The "Managed Economy" of the U.S. (Pt. I)

By William Z. Foster

One of the most significant economic and political trends in the period of imperialism, especially since World War I, has been the growth of the so-called managed economy in the major capitalist states. This is an expression of state monopoly capitalism. It manifests itself in attempts by the monopolists to control the economic processes generally through governmental manipulation of certain elementary economic factors. It may vary in form from the skeleton governmental controls in democratic bourgeois countries to thoroughly cartellized industries under fascist dictatorship. It represents a distinct departure from the *laissez faire* policies of the state during the earlier stages of competitive capitalism.

The state, as the "executive committee" of the bourgeoisie, has always displayed activity in support of the latter's interests. It has fed "infant industries" with tariffs, subsidized turnpikes, canals, railroads, shipping, airlines, etc. It has built a money and banking system for the profit of the capitalists, showed great alacrity in combatting plans for government ownership of industry, and in sabotaging all legislation hostile to the interests of the capitalists. All this has involved a growing intervention of the state in production, a trend which has become especially marked since the rise of imperialism, with its state monopoly capitalism. It was only with the advent of World War I, however, that the capitalist state began to try to "manage" the economy as a whole. The bourgeois "managed economy," which is such a pronounced factor today, is a direct relation of the "organized capitalism" once dreamed of by Kautsky and other Social-Democratic opportunists.

Under the pressures of their own greed and the developing general crisis of world capitalism, the monopolist capitalists are finding it indispensable to try to give some measure of direction to their chaotic system. Consequently, the "managed economy" has come to be adopted, to a greater or lesser extent, in all the capitalist countries. Prior to World War II, Germany, Italy and

Japan became highly developed examples of "managed economy," fascist dictatorship being particularly favorable for this phase of "organized capitalism" and monopoly control. In fascist lands, with the political opposition of the workers, small farmers, and middle-class virtually crushed, the monopolists are able to exercise state controls over the economy to a much greater extent than in the bourgeois democracies, where these classes play a political role. The United Nations often expresses the "managed economy" on a world scale through reports of its various committees and the like.

Currently, the United States furnishes the most characteristic example of the "managed economy" type of organization. In the American economy the monopolists, rich beyond comparison, continue to grow and to consolidate their political controls. The combined Morgan-Rockefeller interests now dominate more than $125 billion in assets. The "managed economy" is a major means by which such gigantic interests are fastening their grip upon the state and are using it to serve their own purposes. The profit plans of Wall Street, with its ambitious schemes of "managed economy" and "organized capitalism," are as wide as the world.

A number of elementary factors have contributed to the development of the "managed economy" in the several capitalist countries and internationally. Among the more important of these may be mentioned, the growth in size and strength of the great monopolies and their increasing trend to penetrate and dominate the state, and the vitally urgent problems confronted by capitalism in this period, caused basically by its general crisis—vast imperialist wars, devastating economic crises, and exhausting cold war—which make imperative some sort of general economic management. Not to be ignored in this general respect also are the world-wide influence of the planned economies of the USSR and other Socialist states, and the heavy pressure from the workers and other toiling masses who are constantly striving to win concessions of a democratic character from the capitalists and their government.

MANAGING AND PLANNING

The "managed economy" which we have seen developing in the major capitalist lands, is not to be confused with the planned economy of the Socialist states, although this is often done. The countries with "managed economies" remain capitalist, as before. Their governments continue to be, as Marx and Engels called capitalist governments generally, the "executive committee of the bourgeoisie." Their central purposes are to exploit the workers to the limit, to realize maximum profits for the monopolist rulers, and to protect the capitalist system from revolutionary attacks by the workers and their allies. As for actually "managing" the respective economies, which are torn with endless contradictions and conflicts, the current types of "organized capitalism" necessarily set for themselves such concrete and relatively limited objectives, such as, to increase or decrease production through government subsidies, production quotas, etc.; to regulate the flow of foreign trade through loans, boycotts, and other measures; to strengthen the profits and general position of monopoly capital; to develop new means to confuse and curb the fighting spirit of the working class, and, especially, either to liquidate or greatly to ease the recurring cyclical economic crises. Short of fascism, however, the monopolists refuse to submit voluntarily their industries to more far-reaching state controls.

On the other hand, the planned economies of the countries of Socialism and the People's Democracy represent a very different type of social system. Instead of the industries being privately owned and operated for private profit, the whole economy, the property of the nation, is carried on for the benefit of the people as a whole. This makes it possible to plan production and the vital social services on a scale and with a thoroughness totally impossible under capitalism. Socialist planned economy embraces every branch of the economic, political and cultural life—industry, agriculture, education, social insurance, and many other activities.

The "managed economy" of capitalism, while it definitely facilitates the purposes and the profits of monopoly capitalism, does not overcome the inherent chaos of the capitalist system. Instead, it tends definitely to intensify this disunity by sharpening the contradictions between the military and civilian sections of production, between the monopoly and non-monopoly sectors of industry, between agriculture and industry; between the imperialist powers, between the great powers and the lesser developed countries, and between the Socialist and capitalist worlds. "Managed economy" also, based as it is upon the interests of monopoly capital, essentially sharpens up the class struggle on all fronts. Socialist planned economy, on the other hand, is an all-embracing unifying force at home and abroad. It makes for full employment and social unity nationally and for peaceful co-existence internationally.

Following World War I Lenin sharply exposed the futility of the capitalist "managed economy" of the period, as well as the theories of "organized capitalism" and of "super-imperialism" which lay behind it; but generally, the subject has not been systematically treated since Lenin's time by Marxist-Leninist theoreticians. It is not enough that state monopoly capitalism as such be analyzed; it must especially be examined as it functions specifically through the "managed economy." If this is not done, our knowledge of the workings of monopoly capital is bound to remain sketchy and misleading, and our economic forecasts of limited accuracy.

THE "MANAGED ECONOMY" BEGINS: WORLD WAR I

When World War I began on July 28, 1914, the policy of United States monopoly capital was to remain outside the war, to watch its imperialist rivals destroy each other, to get rich selling them munitions, and to prepare to take command internationally upon the end of the war. But this plan fell through when in the course of the war it appeared as though militant Germany would defeat the western allies, with whom the United States had vital financial connections. Hence, on April 6, 1917, the United States Government, under the liberal President Wilson, overriding the strong popular opposition to this imperialist war, entered the struggle on the side of Great Britain, France, and Russia.

Even before American entry, however, the monopolists understood that in this war, in distinction from all other American wars which had preceded it, an effort would have to be made to establish some traces of order in the chaotic economy. Therefore, President Wilson, who had been responsible previously for anti-trust legislation and for a Federal Trade Commission to enforce it, proceeded to set up the Council of National Defense late in 1916, to organize, among other tasks, the economic aspects of the war effort. This body was supplemented in July 1917 by the formation of the War Industries Board. These agencies undertook to allocate materials, to establish price controls, and to regulate wages—but unsuccessfully, as they worked upon an advisory basis. In the Spring of 1918, however, this whole state-economic apparatus was somewhat strengthened in the matter of putting its decisions into effect.

The Government also set up a number of commissions in various single industries, to "manage" them. Among them were the Food Administration, the Fuel Administration, the United States Shipping Board, the Emergency Fleet Corporation, and the Federal Railroad Administration. The most powerful of them were the railroad and allied administrations, as they operated the entire national railroad, shipping, and communications network, which had been taken over by the Government. Besides, there were the War Trade Board, Selective Service, and the War Finance Corporation. The direct control of all this industrial machinery was almost exclusively in the hands of representatives of the big trusts and monopolies through their "dollar-a-year" men. Small businessmen and the farmers had but little say in the matter. As for organized labor, its representatives, who supported the war, were nearly all shunted aside into secondary and minor advisory committees.

A central feature in the whole

war-control machinery was the National War Labor Board, made up of representatives of the public, the employers, and the workers. Its business was to "manage" the working class and to fit it into the war plans of monopoly and the Government. Generally, the workers, who had but little regard for this imperialist war, were in a militant mood and they struck freely. To curb them, the N.W.L.B. and its subordinate committees undertook to slash their wage and hour demands, and especially to prevent their extending the trade unions into the trustified open-shop industries. The wartime labor boards worked on the basis of semi-compulsory mediation and arbitration. Generally, the conservative Gompers trade union leaders were not hostile to this, with their no-strike, no-organize policies, and their playing down of working class militancy.

This, in short, during World War I, was the real beginning of the "managed economy" in the United States. Similar systems prevailed also in Great Britain and other imperialist countries. The general results were, to concentrate production upon war materials, to generate an orgy of profiteering, to create a crop of new millionaires, to further the interests of the monopolies, and to hinder the advance of the workers. The latter, although their real wages sank considerably, did succeed in establishing the eight-hour day in several industries, and in adding about 1,500,000 members to the trade union movement.

THE NEW DEAL AND THE 1929 ECONOMIC CRISIS

Immediately upon the end of World War I, the monopoly-dominated government set about dismantling the economic-control machinery that it had built up during the war. The railroads, shipping, etc., were returned to private control, the various war committees were liquidated, military appropriations were slashed, loans to foreign governments were cut off, and most important, the workers' protection of their wage rates was undermined by an unprecedented open-shop drive against the trade unions. "Back to Normalcy" was the key bourgeois slogan. American imperialism, vastly enriched by the war and dreaming of world conquest, demanded a free hand internationally, and it refused to become a member of the League of Nations. Inevitably these policies hastened the sharp economic crisis of 1920-21, in which industrial production fell off by 20 percent and agriculture tobogganed.

By the end of 1921, however, the crisis of adjustment had already worn itself out and the country moved ahead to one of the most hectic booms in its history. The mainspring for this was the reparation of the war's damages, plus the growth of the new electrical industries and the automobile industry (with its huge road-building program) in the United States. The ensuing frantic boom was hailed as the Golden Age of American capitalism. There was said to be a "new capitalism," immune to economic crises. The Social Democrats hailed the new American capitalist way to "Socialism" through mass production and speed-up, while the Communists warned of economic disaster ahead.

The great cyclical economic crisis of 1929, which was deepened by the general crisis of world capitalism initiated by World War I and the Russian Revolution, thrust back American capitalism to its knees and shattered the prosperity illusions of the recent boom period. Industrial production fell off by almost one-half, international trade similarly shrank, stock values sank to unprecedented lows, and up to 17,000,000 jobless workers walked American cities. Facing this economic holocaust, many of the spokesmen for capitalism, sunk in confusion and dismay, saw the revolution around the corner. To do something to at least palliate the situation was imperative.

After much hesitation and fumbling, the monopoly capitalist government of Herbert Hoover began to experiment in the general direction of a limited "managed economy," or "organized capitalism." As the recent world war had produced such tendencies, so also did the severe problems of the great economic crisis. First, under heavy mass pressure, the Federal Farm Board was established in 1929, which purchased 60 million bushels of wheat in a vain effort to check the downslide of farm prices. About the same time, to bolster industry and trade, President Hoover extracted promises from leading industrialists that they would maintain wage scales and begin large capital investment programs—promises which all soon collapsed into nothing. Then the Reconstruction Finance Corporation was formed, with the Chicago Banker Charles Dawes at its head. The R.F.C., with $500 million at its disposal, made big loans to hard-pressed railroads, banks, and other corporations. The idea behind the R.F.C. was Hoover's notorious trickle-down theory; that is, if the major capitalist concerns were made solvent, the benefits would eventually seep down to the masses. Meanwhile, the huge armies of impoverished workers and farmers starved along in the crisis, without Federal relief.

Hoover's picayune state economic measures could not check the great crisis, so the masses swept Roosevelt into the Presidency in November 1932. During the next eight years, through the New Deal, the United States experienced a program of state intervention in industry, of a "managed economy," or attempts at "organized capitalism," such as it had never before known in peacetime. This consisted of a whole maze of laws, rushed through Congress in haste, designed to rescue collapsing corporations, to "prime the pump" of industry, to strengthen bank credit conditions, to bolster agricultural and industrial prices, to shore up decaying banks by deposit insurance, to protect farm and home-owners from foreclosure, to give relief and eventually the beginnings of social insurance to the workers. These steps were embodied in such legislation as the National Industrial Recovery Act, Agricultural Adjustment Act, Home Owners Loan Act, Fair Labor Standards Act, Social Security Act, Public Works Administration, Works Progress Administration, and many more. In all this, Roosevelt's central purpose was to save capitalism from its enveloping crisis.

Most of the early New Deal legislation, especially that relating directly to the subsidization and buttressing of industry, had, more or less, the support of monopoly capital. The U.S. Chamber of Commerce even produced the project for the National Industrial Recovery Act, which was administered by General Hugh Johnson. This was the nearest thing to a "managed economy" of the near-cartellized type that this country has ever had. The N.I.R.A. provided for the formulation of codes in each industry, among government, employers, and workers, covering prices, wages, working practices, etc. The framers of this law were undoubtedly influenced, on the one hand, by the booming planned economy in the USSR, based on thoroughly socialized industry, and on the other, especially, by the Hitlerite "managed economy," wherein state-controlled industrial cartels had been made compulsory in 1933. The monopolists, however, eventually backed away from N.I.R.A., and in mid-1935 it and the A.A.A. were knocked out by the U.S. Supreme Court as too extreme and as unconstitutional.

The workers supported generally the Roosevelt New Deal legislation, but, especially under the ideological leadership of the Communist Party, they paid sharp attention to the strengthening of their own economic position, through unemployment relief and social insurance, jobs in public works, and the improvement of wage scales by militant organizing campaigns and strikes. Their greatest victory during the New Deal period was the trade-unionization of the basic, open-shop industries into the newly-formed C.I.O. Their principal legislative achievement was, first, Section 7 (a) of the N.I.R.A., and eventually the Wagner Labor Act of 1935, protecting the right of workers to organize. The Government sought to control the workers through the National Labor Board and the National Labor Relations Board. Not only did the New Deal vastly extend the subsidization of industry, beyond what Hoover had done, but it added, under working class and farmer pressure, a new dimension to it, that is, at least a partial increase of the purchasing power of the working masses.

Significantly, during the 1930's, the growing practice of the capitalist "managed economy" was theorized as part of his system of economics by John Maynard Keynes, the British economist, who, in 1936 published his well-known book on the subject, *The General Theory of*

Employment, Interest and Money. Keynes, challenging Say and other classical bourgeois economists, denied that capitalism automatically generates sufficient buyers to absorb all its production. On the contrary, he argued that there is a flaw in the modern monopoly capitalist system which, causing a vast accumulation of capital and its under-investment, leads inexorably to economic crises, and mass unemployment, and if uncorrected, it could lead to revolution. Keynes, among the measures he designed to remedy this serious capitalist weakness, mainly concentrated his attention upon the subsidizing of production in various ways by the Government. An enemy of Socialism, Keynes' basic aim was to save capitalism. He was in direct contact with Roosevelt, and he undoubtedly had a certain influence in shaping the New Deal legislation. Roosevelt's watchword of his inaugural speech in March 1933—"We have nothing to fear but fear itself"—was a typical Keynesian psychological-economic slogan.

The many New Deal relief measures helped but little the recovery from the great crisis of 1929-33. However, they cost the American people some 35 billion dollars. By 1935 industry and agriculture had only partially recovered; and instead of the characteristic boom developing, the country lingered along in "a depression of a special kind," as Stalin called it. In 1939, there were still some 9,000,000 American workers unemployed. It was not until the Second World War began to loom up that United States industry, being fed with vast munitions orders, eventually emerged from its long and deep crisis and entered into a new period of "prosperity," The Roosevelt experiment with the "managed economy" was but a very limited success, if at all.

THE "MANAGED ECONOMY" IN WORLD WAR II

World War II was basically an expression of the general crisis of capitalism. The initial attitude of American monopoly capital towards the war, beginning in Europe in September 1939, was pretty much the same as it had taken towards World War I, namely: to keep out of the actual hostilities and to grow rich and powerful supplying munitions to its "friends" in the war. But the success and aggressiveness of the Axis powers forced the United States into the struggle in December 1941. As the war entry approached, the Roosevelt Government, in seeking for means to "manage" the economy during the conflict, naturally harked back to the experience of World War I. Thus began another experiment in "organized capitalism." Once again, in May 1940, a Council of National Defense was set up, and also an Office of Emergency Management, which, in January 1941, gave birth to the Office of Production Management. These organizations set themselves programs of coordinating, and stimulating production; but as they had only a nebulous advisory power, they were not very effective.

Once the United States got into the war, however, this situation changed quickly. World War II was far more of a total war than the first great war had been. There were three times as many American soldiers at the front, and whereas in the first war it took only 3,500 horsepower to keep a division going, in the second war it required 400,000 horsepower, so great had the mechanization grown. The monopolies were also much more powerful and more integrated with the state—monopoly capital had become state monopoly capital. The general result was a much more elaborate system of "managing the economy" than had existed in World War I. The War Production Board was established, with the Office of Price Administration and Civilian Supply, the War Man-Power Commission, and many other regulatory economic boards. Eventually, the whole elaborate machinery was combined with the Office of War Mobilization. This complex economic apparatus carried out policies of compulsory production controls, allocations and priorities of materials, and price and wage ceilings upon an unprecedented scale. Rationing of food, clothing, gasoline, etc., was also applied as never before. There were strong political-economic committees in the respective industries, but this time the government did not actually take over the control and management of the railroads, and other transportation systems, as had been done in the first world war.

World War II being a just, people's war, the workers had a far more cooperative attitude toward it than they had had regarding the imperialist World War I. They voluntarily adopted a no-strike policy (which was not done in the first war) and they participated wholeheartedly in the various production committees: national, industry-wide and in the shops. Their leaders were conceded a somewhat higher level of advisory and executive posts than in World War I; but the liberal Roosevelt Government, nevertheless, was careful not to treat the unions politically upon a coalition basis nor to let their officials get into decisive political and economic positions. Altogether the workers' role in the directive aspects of the war was a very minor one.

The "managed economy" of World War II, with its elaborate system of speed-up and overtime for the workers, was far more successful in turning out military supplies than had been its predecessor in World War I. In fact, between 1916 and 1919 there was hardly any increase whatever in industrial production; from 1939 to 1943, however, the total of production more than doubled. It was also very effective in grinding out maximum wealth for the monopolists—yearly profits soared, before taxes, from $5.4 billion in 1936-39 to $19.4 billion in 1940-45, and the profit margin increased from 6.3 to

114 percent. Meanwhile the workers, largely locked in a wage-freeze under the National War Labor Board, increased their incomes only moderately through long hours of overtime.

The wartime "managed economy," far from basically overcoming the chaos of capitalist production, intensified it by over-expanding the war industries at the expense of the civilian sectors of the economy. It facilitated an enormous growth of state monopoly capitalism, and it inflated the national debt from $40 billion in 1939 to $260 billion in 1945.

THE "MANAGED ECONOMY" IN THE COLD WAR

Upon the ending of World War II in 1945, strong back-to-normalcy trends, somewhat akin to those after World War I, developed among sections of the bourgeoisie. The monopolists were afraid of possible post-war democratic mass upheavals, with a more progressive government, movements towards the nationalization of industry, for profits control, and the like. "Free enterprise" was their central slogan and government intervention in industry their *bete noire*. Nevertheless, almost immediately, the strong trend toward increased government "management of the economy," or "organized capitalism," set in again. This was the inevitable result of Wall Street's post-war drive for world mastery on the basis of a third atomic, world war.

For the past four decades or more there has been in the United States a long-term trend toward the "managed economy." This has also been punctuated and speeded up by periodic intensive developments—during the two world wars, the great economic crisis, and the cold war—all of these being particularly sharp manifestations of the deepening general crisis of the world capitalist system. In each of these periods the "managed economy" faced specific economic tasks, requiring different means. In the two world wars the big job was to speed the production of vast amounts of munitions; during the great economic crisis it was to put the limping capitalist system back on its feet, and in the cold war it was, while building up a tremendous military machine, to keep the economic system from going into an economic depression or a runaway inflation.

In facing up to the specific economic tasks of the cold war, state monopoly capitalism had to work under different conditions than during World War II, just ended. Price controls, general allocations of materials, wage freezes, no-strike pledges, and other wartime control methods had to be scrapped. The big medicine for keeping the industries booming was more and greater governmental appropriations for arms production. This course was made the easier for the warmongers as organized labor generally accepted the arms program on a make-work basis. The armaments panacea was also supplemented, from time to time, by the government with such means as the tightening or easing of bank interest rates and consumer credits, a closer hold upon stock speculation in Wall Street, tax reductions for big business, etc.

The broad significance of all this governmental control was a gigantic infusion of financial subsidies, state and private, into the general economic bloodstream, specifically for the benefit of the big corporations. Among the major items of this were, since 1945 (discounting duplications) $60 billion in American foreign loans, grants, and credits; some $300 billion in American military expenditures; an increase of consumer debt (mostly from installment buying), several times over—to the unprecedented figure of $30 billion; about $20 billion more added onto the national debt; at least $50 billion above normal spent on the hectic expansion and remodelling of industrial plants; a total increase in private debt from $140 billion to $352 billion in 10 years; big increases in inventories in many industries, etc. The private and public debt has reached the peak total of $258 billion, an increase of $50 billion in 1955. The Korean war, which was a golden deluge for the profit-mongers, also gave a terrific shot-in-the-arm to production in general.

Notwithstanding all these huge blood infusions into the national economic system, the "managed economy" limped badly. The country, during the cold war years, experienced two minor economic slumps—in 1947-48 and 1953-54, with production falling off in the first period by 10 per cent and with the army of wholly unemployed mounting to some 5,000,000. At the present time, although general production is at record high levels, there are many soft spots in the economy, despite all the Keynesian subsidy policies of the Government. Agriculture continues to sink into a slump, there is chronic mass unemployment in the textile and coal-mining industries, and, with a stockpile of 900,000 cars, far-reaching layoffs of workers are also taking place in the automobile industry. Especially since the Geneva Conference of July, 1955, at which gathering the peoples of the would turned thumbs down on Wall Street's drive for world war, the American industrialists are in a state of confusion and are fearful of the future market prospects.

The attempt of Wall Street state monopoly capital to "manage the national economy" took on a new spread and intensity during the cold war years. For one thing, the Government set up a number of new authorities, agencies, and commissions, to regulate the economy on an unprecedented scale in peace time, the names of which bodies we shall list further along. For another thing, in a Keynesian spirit, the Government built up, along with the arms program, an extensive backlog of investment projects, at least on paper, to serve their need, to bolster up the sagging national economy. These include, besides the Eisenhower $100 billion road-building program, broad proposals for flood control, slum clearance, soil conservation, school building, and the like. Needless to say, all such propositions, like arms production, if applied, would be organized on a maximum profits basis. American big capital, while relishing the prospect of a sizeable army of unemployed, is definitely fearful of the recurrence of an economic crisis on the scale of the 1929-33 catastrophe.

A further characteristic of the development of state monopoly capital in the cold war years, with its "managed economy" implications, is the widespread militarization of the government, the industries, the colleges, and other key institutions that has recently taken place. General Eisenhower, as President of the United States, is the major symbol of this broad tendency. Many of the top brass are seeking administrative political careers as they approach the time of retirement, and there is also a veritable flood of generals, admirals, and other outstanding militarists into prominent positions in the upper executive echelons of big corporations. It is estimated that 2,000 of them took this route in 1955. Special attention is also being paid by these gentry to occupying the highest posts in the universities. Even as they are tying the industries organically to the state machine, especially in its military aspects, so the top militarists are also making sure that the educated youth are made part of the broad and ever-expanding state-industrial-educational-military apparatus of American imperialism.

After World War II "managed economy" tendencies developed on a world scale, with the formation of the United Nations, which began to concern itself with such international economic questions as tariffs, trade, finance, deflation and inflation, full employment, and the development industrially of backward countries. American imperialism is up to its neck in all this. Whereas, following World War I, the American Government refused even to become an official part of the League of Nations, following World War II, it was the leader in organizing the United Nations and bodies associated with it. In the economic sphere it was thus a prime-mover in the establishment of the International Bank for Reconstruction and Development and also of the International Monetary Fund. The basic reason for Wall Street's keen interest in these various international economic-political institutions is to use them to advance its drive for maximum profits and world domination. Such interest is also quite in line with its "managed economy" tendencies in general.

Another of the characteristic manifestations of this period has been the development of a strong fascist trend, in the shape of McCarthyism. This threat was cultivated by big business and expressed in many reactionary laws and practices of the Eisenhower and Truman Governments. There was much pro-fascist legislation, including the Taft-Hartley anti-trade union law, the fierce persecution of the Communist Party, and the many infringements upon popular democratic rights. Although somewhat curbed in 1954 as a result of national and international mass pressure, fascism still remains a real danger in the United States.

* * *

The concluding section of this article will appear in our August issue.—Ed.