*A history of the U.S. economy.*— In order to understand the present, you have to know the past. A particularly important part of the story is economic history, which everyone should study. Barry Eichengreen's *Globalizing Capital: A History of the International Monetary System* (2008) is a superb book; Robert Brenner's *The Economics of Global Turbulence* (2006) is a true masterpiece. A more readable work is David Harvey's *The Enigma of Capital* (2011); a less readable but nonetheless excellent one is Greta Krippner's *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (2011). Paul Bairoch's *Economics and World History: Myths and Paradoxes* (1995) is a very good introduction to the subject. Here I'll include notes I wrote on an older work that adopts a broader historical perspective, all the way back to the 1790s.

Richard Du Boff's *Accumulation and Power: An Economic History of the United States* (1989) is excellent, since it takes a Marxian/Keynesian approach. Here's the first paragraph: "Just after the Second World War, economists of the Keynesian, Marxian, and institutionalist schools shared one vision—that nothing in the workings of a capitalist economy assured compatibility between the demand side and the supply side requirements for steady growth with full employment. For several reasons this approach to economic history soon fell by the wayside (if in fact there were ever any attempts to make use of it). This book represents an effort to revive it."

The first chapter consists of a polemic against neoclassical economics and its version of economic history. Boff's analysis "focuses not on consumption and production choices in an allocative efficiency setting [as neoclassical analyses do] but on capitalist decision-making and its social consequences. That decision-making process is not seen as a series of adaptations to external market forces but rather as the major determinant of the pattern of economic growth and as the main element forcing change in the economy at large. In this view, the twin goals of capitalist enterprise are *accumulation* and *monopolization*." Neoclassical theory likes to treat monopolies as a kind of pathology, an extreme departure from "perfect competition" or "equilibrium" or some other invented concept, but anyone with common sense understands that monopolies are "the natural end product of successful competition, arising out of accumulation and the drive for control over an economy never in 'equilibrium.'"

Okay, now for the history. "The earliest impetus to economic growth came from foreign trade, which boomed from 1793 to 1807. Revolutionary turmoil and the Napoleonic wars in Europe allowed American shippers to capture a major part of the international carrying trade and led to unprecedented volumes of exports and profits.... Exports probably constituted 15 percent of the national product...." America's export-led economic growth ended in 1807 with the Embargo Act, which was a catastrophe for shipping interests. But it had the beneficial effect of encouraging goods-production at home, since goods were not available from Europe. "The growing demand for cloth prompted the mechanization of weaving and the integration of spinning and weaving inside a single 'mill.'" Unfortunately, the end of Europe's war in 1814 reopened the U.S. to British imports, which drove many American competitors out of business and wiped out much of the newly expanded manufacturing base, "bringing a decade of near-stagnation." (If the IMF weren't the slave of Western investors, it might draw certain conclusions from such facts as these. Opening Third-World markets to floods of Western goods is precisely the worst thing to do, from the perspective of the Third World.)[1]

Nevertheless, in some sectors manufacturing continued to expand, slowly. In textiles, for example, where a few large firms survived the British onslaught. Also, residential construction grew, stimulating the production of nails, bricks, shingles, etc., as well as the machines to make them. At the same time, the Northeast's "commercial revolution" was happening. Commercial banks, law firms, insurance companies, etc. Public works in transportation and communication were important too. The growing volume of trade bred a new generation of middlemen, who themselves contributed to economic development. And state governments provided crucial help by chartering corporations, giving companies monopoly-type privileges and attracting wealth from small investors whose calculations of risk were influenced by their "limited liability." On top of all this, agricultural productivity was rising in the West.

Real per capita incomes rose 30 percent between 1805 and 1840. The urbanized population was 11 percent of the country by 1840. On the other hand, "by the 1830s the sense of social distance between rich and poor was growing," as a new class of wage-earners slowly developed. *Slowly*. By the 1840s, less than 10 percent of all workers were engaged in manufacturing. The structure of the economy remained pre-industrial.

"The modern accumulation process began in the 1840-1860 period, with the coming of the railroads." I won't go through all the ways that railroads stimulated economic development. The telegraph, too, proved to be of incalculable importance. Both accelerated the emergence of a national market, and of regional specialization.

"Agriculture's share of the labor force declined from 64 percent in 1840 to 53 percent in 1860; in the North the decrease was even greater, from 63 to 34 percent." At the same time, disparities in income and wealth (i.e. property) were increasing (although real wages for working people did rise). "By 1860 income disparities had risen to a 'high plateau of inequality' that persisted for the better part of a century." (And then, you know, a few decades of the welfare state, and then a resumption of extreme polarization, since the 1970s.) Inequality in wealth was even worse.

One sign of strong capital accumulation in the 1840s and 1850s was "the revulsion against internal improvements," i.e. public works, which had been quite significant earlier.

> The defeat of national planning for internal improvements was no doubt related to the growing sectional conflicts, especially between the North and the South, and agitation for "states' rights." But the private business sector was also starting to oppose "government

[1] See the writings of the dependency theorists, such as Andre Gunder Frank's important work *Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil* (1969) and Walter Rodney's classic *How Europe Underdeveloped Africa* (1972). Anthony Brewer's *Marxist Theories of Imperialism: A Critical Survey* (1980) is a good overview. The fundamental point is that every country that has successfully industrialized has done so through protectionism—a fact that directly contradicts classical and neoclassical economics. See also Robin Hahnel's *The ABCs of Political Economy: A Modern Approach* (2002).

> interference" in the economy. The ideological reaction apparently began with the great expansion of 1843-1857, when a generation of capitalists began to sense the burgeoning opportunities that lay in free-wheeling exploitation of new technologies and new markets. The telegraph provides evidence.... With the swift commercial success of telegraphy, a campaign for public ownership was undertaken by a number of congressmen and private citizens. Opposition was strong and effective from the outset. "Who should own the Magnetic Telegraph?" asked the New York *Mercantile Advertiser* in 1846. Surely not the Post Office was the reply, because of "its utter inefficiency, and its absolute inability to meet the wants of the public.... In comparison with individual enterprise it is perfectly contemptible....a bungling concern."

Actually, historians have shown that the postal system was an astonishingly effective institution for its day. But the "private enterprise" and "government inefficiency" propaganda had already begun by the 1850s.

After the interruption of the Civil War, things heated up. Investment shot up simultaneously with the growth of consumer demand. Per capita incomes rose at a brisk pace. "Real income per person increased at an annual average rate of about 1.1 percent from 1800 through the 1850s; after the Civil War the rate jumped to 1.6 to 1.7 percent per year through 1900." In the long run, growing demand has to come from improvements in productivity, "otherwise higher demand levels are not sustainable. Only increases in the productivity of labor and capital can give the economy the added capacity to generate or accommodate more 'demand.'" These necessary increases in productivity were happening at a great rate in the second half of the century, during the "second industrial revolution." These are the years when mass production began, and giant business firms sprang up.

And yet, as always, economic growth was wildly disrupted by depressions and downturns. Between 1867 and 1900, "the economy expanded during 199 months and contracted during 197—a disappointing if not ominous performance in view of the glowing images the new capitalists were fashioning of themselves and their economic system." Why such crisis-ridden growth? I think you know the answer. It is "capitalism's endemic problem of maintaining levels of aggregate spending high enough to prevent productive capacity from outstripping demand.... [S]cience-based gains in efficiency....permitted huge expansions in productive capacity that tended to overshoot actual levels of private demand. The main problem lay in a system that encouraged efficiency gains but discouraged a distribution of income that could assure commensurate gains in worker purchasing power." In general, labor-saving and capital-saving innovation, cost-cutting, "tends to generate excess capacity, as a given amount of investment becomes more productive and capital-output ratios undergo a long-term decline."

I won't summarize Boff's long discussion of the second industrial revolution and the great merger wave around the turn of the century. Let's continue with the theory. The point about the structural contradictions of capitalism is that in a regime of imperfect competition, "actions designed to promote profitable investment undermine economic stability—and the investment that depends on it." For example, if events cause a corporation to cut back production and investment but *not* reduce prices, weakness in the economy will develop. Demand will grow more slowly, and the oligopolistic firm will cut its output levels. Excess capacity will then appear. "In a *competitive* regime, underutilization of plant and equipment brings on price cutting and the demise of marginal firms. But under oligopoly the excess capacity cannot be competed away like this; in recessions total profits may shrink but excess capacity remains in place." Investment will therefore continue to drop; consumers, being paid less and being employed less, will have less money to buy things and to service their debts, which could lead to defaults, which could interrupt cash flows and profits to banks and other lending institutions, which could precipitate a crisis in the financial system.

Labor-saving measures reduce production costs for a firm, but they also constrain consumption spending. Aggregate demand might therefore become insufficient to warrant further investment, which sets in motion the vicious circle. Also, because of all the cost-cutting, profits tend to grow faster than good investment prospects. Which tends to lead to economic stagnation.

I wonder how this emphasis on the malign effects of "excess" profits squares with Robert Brenner's emphasis, in *The Economics of Global Turbulence*, on the malign effects of a low rate of profit. It's funny that both high and low profits can be macroeconomically injurious. (Well, it isn't the high profits themselves that are the problem; it's the low demand that might be their obverse side, because it augurs badly for economic growth and profits in the long run.)

There are various ways around these problems, such as strong labor unions that insist on high wages (although if production costs increase *too* much, profits can be squeezed, which will tend to lower investment), but "they do not automatically prevent a mismatch between the nation's productive capacity and the purchasing power to keep it utilized. There is, for example, no reason why the growth of demand that results from a given rate of investment should be exactly equal to the growth of capacity that results from that investment."

It's true that "over the past century or more, expansionary forces have prevailed." There have been three great waves of economic expansion. But this wasn't so much the result of the free market as of powerful *external* stimuli. "Epoch-making innovations" such as the railroad and the automobile opened up vast new frontiers of investment—as Paul Sweezy and Paul Baran argue in *Monopoly Capital* (1966).

> But the basic problem never disappears [Boff writes]. Sometimes capacity increases at very rapid rates, especially when the productivity of new capital goods is rising, at other times mass-purchasing power and final sales lag, and at still other times both phenomena occur. As a result, breakdowns of the investment-dependent system have been so severe that government has increasingly been called upon to guarantee stability not only through "regulation" but also by massive expenditures to prevent aggregate demand from collapsing as it did in the 1890s and the 1930s. The tension between forces making for expansion and contraction has not abated. Since 1929 it is easily discernible in the debate

over the role of government in the economy, as well as in the business cycles that somehow keep happening.

Even after the depression of the 1890s had ended, when prosperity had returned, industrial spokesmen complained about excess capacity in the midst of prosperity. As one said, "We need to open our foreign markets in order to keep our machinery employed.... It can produce in six months all we can consume in a year." And that was at a time of vigorous economic growth, in 1900. From 1907 through 1915, "real GNP grew very slowly, at an annual average rate well below 2 percent per year." One important author later concluded (in his study of the pre-war downturn) that "increased industrial productivity [during those years] did not result in any substantial addition to the real income of employed workers in general." As Boff says, "This suggests a tendency to divert productive gains toward profits rather than wages, with an eventual dampening effect on economic activity."

You know about all the oligopolistic stuff that was happening in the early 1900s, so I won't go through that. All through the 1920s, trade associations and mergers and a permissive federal government ensured that competition was, "to a very considerable extent," controlled. That's the way things tend to be under corporate capitalism. Capital did very well in the 1920s—but "the increasingly promotional and financial basis of [the] merger movement indicates a surplus of funds seeking speculative profits, as opportunities for productive investment profitable enough for the corporate sector were waning." Remind you of anything? For example, our economy's financialization over the last thirty-five years, as "opportunities for productive investment profitable enough for the corporate sector" have waned? Yes, we're on the verge of another great depression. Or at least a very protracted slump.

Also, just like in recent decades, retail chains (characterized by low wages) did unprecedentedly well in the 1920s.

"What were the forces making for a sustained economic expansion [in the 1920s] that finally pulled the nation out of the doldrums of 1907-1915?" Boff's answer is simple: "The energy behind a vigorously growing market economy comes chiefly from a core of dynamic young industries. Between 1917 and 1929 electrification and automobiles provided the key investment outlets that came to fruition after World War I. They overrode the depressive tendencies of the oligopolistic investment mode, at least long enough to allow the economy to expand for several years without significant interruption." The statistics he gives for electrification prove the stunning importance of this new industry to economic activity in that era. The statistics for, and in general the importance of, automobile manufacturing, however, are simply mind-boggling. As before with steam power and railroads, "the accumulation possibilities opened up by automobiles invigorated the whole economic machine." Think of all the "forward and backward linkages," the many industries stimulated and created, the proliferation and expansion of roads and billboards and filling stations and garages and truck driving and suburban communities and highway construction largely financed by state and federal governments that came to the aid of flagging private investment. Even in the 1930s it was already impossible to imagine the world without automobiles.

So why did this economic boom come to an end in 1929?

> As the 1920s stretched on, the prolonged investment boom was sowing the seeds of its own demise, through its contributions to increasing productivity and inadequate consumer purchasing power. The years following the First World War were ones of record-breaking increases in efficiency, in output per worker and per unit of capital stock. The reasons are clear—electrification, automotive transport, and widespread mass-production innovations, with expanding markets and longer production runs bringing still greater economies of scale. The end of mass immigration in 1921 threatened to restrict the supply of labor and push up wage bills, leading employers to substitute machinery for labor at an even faster rate and to squeeze more production out of existing work forces through "human engineering" techniques.

So, while productive capacity was expanding quickly, "consumer demand could not seem to keep pace." This problem was quite troubling to industrialists and business economists; they did everything they could to raise demand for their products. (Through advertising, etc.) But capacity utilization declined in the second half of the decade. The main problem was that, even though the real earnings of non-farm employees rose substantially in the 1920s, most of the increase went to people in upper-income brackets, who never spend as much of their earnings as less wealthy people do. (A similar problem today.)

Also, oligopolistic industries, as stated above, were (and always are) resistant to significantly lowering prices (as a way to pass on productivity increases to consumers). Instead, they tended to cut back production and employment, which hurt demand. "From 1929 through 1932, prices in competitive industries fell 60 percent compared to only 15 percent in 'the more concentrated industries.'"

As Boff says, however, all this might well have led not to a devastating depression but only to a characteristic recession. An important aggravating factor was, of course, the stock market plunge in late 1929. Earlier that year a downturn in business activity had already begun, but "the stock market debacle shattered business confidence, ruined countless thousands of private investors, and wiped out holding company and investment trust structures by the score. It effectively compounded factors making for output and employment drops that would not by themselves have produced a prolonged and desperate economic crisis."

Basically, the situation was that heavily indebted holding companies controlling much economic activity paid interest on their bonds out of the profits of the individual operating companies they owned. The decline in profits that began earlier in the year "led to defaults on a number of bonds and a series of spectacular bankruptcies. Meanwhile, the Wall Street collapse was drastically raising the cost of issuing new corporate equity and closing off this source of cheap finance as a way out.... Investment and consumption soon began to sink. As sales and prices fell, large corporations responded by reducing their outlays for inventory and capital goods and increasing their holdings of cash balances, withdrawing funds from the economy's spending stream...." The vicious circle had begun. Farmers and others faced shrinking markets for their goods, bank failures spread as loans could not be repaid, millions of Americans withdrew their bank deposits, etc. On top of all this, Hoover's misguided fiscal policies and the Fed's misguided monetary policies (it raised interest rates in late 1931 to protect the nation's gold reserve) made things worse.

"In Europe a similar crisis was swiftly developing, and as Europeans demanded gold, banks all over the world had to call in loans and shrink deposits. A new wave of liquidations, international in scope, followed. In the summer of 1931, the jerry-built house of international credit, debt, and war reparations finally gave way, crushing the last hopes for a 'normal' recovery."

"The anemic nature of the recovery during the 1930s was a direct result of inadequate increases in government support for the economy."

Boff's conclusion: "What had really happened between 1929 and 1933 is that the institutions of nineteenth-century free market growth broke down, beyond repair. Had the chain of circumstances been 'right,' it could have occurred in 1920-21 or possibly 1907. The tumultuous passage from the depression of the 1930s to the total economic mobilization of the 1940s was the watershed in twentieth-century U.S. capitalism...." State intervention blunted capitalism's crisis-prone tendencies even as it created "unanticipated additions to the full range of capitalist instability."

Okay, so during and after World War II things got better, etc. Except for a series of short recessions, like the one that started in late 1948, when excess capacity appeared and private investment started falling. Luckily the Korean War happened in 1950, temporarily saving American capitalism from itself. And the pattern continued for a long time thereafter. "There is little doubt that the major growth stimulus for the American economy from 1950 through the early 1970s came from the public sector, not private investment." In fact, Arthur Okun, who was chairman of the Council of Economic Advisers under Lyndon Johnson, said that this expansion of government should be judged "not in dollars of real GNP, but in the very survival of United States capitalism." It was government spending that prevented another Great Depression from happening. In the 1950s and 1960s, military spending accounted for more than four-fifths of all federal purchases. But "military spending" is not just for the military (as Chomsky often notes); it is really a sort of "backhanded planning" for various sectors of the economy.[2] "The record-breaking, 105-month-long economic expansion from February 1961 to November 1969 was largely a result of arms spending."

[2] Economic and ideological opposition to government programs that "compete with private capital or encroach on its domain" prevents the federal government from directly funding sufficient public works on infrastructure and so forth, so it has to take the indirect route through the Pentagon, which is less efficient than the alternative (something like the WPA or the TVA of the 1930s). See Chomsky's *Understanding Power*.

It's also worth noting that in the postwar era, government's taxation of profits and other non-wage earnings (for the sake of public spending, which increased aggregate demand) helped prevent excess productive capacity from developing to the extent that it might have. And excess capacity, to repeat, can trigger a recession by causing a decline in investment.

Let's not forget automobiles. While the industry was important before the war, it was probably even more important afterwards. As usual, government had to do much of the investing and assumption of risk, but automobiles and their economic offshoots were a monster stimulus to private investment too. (Think of suburbanization.) The "Los Angelizing" of the American economy occurred after World War II. But, as I learned from Chomsky, that name is misleading, since Los Angeles was not always the car-cluttered hellscape it is now. It used to deserve its moniker "City of Angels," being a paradise on earth. Beautiful scenery, very little pollution, quiet electric public transportation, no crisscrossing highways everywhere.... Unfortunately, "between 1936 and 1950, National City Lines, a holding company sponsored and funded by GM, Firestone, and Standard Oil of California, bought out more than 100 electric surface-traction systems in 45 cities (including New York, Philadelphia, St. Louis, Salt Lake City, Tulsa, and Los Angeles) to be dismantled and replaced with GM buses. It was understood that the sale of automobiles, gasoline, and tires would benefit too. The project was generally successful. In 1949 GM and its partners were convicted in U.S. district court in Chicago of criminal conspiracy in this matter and fined $5000."

Don't forget, too, that the federal government was mostly responsible for the development of electronics in the 1950s and afterwards. Also synthetics (plastics and fibers). And the internet, satellites, containerization, etc. "Free market" dogmas are absurd, in other words.

Okay, let's skip ahead to the long downturn after 1972. From 1973 to 1987, unemployment averaged 7.2 percent. The growth of private investment slowed considerably, manufacturing declined as the commercial sector (retail, communications, real estate, insurance, services) rose, debt increased all around, etc. See Robert Brenner's above-mentioned book for details. To keep aggregate demand from collapsing as it did after 1929, the government has relied on military spending. This form of public spending, as opposed to infrastructure programs, "has highly functional characteristics for American capitalism." "Military output does not interfere with or saturate private demand. Pentagon dollars jeopardize no business interests because they go to private firms, providing support rather than competition. The same cannot be said for low-cost housing, Amtrak and mass transit, public recreational and wilderness projects, and many social services like legal aid for poor households. A sizable expansion in areas like these would have disrupting effects on private production and on free labor markets. It would also demonstrate that the public sector can provide certain goods and services more effectively than private profit-seeking companies—a 'bad example' to be blocked at all cost."

Moreover, military spending has the advantage of reproducing the oligopolistic structure of the corporate economy, "as it consolidates the power of some of the largest firms in concentrated sectors of the economy."

In addition to military spending, transfer payments like Social Security, Medicare, and food stamps help stabilize the economy by helping to stabilize demand. But as you know, "welfare" spending has been slashed in the last 35 years. In fact, despite increases in military spending under Reagan and afterwards, since 1972 state, local, and federal government support for the economy has plunged. "The relentless attacks on 'big government' by a resurgent right wing, anchored in the Republican party but well represented among Democrats, have borne their bitter fruit—a reduction of the amounts of public spending necessary to generate sufficient aggregate demand to keep the economy operating at a high level of employment and output. The laboratory test is the great postwar boom: in the absence of the rapid growth of government spending from 1947-48 to 1972-73, the economy would probably have exhibited the same stagnationist tendencies evident since 1973. With reduced growth of both investment and government spending, it is not surprising that the overall economy—GNP—has turned in such a poor performance since the early 1970s."

So what caused the downturn after 1972? Boff blames it on numerous things, including exogenous shocks like the OPEC happenings, worldwide shortages of commodities as a result of crop failures, and two devaluations of the dollar in 1971 and 1973....but he also mentions causes internal, or relatively internal, to the system. Like Brenner, he invokes heightened international competition, which depressed profitability and thus investment, the growth of productivity, etc. Lower productivity growth also resulted from the higher global prices of energy and other raw materials, which discouraged investment in energy-intensive plant and equipment. And rising labor compensation—not in wages but from increases in the "social wage" (such as employers' contributions to Social Security, health and disability, and pensions)—combined with lower productivity growth to squeeze profits. Apparently from 1965 through 1979, employers' "supplements to wages and salaries" increased much faster than money wages and profits. They went from 6 percent to 12 percent of national income.

Incidentally, if you're wondering what the relation is between Robert Brenner's emphasis on a slower growth of profit rates (due to international competition) and Boff's emphasis on lower aggregate demand as explanations for the long downturn, I'd suggest that the lower aggregate demand was partly a result of the low profits.[3] Business had to cut costs to compete with intra- and inter-national competitors, which meant lower wages and less employment, which meant less effective demand. Which meant more excess capacity, which reinforced tendencies toward reduced growth of investment, which meant lower productivity growth, etc. A vicious circle. Heightened international competition wasn't the only trigger, but it was an important one. Boff might say that it ended up reinforcing—ironically—the stagnationist tendencies of America's oligopolistic economy (by encouraging greater cost-cutting....which *didn't* result in the "shakeout" of less-productive firms, as would have been the case in a more "purely competitive" economy, because of all the ways that oligopolistic firms in modern America have of staying in the game, including by relying on debt, on the government's military Keynesianism, on corporate tax cuts, on financial speculation, on investments in real estate, etc.).

[3] Of course in the long run it has contributed to them, too.

So recessions got more severe. Boff notes, however, that recessions are functional for capitalism, and since the mid-1950s have always to some degree been policy-engineered. From the perspective of capital, they do "curative work" for the economy. They reduce inflation, assure adequate supplies of compliant labor, and "check speculative financings" that can imperil coordinated expansion of a market economy. Recessions can restore conditions for profitability. Government's role is to "allow a recession but to stop it short of catastrophe."

Boff has a deprecatory attitude toward Reagan's supply-side economics. He doesn't even think it was particularly new. "Regressive tax legislation and assaults on labor were nothing new in U.S. history, but now they were reinforced by 'deregulation'—the decontrol of regulated industries and the gutting of regulatory agencies that protect workers and consumers." Another new development of those years was that "as deficit spending encouraged consumption to race ahead of domestic output, imports filled the gap and foreign savings financed both the budget and trade deficits. That was the 'new' feature of supply-side economics—foreigners supplied the goods and the funds."

Needless to say, one of the effects of all the deregulation of recent decades has been an acceleration of "the long march toward oligopoly," as an analyst for the Wall Street Journal wrote in 1985. The fourth merger movement began (the first being the one between 1890 and 1902).

Boff's final word on the long downturn is that "events since 1972 have done nothing to dispel the view that the chronic problem of capitalism is insufficient private-sector aggregate demand to keep production and employment growing." He quotes an author: "Throughout the entire industrial phase of U.S. economic history the system has operated below its potential, with full employment obtaining only in brief spans surrounding cyclical peaks.... The decade of the 1970s thus reveals the face of long-run stagnation, unleashed by the demise of the state and local stimulus together with the failure of the federal government to compensate for this demise." Brenner might not agree with that diagnosis, but there's some truth to it. Boff immediately qualifies it, however, by repeating that one of the most significant factors was the change in the structure of the world economy beginning in the late 1960s.

> "Supply shocks" raised production costs and impaired existing industrial capacity in the United States (and elsewhere), so that Keynesian demand stimulation would have produced only a marginal output and employment increase, but probably a significant rise in inflation. [This, of course, is what happened.] But this constituted no reason to reject Keynesian economics, as conservatives (and many neoliberals) so quickly proclaimed it did. All economists agree that any decrease in productive capacity tends to cause a rise in prices and a fall in the quantity of output. The response to the supply shocks of the 1970s actually validated Keynesian theory, as tight fiscal and monetary policies depressed economic activity, generated persistent unemployment, and further discouraged the

> investments needed to get out of the trap.[4] This period, moreover, was also marked by growing competition among capitalist nations, creating an oversupply of capital stock on a world scale in textiles, steel, motor vehicles, shipbuilding, and other industries. Even during the 1970s, the old excess capacity dilemma was at work—and expanding to global dimensions, with companies in North America, Europe, and Asia fighting for the same markets.

It's possible that Boff puts too much emphasis on exogenous "supply shocks" and not enough on intensified international competition.

In the light of all these Keynesian ideas, it's even more clear to me than before that the government in 2011 is virtually digging the grave of American corporate capitalism by dramatically cutting spending, even military spending![5] The economy is, on the whole, going to get worse and worse for years. A full-fledged depression might well break out. Will it be possible to reconstruct corporate capitalism in its aftermath? Doubtful.

I won't summarize the last two chapters of the book, but I'll mention a couple of arguments Boff makes about the nature of corporations—arguments I'd heard before, and which have always seemed obviously true to me. First, enormous size doesn't entail enormous efficiency. Corporate consolidation often happens at the expense of efficiency. (Market power, which doesn't seem to correlate with technical efficiency, is profitable.) Second, "giant companies are not the fountainhead of technological progress. The largest firms do not support R&D more intensively relative to their size. Small, independent inventors, unaffiliated with any industrial research facilities, supply a disproportionate number of inventions like air conditioning, the jet engine, [and] insulin. 'Radical new ideas,' *Business Week* concluded in a 1976 survey, 'tend to bog down in big-company bureaucracy. This is why major innovations—from the diesel locomotive to Xerography and the Polaroid camera—often come from outside an established industry.'"

Such facts suggest that Schumpeter's optimistic "creative destruction" theory "might be turned on its head. The revised sequence would be that, for big business, profitable growth strategies are linked to the attainment of market power, which often engenders bureaucratic management and conservative policies. Excess profits can accrue long enough to lull corporate giants into a false sense of security. Among the predictable results would be technological lag, periodic attempts to shore up profits and power through mergers, and administrative hypertrophy."

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[4] But Brenner would argue that in order to *really* get out of the trap, an even more severe recession, or a depression, would have been necessary first, in order to "shake out" all the unproductive capital in the economy. Indeed, Boff himself said as much a few pages earlier.

[5] (Actually, upon inquiring further I've learned that all the talk about cuts to defense spending is bullshit. Orwellian doublespeak. It only means reductions in the *projected future growth* of defense spending. Not actual *cuts*.)