, in many of the under-developed countries, such aid as is forthcoming from abroad is largely frittered away in higher consumption by the privileged classes, instead of being applied to economic development; and in many cases it seems as if nothing short of social revolution can alter this. India, with its rapidly rising population and its scarcity of land cultivable without heavy capital expenditure on irrigation and other forms of opening up, faces a particularly difficult problem.

6. THE DANGER OF COLLAPSE

IN face of this situation, with the Soviet Union and its satellites, and also China, now largely cut off from trade with the capitalist countries, and with a declining trend in foreign investment in most of the under-developed countries not under Communist control, the world market of capitalism has been reconstructed on a narrowed basis, with the United States holding in it a position of unquestionable economic preponderance. This has been possible because, in the United States especially, there has taken place so sharp a rise in living standards for the majority of the people that the rapidly increasing product has been absorbed mainly at home. In other capitalist countries, especially Germany and Great Britain, capitalist recovery and high employment have been helped considerably by American aid, first mainly given for the purpose of enabling these countries to restore the working of capitalism, but latterly, to a quickly increasing extent, mainly

for the military purpose of the 'cold war' against Communism; and a cessation of this aid might still bring the economies of the recipient countries into a parlous plight, rendering them unable to make the purchases they need from dollar sources in order to maintain employment and their present standards of living.

To a great extent, world capitalism has become dependent on American aid: certainly if a serious depression were to occur in the United States it would be impossible for the other leading capitalist countries to maintain employment in face of a sharp fall both in American demand for their products and in the availability of American gifts or loans. This, it may be argued, goes a long way towards sustaining Marx's thesis of the inescapable decline of capitalism; but it remains true that the Americans, as long as they can avoid having a depression at home and continue prepared to do what is needed to sustain the economies of the other capitalist countries, are in a position to stave off this threatened crisis. Two questions have then to be asked, Is there any reason for expecting the United States to fall into a depression on a scale corresponding to that of the 1930's? and Is there any assurance that the Americans will continue to provide the funds needed to maintain the viability of the capitalist economies of the other leading capitalist countries?

Causes of the Great American Depression

Neither of these questions is at all easy to answer. The great American slump of the 1930's was due mainly to three causes—a recurring orgy of speculation, a serious upset in the relative prices of different kinds of goods, and a failure of the incomes of the poorest classes to rise fast enough to absorb the rapidly growing product of industry. The speculative mania raised stock market prices to levels which got out of all relation to prospective real returns on investment and also diverted funds from investment in new capital goods to buying and selling existing capital assets at grossly inflated prices; the upset in relative prices, largely at the expense of the farmers, reduced the purchasing power of the rural section of the people; and the weakness of American Trade Unionism, by preventing the workers from exacting their share in the growing product, lessened the purchasing power of the main body of urban consumers. Sooner or later, the speculative bubble was bound to break; and when it did break sheer devastation spread speedily through the economy.

There was a Keynesian scramble for 'liquidity'; investment shrank to a mere trickle; and consumers in general had to cut down their purchases to a greatly reduced level. In the scramble for 'liquidity,' foreign investment practically ceased, and frantic attempts were made to withdraw capital already invested or loaned abroad. This last, coupled with the drastic reduction in imports, spread the depression to other countries, and led to the universal crisis of the capitalist world. Roosevelt's 'New Deal' measures, which involved a great outpouring of public money to restore productive activity, gradually had a favourable effect, both in the United States and elsewhere; and world capitalism slowly recovered from the crisis, but had

not recovered completely even in 1939, despite the favourable influence of re-armament on demand during the later 'thirties.

Will it Happen Again?

Is there any reason why a similar calamity should, or should not, recur in the United States? The answer depends on the effects of the changes introduced into the American economy since the 1930's. In my view, much the most important of these changes are the improved position of the American farmers, whose incomes are sustained by government action, and the greatly increased strength of the American Trade Unions, which has enabled them to exact much higher wages and improved conditions of employment. Both these factors have sustained consumers' demand at a high level, and have therewith improved the 'marginal efficiency of capital' and have thus increased the willingness to invest. In addition, something has been done, by law, to curb the more extreme forms of speculation; and the American investors have perhaps learnt to be more cautious in cashing in on expectations of future profit. Moreover, the American Government now knows, or should know, how to counteract any marked tendency towards either excessive speculation or depression by appropriate monetary or budgetary devices, though it might be deterred from resorting to these measures on a sufficient scale by the still very strong reluctance of American business men to accept public control over their proceedings, and of Congressmen to admit the need for high government expenditure—this last, a factor which is already impeding government programmes of foreign aid.

The answer to the first question, then, must still be hesitant. There is no assurance that the American economy will not, at some future time, plunge into depression, or that, if it does, the appropriate remedial measures will be applied quickly enough, or on a sufficient scale. But there is at any rate more chance than there was under the old conditions both of avoiding depression and of remedying it before it has had time to produce the worst results—or lead to a collapse of American capitalism, probably dragging down with it the more precariously placed economies of the other capitalist countries.

American Aid and the Cold War

The second question is even harder to answer. American aid to foreign countries has, as we saw, taken increasingly forms which subordinate its economic aspects to the claims of the 'cold war'; but even so, Congress has shown a growing reluctance to accept the need for helping other countries at the American taxpayers' expense. Clearly, any relaxation of international tension or practical progress towards disarmament would be likely to result in a cutting down of American aid. This would not be disastrous if at the same time the Americans increased their purchase of imports from the countries affected, or were ready to replace their grants by investments or long-term loans. These consequences would ensue, if the American economy were to remain prosperous and ebullient and if the *détente* led to a revival of confidence in the security and profitability of foreign investments in the capitalist countries. But no one can say whether this would happen; and

it is accordingly open to doubt whether the United States will continue to play the part it has been playing since the war in sustaining the viability of capitalism in the rest of the non-Communist world.

What would occur, in the other capitalist countries, if, without the complication of an American depression, American aid were to be cut off and not replaced by either additional imports into the United States or by large-scale United States foreign lending or investment? In the first place, these other countries would be compelled to reduce their imports of goods paid for in dollars, and to search for the means of replacing these imports from other sources prepared to accept their exports in exchange. This would not be easy, and would certainly lead to intensified competition to sell in markets from which the alternative supplies could be got. It would involve an attempt to reconstruct non-American capitalism on a narrower basis of mutual exchanges, unless indeed one of the effects were to bring about a massive re-opening of trade relations between the capitalist countries and those under Soviet rule. Unless this were accomplished on a very large scale, the capitalist countries would find themselves in intense competition to sell their, mainly manufactured, exports either one to another or to the non-Communist suppliers of essential foodstuffs and raw materials, including a number of the less developed countries, which would thus be enabled to improve their 'terms of trade'—in itself, an excellent thing. To the extent to which expanded trade would be brought about between the advanced and the under-developed countries, the results would be all to the good.

But in view of the difficulties most of these countries would find in expanding rapidly their exports of the goods the less advanced countries would need, a large part of the demand diverted from the United States would have to be sought in the advanced countries themselves; and it is difficult to envisage in this field a sufficient rapid expansion of markets to provide full employment for the manufacturing industries of the advanced capitalist countries that would be competing for custom—above all, for the industries of Great Britain and Germany, which would be in many fields the leading competitors. I am not saying dogmatically that non-American capitalism could not be reconstructed under these limitations, but only that such reconstruction would be a prolonged and difficult process, and that it would be very difficult to maintain full employment while it was being brought about.

Can we Prevent a Future Slump?

If this view is correct, it is clearly impossible to assert with confidence that the rest of the capitalist world cannot again be faced with a depression even in the absence of a depression in the United States. Nor is it possible to say with confidence that the use of the Keynesian devices would enable the capitalist countries speedily to put an end to such a depression, if it occurred; for it might prove too difficult a task to reconstruct full employment within the restricted limits of the markets still open to exports or to procure the requisite supplies of foodstuffs and materials from non-dollar sources—especially if nothing much were achieved in re-opening trade with the Communist countries. However, it is no more reasonable to declare

categorically that such a depression would prove incurable than to deny that it could occur. The forces at work are too complex and too doubtful to justify confident prophecies: what is undoubted is that, within limits, capitalism, with government aid at its back, is much better equipped for taking counter-defensive measures than it has ever been before. It is no longer reasonable to predict confidently, as Marx did, the speedy end of capitalism because of its inherent contradictions.

Keynes, it must always be borne in mind, worked out his theories during a period of severe unemployment and depression, and was chiefly concerned to show how the depression had come about, and what could be done to put an end to it. In these conditions, he was particularly interested in measures designed to increase investment and in opposing attempts to end the crisis by deflationary measures and by cutting money wages. Had he been writing at a time of full employment or of actual or impending speculative boom he would doubtless have stressed rather the remedies applicable in such a situation—restriction of credit and a check to wage-advances that threatened to lead to increased consumption beyond what the economy could afford. His aim was to achieve conditions, not of boom leading to crisis when it collapsed, but of high and stable employment that could be sustained, and would tend to sustain itself in the absence of special adverse factors. He saw no good reason why such stable equilibrium at a high level could not be maintained if governments behaved sensibly and induced sensible behaviour on the part of the monetary authorities. What he denied was not that the capitalist system had in it tendencies towards instability, but only that these tendencies were too powerful to be controlled if the will to control them were there. This, however, was a thoroughgoing rejection of the Marxian diagnosis of capitalism and, as I believe, a correct rejection in relation to twentieth-century capitalism.

Capitalism and the Danger of War

But, of course, even if there is no necessity for capitalism to collapse on account of its inherent and growing contradictions, it does not at all follow that it will not collapse for other reasons. It could, for example, in the world's present state, evidently destroy itself in war. To-day, however, war **between** the great capitalist States is so unlikely, in face of the clear superiority of American power over the others, that it can be ruled out of the reckoning. The only major war with which the world is threatened to-day is war between the capitalist States, headed by America, and the Communist countries, headed by the Soviet Union and China. Such a war could undoubtedly destroy capitalism, or even capitalism and Communism together, in a huge world catastrophe from which no one can predict what would emerge.

It is as unprofitable to discuss the aftermath of such a conflict as it is sensible to use every endeavour to prevent it. In its absence, capitalism and Communism seem likely to continue in existence side by side for some time to come, either engaging in 'cold war' competition for the support of the uncommitted countries and striving at every opportunity to put spokes in

each other's wheels, or sensibly agreeing to differ and re-building relations, if not of friendship, at least of mutual toleration and limited co-operation for common ends.

The Under-Developed Countries

The greatest obstacle to such an attitude lies in the sharp differences of view concerning the under-developed countries. The Communist policy in relation to these countries is to stir up colonial and anti-imperialist revolt to the greatest possible extent, whereas the policy of the capitalist countries is to maintain, and in the case of the United States to extend, capitalist influence over them to the fullest extent compatible with the rising tide of nationalism.

The Americans profess to be, and regard themselves as, enemies of colonialism, but show themselves in practice very ready to ally themselves with the feudal reactionary forces in the countries in which their capitalists are interested, such as Saudi Arabia, and indeed wherever they find these forces ready to accept their lead against Communist influence or infiltration. The British, having been forced to liberate India, Burma and Ceylon, and conscious of their weakened world position as an imperialist power, have learnt to behave fairly sensibly in dealing with colonial nationalism except when it appears to them to threaten their remaining military power, as in the Middle East, or is opposed by substantial bodies of white settlers, as in Kenya and Central Africa. The French have been compelled, in North Africa, to come to terms with the nationalists in Tunisia and Morocco as well as to evacuate Indo-China, but continue to wage bitter war upon the nationalists of Algeria, in defence of the claims of a million European *colons* who insist on conditions of racial superiority. The Dutch, driven from Java and Sumatra, cling to East Irian and their Caribbean possessions. The Belgians continue to exploit the wealth of the Congo, as yet untroubled by any considerable nationalist movement; and the Portuguese dictatorship holds firmly to its colonial possessions not only in Africa, but also in South-East Africa and even in India.

Where colonial nationalism is not yet a force to be reckoned with, the Communists are intent on stirring it up and the capitalist States on preventing its development. Where it is a force, the Communists do all they can to aid it, while the capitalist States either continue to resort to sheer oppression, as in Algeria and Kenya and Cyprus, or endeavour to split its forces by making concessions to moderate nationalists, as in Malaya, West Africa, and the West Indies, and in Tunisia and Morocco. The more progressive capitalist States profess their readiness to do what they can to stimulate economic development in the colonial areas, but, being themselves short of capital for these purposes, in practice provide only very limited help, even to their own colonies. The Americans, who alone have plenty of capital to spare, show readiness to invest or give only where they have strong motives for investment, as in the oil-producing regions, or where they can use their gifts as weapons in the anti-Communist cold war.

Help for the Under-Developed Countries

As long as these attitudes remain in being, there can be no prospect of a concerted effort to improve the economic position of the under-developed countries; for one side is intent on harassing the capitalist powers by stirring up colonial and anti-imperial revolt, whereas even the more progressive elements in the capitalist countries aim at damping down movements which threaten forcible action against capitalist or settler interests. Just as, in the more advanced countries, Communism urges the need to take revolutionary action to destroy capitalism, whereas, as we saw, Social Democrats want capitalism to remain prosperous until they are strong enough to supercede it, so, in the under-developed parts of the world, there is a parallel conflict of policies which makes it impossible for concerted action in the 'war on want' to be taken under the auspices of the United Nations.

Yet it is surely an intolerable situation that, in a world rapidly advancing in the techniques of production, the majority of the human race should continue to live in conditions of primary poverty and should, except in the case of the great Communist countries, be almost entirely unable to take advantage of the new methods for lack of capital and of skilled man-power which the more advanced countries could at any rate help to provide with long-run benefit to their own economies as well as to the impoverished peoples who stand in need of them. This constitutes the supreme human case against the continuance of the 'cold war'; but there seems to be no way of ending it save by revolt of the peoples on both sides of the 'iron curtain' against the needless suffering it inflicts on all mankind.

The Mistakes of Marxists

In general, then, my conclusion is that Marx was wrong in his account of the tendencies of capitalist production, in his prophecies of increasing immiseration and polarisation of classes in the advanced capitalist countries, and in his reliance on universal revolution as the means of straightening out the world's affairs. The capitalism of to-day is widely different from that of 1848: it has shown itself much more adaptable than he believed to be possible, and has proved compatible with rising standards of living and with the development of the 'Welfare State' to considerable lengths. This does not prove that it is a good or acceptable system, for it encourages false values and forces its subjects into ignoble ways of living; but it does mean that, in the absence of utterly disastrous world war, the working classes and the democratic Socialists of the more advanced capitalist countries are most unlikely to attempt its overthrow by forcible revolution, which would, at least in the short run, endanger the higher standards they have been able to exact from it by Trade Union bargaining and by constitutional political action.

7. CONCLUSION

HOW, then, ought democratic Socialists to shape their future policies in the light of the changes that have been brought about by their successful efforts to improve the workers' conditions—on the assumption that they

will be seeking to achieve Socialism, not by violent revolution, but by steady and, as far as possible, continuous advance from the positions that have been reached already? I shall not attempt to answer this question in universal terms; for the situation differs too much from one country to another for any universal answer to be more than too vague to yield useful guidance. In what follows, I shall limit myself to answering in terms of Great Britain and of British Socialist policy, though doubtless a good deal of what I have to say will be found to be applicable, *mutatis mutandis*, to a number of other countries.

1. If Socialism is to be achieved not suddenly as a whole, but by stages, so that for some time Socialist and capitalist enterprises will need to exist together within the same economy, Socialists must accept the necessity of allowing conditions under which the remaining capitalist enterprises will be in a position to operate successfully; for otherwise it will be impossible to maintain full employment or to enable the trade unions to bargain successfully with the capitalist employers for improved wages and conditions of employment.

2. Every suitable method will need to be used for extending the socialised sector by transferring industrial ownership from private persons to the community, while avoiding the building up of immensely large centralised agencies of management and administration and thus falling unavoidably into the evils of bureaucracy and remote control, and so forfeiting the willing co-operation of the workers, which depends on their feeling that industries are being conducted in the spirit of real democracy and communal service.

3. Investment of new capital for the maintenance and development of production will have to be given the form, more and more, of public provision of capital; and the resultant profits, which are now the biggest source of new private investment, will have to be converted into public property, so that the profits accruing from their use will accrue to the community and not to private persons, as they do at present.

4. If the fortunes now in the hands of private capitalists are to be transferred to social ownership, this will need to be done by means of taxation, including especially taxes on inheritance; and it will be necessary, in the absence of possible private buyers, for the government to accept actual physical assets and company shareholdings in payment of such taxes in lieu of money payments.

5. This will mean that all capitalist-owned business will tend to pass increasingly into public ownership, and that, during the transition, many businesses will be part publicly and part privately owned and administered; for the government will clearly need to use its power to appoint directors to represent the increasing public interest in such concerns.

6. Socialisation must be thought of as involving not only the complete transference of control of industries and services to public ownership and operation but also the transference of particular firms and enterprises for which the establishment of huge public corporations, exercising monopoly powers, would be evidently inappropriate.

7. Socialisation needs to take many different forms according to the varying requirements of different branches of production and service. Only a limited number of industries and services, such as mining, fuel and transport, require the establishment of great monopolistic agencies. In many cases, socialisation is fully compatible with a continuance of competitive endeavour by a number of publicly owned enterprises, subject only to the co-ordinating authority of a general national economic plan.

8. In any socialised enterprise, no matter what its form, socialisation requires that proper provision be made for the democratic participation of the workers in determining the conditions and allocation of work, both at the work-place level and at the higher levels of management and control.

9. It is necessary for a Socialist Government to make adequate provision for the choice and training of persons competent to serve as public directors both in completely and in partly socialised businesses. Such directors should be instructed to follow a common policy in the different enterprises as far as this is necessary for the success of the national economic plan of production.

10. The evil to be combated is not profit as such, but its private appropriation. In general, public enterprises should be so administered as to cover their costs and to make substantial contributions out of their receipts to the investment needed for their maintenance and development. This does not exclude the provision of some exceptional services at less than their cost or the use of surpluses realised in one industry or business for investment in other businesses needing additional capital.

11. The aim of Socialists is to achieve Socialism not merely in their own countries, but internationally. They want to create a world structure in which all peoples will be able to share in the benefits of increasing technical 'know-how', and the exploitation of man by man and of country by country will be decisively ended. Accordingly, they seek to promote the economic development of the under-developed countries under conditions in which the benefits of higher productivity will accrue to the whole people, and not to a narrow privileged class. To this end, they must be ready to provide capital investment by both loans and gifts to the under-developed countries without attaching 'strings' that will offend the rising nationalist feelings of the recipients.

12. The need to allow conditions under which capitalist enterprise can be carried on successfully until it can be superseded by socialised enterprise must not be allowed to lessen Socialist zeal in the struggle to speed up the supersession of capitalism. There is no inconsistency between making the concessions needed for the successful conduct of capitalist business and so acting as steadily to reduce the sphere of capital enterprise and to subject it to increasing public control. This pamphlet is not at all a plea for less militancy in fighting capitalism, but only for setting out to fight it in ways consistent with the steady improvement of the workers' conditions and the steady building up of working-class political and economic power.

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