The Wall Street crash 1929-33

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They called it the roaring twenties but then the boom turned to bust. Keith Spencer explains what caused the crash of 1929 and asks whether there are similarities with today?s global meltdown.

For nearly a decade leading to the crash of 1929 the US economy was booming. After a sharp recession in 1920-21, real GDP grew at an average at 4.2 per cent 1 while GNP growth per capita was 2.7 per cent for the rest of the decade. Industrial expansion went hand in hand with technological advancement. Mechanisation delivered electricity, cars and radios to a burgeoning mass consumer market along with home improvements such as vacuum cleaners and ice boxes. Cars facilitated urban expansion with the development of suburbs no longer constricted by the need to keep to railroads or bus routes. The use of new technology increased labour productivity too. Between 1923-29 productivity increased 32 per cent while wages increased by eight per cent.2 The actual percentage of the population in employment declined from 57.7 to 56.3 although the size of the labour force actually increased about 1 per cent a year.

However, whilst this is the popular presentation of the roaring twenties as a period of dramatic industrial expansion, these aspects of US development hid serious problems in agriculture and older, more established industries. In the aftermath of the First World War, US agriculture had pioneered mechanisation. There was optimism as prices increased along with yields with more land coming under cultivation. But by the recession of 1920-1 this disappeared. For the rest of the decade, prices and yields slumped, cultivation was cut back and there was a marked decline in agriculture employment. Farm evictions increased, local banks folded and depressed economic activity hit rural areas.3

On the land there was also a significant part of the population who were held in conditions approaching serfdom. The black population was denied basic rights including where to live, what businesses they could own, if any, and what work they could do. A segregated system was in place that was as bad as anything that existed under apartheid South Africa. Violence and murder were meted out to any who dared challenge white rule. They were denied the vote and political rights by threats and intimidation. While this system (known as the ?Jim Crow System?) created a super exploited labour force for some landowners and drove a wedge between poor whites and blacks that was advantageous to capital, it also compounded the underdevelopment and backwardness of the southern states as they lacked the booming consumer markets of the east coast.

Along with this decade-long agricultural depression, parts of US industry also faired less well. Textiles, shoes and coal mining (increasingly replaced by electricity) also declined throughout the decade.4 There were also huge imbalances in wealth: the top 0.1 per cent of the population owned as much wealth as the bottom 42 per cent. Like today, establishment politicians were in the pockets of the rich. Treasury secretary Andrew Mellon praised the ?trickle down effect?5 as President Coolidge cut the taxes on the rich in 1926. The uneven economic development, in particular the imbalances between roaring modern industry and depressed agriculture was not the cause of the crisis of 1929, that we will deal with later, but it did inhibit and constrict the development of US capitalism. The outlet for capital for greater profitability was modern industry and the feverish stock market of the latter part of the 1920s - and for a period it offered handsome returns.

International finance capital

In the middle of the 1920s, the US and French economies were growing sharply, but this pattern was by no means repeated across the major economies. Germany had not long endured its period of hyperinflation and Britain was in the middle of a decade of economic and political difficulties. German hyperinflation led the Great Powers to long again for the pre-war stability that they had enjoyed under the system of fixed exchange rates pegged to gold (the ?Gold Standard?). This system of currency and trading regulation had the following main principles:

1) Free flow of gold between countries and industries.
2) Fixed currency levels pegged to gold.
3) No international economic co-ordinating bodies, such as today?s World Bank or IMF, but there were conferences of the major powers.
4) The founding principle of the system was the need for states to maintain a stable balance of payments between imports and exports. If a country had a surplus of currency and gold then prices and imports would tend to rise choking off the surplus balance. Generally, this could be managed without too much detriment to the economy. However, a deficit balance would mean that the government of a country would have to convert gold into currency making up any shortfall, which would lead to a fall in the reserves. Normally, this would lead to devaluation, but under the Gold Standard this was ruled out, instead interest rates would rise and money supply into the economy would be restricted. Where this occurred it tended to create deflation in commodity prices by restricting demand.6

The benefits of the system were that exchange rates remained stable and any problems were supposedly dealt with by the automatic mechanisms. Manipulating currency levels to boost exports, as the United States has done over the last three decades was ruled out by the system of fixed exchange rates. However, the weaknesses of the system were the asymmetry of its effects - mild inflation versus severe deflation - that would become apparent in 1929 and after.

The British government had been debating returning to the Gold standard in the early 1920s. Temin quotes Sir Charles Addis, a director of the Bank of England, saying that a return to the standard, while it would hurt British trade and the working class, was necessary ?for the recovery by the City of London of its former position of the world?s financial centre.?7 For the British ruling class it was about returning its finance capital to global pre-eminence once again. This would make imports and foreign capital cheap and the City would, as it does today, earn money from its position of financial strength in the world economy. The City of London favoured a strong pound and so to secure this financial position in 1925 it would be pegged to gold at the pre-war level - despite the negative impact this would have on British exports.

In 1925, Winston Churchill became chancellor of Britain and returned the country to the pre-war gold standard. Galbraith hints that Churchill was more impressed by the grandeur of the Gold Standard than any comprehension of the damage that the move back to £1 (equalling $4.84) would cause.8 The result was a surge in prices in the UK, employers cutting wages, the General Strike of 1926, further unrest and a minority Labour government under Macdonald in 1929. France returned to the Gold Standard in 1928 but at a significantly lower rate than it had done in 1914 - in fact the franc was devalued by about 80 per cent and was able to enjoy the protection of the system without at first experiencing any of the costs. Germany was on the Gold Standard but crippled by the need to pay reparations to France because of World War One. For most of this period it kept interest rates high to attract foreign money in order to pay reparations, but the cost was an economy in deflation.9

Lining up behind these three economies were their respective empires and spheres of influences, for instance the Gold Standard which had become an international system. The United States was also on the Gold Standard but operated a policy often at odds with the other three powers. In 1927, European banks, headed by Montagu Norman, head of the Bank of England, pleaded with the US to adopt a policy of ?easy money?, which it did by reducing interest rates to 3.5 per cent. The aim was to make the US a less attractive place for money with the hope that some would return to Britain. In the US, the policy made money cheap to borrow in order to buy stock. Yet it wasn?t until a year later that in Galbraith?s words ?the time had come, as in all periods of speculation, when men sought not to be persuaded by the reality of things but to find excuses for escaping into a new world of reality.?10

The increases in the stock market went in leaps while the declines were heavy. March 1928 saw gains of 20 even 25 points a day (previously unheard of when gains were a few points a day). There was considerable growth in the numbers of shares trading with new records being made in March, nearly four million a day traded, to more than five million on 12 June when the market dropped heavily.

By the end of the year, the New York Times average was twice what it had been in 1924 and three times its 1918 height.11 Such was the optimism brought on by the stock market rise that soon to be President Hoover, in the acceptance speech for his nomination, was able to say: ?We in America are nearer to the final triumph over poverty than ever before.?12

There was massive speculation on stocks with profit margins rising from 5 to 12 per cent, while investments in stock margin (i.e. in anticipation of a price rise) rose from $2.5bn to $6bn at the end 1928. Millions of people were suckered into the market with promises of get rich schemes. Notable speculators became celebrities such as John Raskob described as ?a goodwill creator and popular vote getter? when supporting the democratic nominee in 1929. It was Raskob who penned a popular article claiming how everyone could become rich in less than 20 years by investing ?$15 of their savings each month into the stock market.? Another was William Crapo Durrant, who with Raskob, was described as ?full of optimism and hope not bound by heavy tradition.?13 But despite these ?mighty knights? of industry, there were increasing worries about the feverish activity. June 1928 had seen a big jolt and there were others in November and December.

President Coolidge on his way out of office did little to calm the activity and said that all was sound and stocks were cheap. A worried Federal Reserve did talk about doing something to reduce the fever - but then did nothing.

The bubble bursts
?A roaring boom was in progress in the stock market and like all booms, it had to end.? JK Galbraith

The insane speculation began to come unstuck when the economy started to decline. In the summer of 1929, industrial production fell sharply from an index of 126 in June to 117 in October, steel production also declined (a useful indicator of economic activity) while house building, which had been falling for several years, slumped in 1929.14 So from its high point at the beginning of 3 September 1929 when the Dow Jones reached 381.17, the stock market began to fall throughout the month and into October. Generally the direction was down with a few good days in between to keep interest up: the New York Times noted how well stock in the new Lehman Corporation had risen from an initial asking price of $104 to $13615; while Goldman Sachs assets were 11 times greater than they were in 1927.

Despite the warning signs, the capitalists still couldn?t see the crash ahead of them. The press cheered on the news that Andrew Mellon, one of the big supporters of the boom, would remain in cabinet; while head of the National City Bank, Charles Mitchell, was in Germany attacking those who claimed the boom was not based on real increases in value production and insisted that the economy was sound. Meanwhile, Irving Fisher, one of the founders of monetarism (the Fisher equation supposedly tracks the relationship between expansion of money and increases in inflation), announced that he expected to see the stock market far higher in the coming weeks.16

But then it came. The crash occurred over several weeks.

On the 23 October the Dow Jones stood at 326, eight days later on the 31 October it was at 272. By the 13 November it was under 200 at 198. It had fallen 39 per cent from 23 October with 70 million shares traded in the period. The New York Times index fell from 280 to 230 in October to reach a low of 166 on 13 November - a 41 per cent decline in a month.17 For the first few days, it was the new middle classes who had been lured into the market who were burnt, but by the end of this period the amounts being sold in bulk showed that the speculators and the great plutocrats were also destroyed. Galbraith refers to it as a great levelling process comparable in its significance with the Russian Revolution at the end of the previous decade.18

After November?s low a rally took place. This gave the optimists hope; new President Hoover responded by making upbeat noises about the state of the economy as stocks regained 1928 levels. A representative of Goldman Sachs reminded all who would listen that business was sound while, like Warren Buffet today, John D Rockefeller emerged from his hidings to declare that he had been buying stocks as, again, business was sound.19

The rally continued. By March 1930, the Dow Jones regained 74 per cent and the New York Times average regained 63 per cent of their October - November losses. By April 1930 the Dow Jones had returned to 294, a respectable recovery. The Wall Street Journal said in July 1930 ?everything indicates that business continues to make progress with production at a new high record...nothing in sight to check the upward trend.?

This period of false hope is reminiscent of the period of spring and summer of 2008, when global stocks regained much of what they lost in late 2007 and the optimists and speculators were once more to be heard saying how the fundamentals of the economy were sound. Then we had the collapses of September and October and a synchronised world recession. A year on from the rally of spring 1930 a slide took hold that saw the Dow Jones decline to 41.22 points in July 1932, an 89 per cent drop from its high point and the lowest it had been in the 20th century.

How a recession became a depression

What brought it to that low point was a recession that turned into a depression as the actions of other imperialist countries exacerbated the crisis. The slump in US agriculture had now been joined by a recession in industry and the bursting of a speculative bubble. The result, foreseen by the Federal Reserve, was a tightening of money as banks hoarded in anticipation of paying debts and defaults. The week of the crash in October 1929, the Fed added $300m to bank reserves and kept on boosting the reserves. By December Treasury secretary Andrew Mellon was claiming there was plenty of credit. Again the Fed cut interest rates in early 1930 from 4.5 per cent to 2 per cent , which theoretically should have eased the money worries. The problem was that as fast as the Fed was putting money into the system, failing banks were taking it out. Furthermore, as one academic noted a few years later: ?When reserve credit was created there was no possible way that its employment could be directed into specific areas?.20 In effect the government was just printing money to give to the banks to hoard or invest overseas: there was nothing bar moral suasion that could force them to use the money to increase the supply in the US market. It is precisely the same problem we see today.

By now the global economy was sliding into recession.

First hit were the developing semi-colonies. One of the key characteristics of Lenin?s theory of imperialism is the export of capital from the imperialist heartlands to the peripheral countries as the capitalists search for better returns on investment. This exported capital is then used to develop agriculture and mining, industry and shipping and so on. However, the slowing world economy and tighter money control meant that capital flowed out of these countries back to the imperialist heartlands. And with the countries of the periphery tied to the Gold Standard such a fleeing of capital could only mean a period of deflation. Echingreen argues that in the periphery the economic crisis had developed by spring 1929 if not earlier (before the slow down in the US economy was obvious) with central Europe, Latin America and the Far East suffering economic slowdown exacerbated by the Gold Standard into becoming a deflationary slump.21 All these areas had come into the orbit of imperialist control even where formal colonial rule did not exist: central Europe came under German and French influence; the UK and US dominated Latin America; the Dutch and British oversaw the Far East. But once monetary policy tightened up in the homelands the capital fled, leading to deflation, which meant that commodities? prices (the main exports of developing countries) became even cheaper.

These countries? economies were ?battered by the collapse of foreign lending and by the slump in primary commodity prices?22 leading to the world?s semi-colonies spiralling downwards. They had come off the gold standard and depreciated the currency, which began to happen in late 1929 and early 1930. So by the US rally in the stock market in spring 1930, the semi-colonial countries were already trying to reflate their economies through devaluation of their currency.

France escaped the stock market crash until late 1930 seeing instead a decline from 518 points (9 April, 1929) to 486 a year later. Its economy had also been booming up to the late 1920s especially new industries such as cars (second to the US car industry) and chemicals, where it was pushing into the historically strong German market. There was also a tendency towards mergers and combinations in modern industries.23 So confident were the French bourgeoisie that Paul Reynaud (then a minister later prime minister) was able to say in the summer of 1930: ?Everything leads us to hope that we are about to enter a great period of our history?.24

The relatively strong position of France and the still confident noises coming out of the US meant that by the late 1920s gold was flowing to these countries at the expense of Britain. By 1929 France and the US had 60 per cent of the world?s reserves as the two nations sucked in money and gold from the world?s debtor nations and the semi-colonies.25 Gold was also flowing from London to New York, Paris and Berlin in 1930. Philip Snowden, chancellor in Ramsey Macdonald?s national government, complained of the ?hoarding of gold? by France and the US was a threat to the Gold Standard. The only way to stop the flow was for individual countries to restrict capital movements, putting up interest rates, constricting money supply to the economy, which would have made their banks more attractive for money-capitalists but harmed their domestic industries by deepening the recession.

The German crisis

Germany had for this period stayed on the gold standard, choosing to keep high interest rates to attract capital while restricting economic growth. It was crippled by the need to pay reparations to France, which then had to pay UK and US war debts. In the three years from 1928 through to 1930, Germany had needed loans from the UK and US to pay reparations to France but despite this the Reichsbank still adhered to the Gold Standard. However there was growing pressure in Germany from the nationalists including the Nazi?s for it to default on payments. By 1930, events had come to a head, France had withdrawn from the Rhineland in a bid to keep friendly relations with Germany and the US had sponsored the Young Plan, a modified form of reparations that set a fixed period (58 years) to pay with a definite sum, while the sum could be postponed, depending on Germany?s ability to pay.

But this all failed. The economic crisis caught up with France in late 1930 and early 1931 and conditions in the US began to worsen again. In Britain, the National government led by Labour?s Ramsey Macdonald was pursing policies of deflation, free trade and trying to keep the international order intact. The result was in Macdonald?s words that ?the Labour Party maintained power by negating everything that the Labour party stood for?.

France and the US loaned money to the Bank of England twice during 1931 in order to keep sterling on the Gold Standard. There was even an attempt by Montagu Norman at the Bank of England to convince France and US to reflate the world economy but this failed in April 1931.

The next month there was another blow to the system. The Austrian National Bank revealed that the country?s Credit Anstalt Bank was in serious trouble. The news came out of nowhere, the bank had appeared to be solvent and had recently taken over a smaller bank. Anstalt had been discounting bills on behalf of other banks and revealed too many bad loans and its reserves were rapidly drying up. It held at least half of all deposits in Austria. Two loans were made to it from the three major powers and the Bank of International Settlements (formed in 1930). A third attempt to bail the bank out floundered when France asked for conditions on any loans. There were rumours that Germany and Austria were to form a customs union and France wanted a commitment from Vienna that no such move would be made. Austria and Germany rejected the condition and so no more loans were made.26 The bank went bust in June 1931. The Austrian economy went into freefall followed by Germany, which came off the Gold Standard and tried to reflate its economy.

Britain too was in a ruinous position. The Bank of England persuaded France and Netherlands to keep holding sterling in order to help it stay on the Gold Standard and by July 1931, the Bank of France held the equivalent in sterling of two-thirds of the UK?s gold reserves. The Bank of France recognised the problems in the UK economy but wanted to keep Britain on the Gold Standard. Therefore it did what it could to stabilise the Bank of England including offering a third loan and buying more sterling.

Yet with the UK economy staring a recession in the face and a mutiny in the navy at Invergordon, the Bank of England came off the Gold Standard and depreciated sterling by 30 per cent immediately. Netherlands complained of betrayal by Britain and France was equally unhappy as it was holding a load of worthless sterling. It demanded compensation and was paid some up to 1933 while still demanding that the UK returned to the Gold Standard.27 Another 25 countries followed Britain off the Gold Standard. The post World War One financial system that had regulated trade and economic relations between the imperialist countries and maintained their exploitation and dominance of the developing world had ended.

Those countries that came of the Gold Standard early were able to escape the worst of the depression. But the overall result was a huge worldwide deflationary spiral that drowned the world in a decade of despair and led to the Second World War. And it wasn?t until the huge destruction and expenditure on new capital of that war that capitalism finally came out of its period of stagnation.

Roosevelt and Keynes
?What saved the economy, and the New Deal, was the enormous public works project known as World War II, which finally provided a fiscal stimulus adequate to the economy?s needs.?28

On becoming President in 1933, Roosevelt was faced with a threefold crisis: deflation in prices that was leading to bankruptcies; mass unemployment and real hardships for the poor and vulnerable. The result was deprecation in the dollar, cheapening some imports but raising prices and impoverishing more people.

He pursued what became the New Deal with the National Industry Recovery Act which was designed to inflate the economy with programme of public works and has the support of leading industrial tycoons. The Social Security Act in 1935 drew the unions into social partnership by introducing limited welfare reforms. The aim was to regulate utility bills, prices and wages, support for trade unions, and a state compensation scheme for unemployment and pensions. Industry cartels, including in agriculture, were given government backing to set ?fair prices? and wages. In agriculture, output and storage was also fixed.

About the cartels and prices, business said nothing but when it came to the social security act they were furious. Galbraith describes their opposition: ?No legislation in American history was more bitterly assailed by business spokesmen than the proposed social security act.?29

Business leaders, not unlike their Republican counterparts today, called the bill socialist and un-American. One George Chandler of the Ohio Chamber of Commerce traced ?the downfall of Rome to such an act?.30

There was also a widespread belief among Roosevelt supporters that the depression was a result of the inequality of American capitalism. Marriner S. Eccles, who was appointed chair of the Fed by Roosevelt, said in his memoirs:

?As mass production has to be accompanied by mass consumption, mass consumption, in turn, implies a distribution of wealth ? not of existing wealth, but of wealth as it is currently produced ? to provide men with buying power equal to the amount of goods and services offered by the nation?s economic machinery.?

He continued:

?Instead of achieving that kind of distribution, a giant suction pump had by 1929-30 drawn into a few hands an increasing portion of currently produced wealth. This served them as capital accumulation. But by taking purchasing power out of the hands of mass consumers, the savers denied to themselves the kind of effective demand for their products that would justify a reinvestment of their capital accumulations in new plants. In consequence, as in a poker game where the chips were concentrated in fewer and fewer hands, the other fellows could stay in the game only by borrowing. When their credit ran out, the game stopped. That is what happened to us in the twenties.?31

Two other Roosevelt appointees Roy Burke and Gardiner Mews blamed the monopolisation of industry, with half of all US wealth owned by 200 corporations and shareholders losing control of their boards.32

Today, despite the popular criticisms of greedy bankers, very few politicians are pointing to the huge inequalities in wealth and the concentration of ownership in ever-smaller number of hands as a cause of the recession.

Though correct about the greed and level of capital concentration, the popular theory still argued that imbalances were an aberration or a product of a particular type of unregulated capitalism.

It was also out of the New Deal programme that Keynes developed his theory in The General Theory of Employment, Interest and Money. It ignores much of classical economic theory of the firm and the supposed the rationality of supply and demand. Keynes also dismissed the classical school of money (see below). Instead it focuses on macroeconomics and the role of the state in controlling expenditure, interest rates, prices and consumption - precisely in order to maintain the capitalist system and capitals. Lenin, Bukharin and the Bolsheviks analysed the growth and fusion of banking and industrial capital into finance capital and the role of the state in developing and defending this process. Keynes, in effect, writes the practice handbook for this new reality, on how the state and the bosses can run their economy in the context of large-scale monopolisation and the growing economic role played by the state in organising accumulation.

Nonetheless the extent of Roosevelt?s Keynesian has been called into question. The most comprehensive analysis of the 1930s by a bourgeois economist, E Cary Brown, says that ?fiscal stimulus was unsuccessful not because it does not work, but because it was not tried.? A point reiterated last year by Paul Krugman against some right-wing critics of Bush?s bailing out the banks.33

The monetarists and the 1929 crisis

By the time Roosevelt became president the dominance of classical economists in the government and at the Fed had ended. Roosevelt surrounded himself with economists who were willing to see the government intervene over prices, wages and infrastructure projects. Yet when it comes to explaining the cause of crisis, the classical economists have come back in vogue. Broadly they break into two camps. First, the Austrian School of Hayek, Von Mises, and in the US, Rothbard, who argue that it was the loosening of monetary policy in the run up to 1929 that brought on the crash. Both Hayek and Von Mises supposedly predicted the downfall of the US stock market and the disastrous consequences for the rest of the world, with Von Mises refusing a job at the Austrian central bank.

Second, there are those such as Milton Freidman and Anna Schwarz who argue that it was the lack of money in the aftermath of the Wall Street crash that turned a recession into a global depression. This view is also supported by the current incumbent at the Fed, Ben Bernanke, who wrote his doctorate on the crisis of 1929. Bernanke argues that it was policy errors post-1929 that caused the fall in industrial output:

?Correlations in declines of output and money are now reasonably interpreted as being the cause of the decline in money.?34 He also found that there was ?statistically high correlation between banking panics and declines in industrial output.?35

Both sets of arguments are united in saying that money supply determines output. However, they differ on remedies, Rothbard for example claims that the Fed did try to reflate the economy to the tune of $1.1bn or more but this only increased hoarding and that the government should have left the economy alone and continued with its monetary policy based on the gold standard. Bernanke, however, counters by saying that those governments that came off the gold standard early were able to reflate and escape the worse effects of the recession - it was precisely the tight control exhibited by the gold standard that condemned whole swathes of the world to economic misery.

So, in summation, classical economists have presented us with a picture of a money supply that expanded too much up until 1929 and then contracted too far in the aftermath. This only tells us what happens to money in times of boom and bust. It was, incidentally, noted long ago by Marx and Engels:

?In the period of stagnation following a crisis, circulation is smallest; with the renewed demand, a greater need for circulating medium develops, which increases with rising prosperity; the quantity of circulating medium reaches its apex in the period of over-tension and over-speculation - the crisis precipitously breaks out and overnight bank -notes which yesterday were still so plentiful disappear from the market and with them the discounters of bills, lenders of money on securities, and buyers of commodities.?

?Once the crisis has broken out, it becomes from then on only a question of means of payment. But since every one is dependent upon someone else for the receipt of these means of payment, and no one knows whether the next one will be able to meet his payments when due, a regular stampede ensues for those means of payment available on the market, that is, for bank-notes. Everyone hoards as many of them as he can lay hand on, and thus the notes disappear from circulation on the very day when they are most needed.?36

Leaving aside the fact that the bourgeois economists are only describing a phenomenon analysed many years before, the problem lies in their belief that money is the cause of a fall in output and of the crash, rather than an expression of it. Why does it appear so? Again we can turn to Marx:

?The credit system appears as the main lever of over-production and over-speculation in commerce solely because the reproduction process, which is elastic by nature, is here forced to its extreme limits, and is so forced because a large part of the social capital is employed by people who do not own it and who consequently tackle things quite differently than the owner, who anxiously weighs the limitations of his private capital in so far as he handles it himself... At the same time credit accelerates the violent eruptions of this contradiction - crises - and thereby the elements of disintegration of the old mode of production.?37

And, again, when Marx argues against British bankers and their theories of how money brings forth real capital:

?Was not this enormous increase of production an increase of capital itself, and if it created a demand, did it not also create the supply, and, simultaneously, an increased supply of money-capital??38

Credit is called forth by an increase in capital, and acts as a lever to massively expand output against its very limits, which is one of the causes of crises. The classical theorists have the system upside down. Their concern with the disappearance of credit in crises has led them to apportion the main blame to money and the mishandling of it. Money capital and credit however are brought forward precisely to ease and ensure the rapid development of output. Of course, credit has an effect upon output and the economy, as described above, but the root cause lies in the contradictions of the production process itself i.e. the creation of commodities and surplus value rather in the realm of circulation.

Marxism and the crisis of 1929

All the above theories blame actors or events; none can adduce the great depression to the structural problems of capitalism itself. What was the state of the US economy? Sections were booming but other parts, mainly to do with the limited consumption of the masses, were declining. Labour productivity had risen throughout the decade but wages had grown at a slower rate. This implies that the capitalists were the chief beneficiaries of these productivity improvements, which we would expect to see in rising profitability.

Most bourgeois economists argue these imbalances are a consequence of economic growth and the natural order of things: the rise and fall of some sectors over others. Marxists see such transformations as being the result of social relations - specifically of capital itself. Marx located the crisis in England of 1847 as being brought on in part by ?overproduction in industry, underproduction in agriculture?, which ?gave rise to an increased demand for money capital i.e. for credit and money.?39 It was this same duality that was witnessed in the US in the 1920s.

For Marx, the total prices in an economy, i.e. what commodities are sold at, must equal the sum of the values, the amount of average socially necessary labour time contained in the commodities. If one sector, e.g. agriculture, is experiencing depression and a fall in prices below the value of commodities produced, then the prices in other parts of industry must be higher than their values to compensate. The surplus of the prices over values in industry (super profits) would have the effect of attracting ever-greater amounts of capital, both in the forms of new firms and new money leading to overproduction.

Adding to the depression in agriculture was the decline in textiles and shoes. All these sectors - in effect food and clothing - of the economy are bought by the working class.

The problems of agriculture and of industries supplying working class consumption would have distorted and channelled the growth of the economy. Capital would have poured into those sectors where the profits were rising: in this case fixed capital (business construction, machinery, electricity etc) and luxury goods. In the later case, goods that we may think of necessities today such as cars, hoovers, fridges, and so on, were in the 1920s only for the middle and upper classes. Despite the huge advances in vehicle production only one in five households had a car.

If we examine the profit rates of the era, they show marked differences across industries but overall improvements from the early part of the decade until 1929.40 While the rate of profit was rising throughout the decade it still wasn?t greater than that before the recession of 1920-21. Rather than representing a greater expansion, the post 1920-21 profit rates were uneven and never regained their earlier dynamism. Underneath the surface of the Roaring Twenties, there were areas of decline and stagnation.

Those industries that were seeing rising profit rates were also witnessing rising productivity - a function of the increased use of technology. This resulted in the rise of the organic composition of capital (OCC), which would have brought about a fall in the profit rates and eventually a collapse in the mass of profit. The attacks on the working class in the form of holding down wages would have maintained profit rates for a while, but the cost of suppressing working class consumption denied the bosses a profitable outlet for their capital - instead it became over-accumulated in certain industries. This is an example of a countervailing tendency to the tendency for the rate of profit to fall eventually undermining its own efficacy and hastening the fall in the rate of profit.41

Therefore, the crisis of 1929 was the culmination of the capitalist production process within a structurally unbalanced economy. First, the economy slowed up in the summer of 1929, which represented the decline of profits and the effects upon business. The slowing down of the stock market in September and October was not an out of the sky crash but a long awaited correction to the credit bubble. The economy managed to stabilise itself at a lower but healthy rate of growth in 1930-1 but without dealing with any of the fundamental problems in the economy - i.e. over-accumulation and the stagnation of important sectors.

The problems in the world economy correlated with those in the domestic US economy. The world economy went into crisis, exacerbated by the way in which finance capital was organised in the Gold Standard, nations offloaded the crisis onto each other, and eventually the declining finance capital of Britain took the whole system down. The US was plunged into depression as the over-accumulation and distortions of the economy led to their opposites: a great destruction of capital in the 1930s, which for the US led to an expansion during the war. For other European countries and Japan, it was the war itself that led to the destruction of capital and its post-war reconstruction. Capital after the Second World War then experienced a great boom of some 20 years, as profit rates were re-founded at higher levels than the inter-war periods. The long crisis of capitalism that had begun with the UK as the dominant power being challenged by France, Germany and the US eventually - through crises depressions and two world wars - was remodelled with a system dominated by the new hegemon, the United States.

Lessons for today

All historical analogies are limited and we are clear that the current crisis is not the same as 1929. The international financial system appears to be more flexible than the Gold Standard and the tools at its disposable are better. There are not the imperialist rivalries like which existed in Europe after the First World War: huge reparations, debt and nationalist movements. The failure of Britain to maintain its power between the wars is also seen by some historians as essential to the depression as the Gold Standard needed a world hegemon for it to work.42 However, similarities exist and its our duty to point them out and to analyse whether such similarities will have the same or different results.

The similarities are:
? Stock market crashes that had their roots in the decline of profitability caused by over accumulation
? A synchronised world recession
? Attacks on the working class and shifts in wealth from the workers to the rich
? The collapse of many key institutions of the financial order
? Declining world imperialist hegemons: UK in 1929 and to a lesser extent the US in 2008

What we cannot predict is the scale of the crisis and its longevity. That is at the mercy of the capitalists? ability to enact policies to shorten the crisis and the ability of the working class globally to fight-back against attempts to make it pay for the bosses? crisis. However, 1929 acts as a warning: the longer the crisis continues the more certain is it to end in world war. We saw in the last century the barbarism caused by capitalism; now we must use the opportunity provided by this crisis to save mankind by realising our socialist future.

ENDNOTES

1 Historical Statistics of the United States, 1976

2 The economic data from this article is from Smily, G., US Economy in the 1920s

3 ibid, pp. 8-11

4 ibid, p.12

5 The false claim that the rich getting wealthier creates prosperity for all. This re-emerged as one of the major ideological claims of the neoliberalis in the 1990s.

6 Temin, P., p.8 Lessons from the Great Depression, 1989

7 ibid, p.13

8 Galbraith J., K., p.9, The Great Crash of 1929, 1997

9 Eichengreen B., p.243, Golden Fetters; The Gold Standard and the great Depression 1919-37, 1996

10 ibid p.12

11 Klein, M., p.5, The Rainbow?s End; the Crash of 1929, 2003

12 ibid p.5

13 Galbraith, J., K., op cit, p.14

14 ibid, p.88

15 ibid p.92

16 ibid, p.94

17 Klein, op cit, p.5

18 ibid p.113

19 ibid p.119

20 May, W., ?Inflation in securities?, cited in Willis, and, Chapman, The Economics of Inflation: the Basis of Contemporary American Monetary Policy, 1935

21 Eichengreen, op cit, p.222

22 Eichengreen ibid p236

23 Shamir, H., p.10, Economic Crisis and French Foreign Policy 1930-36

24 Shamir, ibid, p.22

25 Temin, op cit, p.20

26 See Eichengreen, p.267, op cit, and Shamir pp. 60-65, op cit

27 Shamir, p.161, op cit

28 Paul Krugman, New York Times, 10 November 2008

29 Galbraith p.217, History of Economic Thought

30 p.217, ibid

31 Eccles, M., S., Beckoning Frontiers: Public and Personal Recollections (1st ed.)

32 cited in Galbraith, p.198, History of Economic Thought

33 Krugman, P., 8 November 2008, http://krugman.blogs.nytimes.com/2008/11/08/new-deal-economics [1]

34 Bernanke, B., p.8, Essays on the Great Depression

35 ibid, p.27

36 Note by Engels, F., p.527, chapter 33, Capital (Vol III)

37 Marx, K. p.441 , chapter 27, Capital, (Vol III)

38 ibid p.423

39 Marx, K., Chapter 25, Capital (Vol III)

40 See http://myweb.lmu.edu/jdevine/depr/d3.html#diag3d [2]

Jim Devine has studied the profit rates of the period drawing on Dumenil and Levy?s work. Generally, they support the idea that the crash was due to the overaccumulation of capital.

41 Furthermore, suppressions in the value of V (variable capital), such as wages, in relation to C (fixed capital) only increases the OCC and aggravates on the falling rate of profit.

42 This is the thesis of Kindelberger, C., in The World in Depression 1929-39, 1987

Links:
[1] http://krugman.blogs.nytimes.com/2008/11/08/new-deal-economics
[2] http://myweb.lmu.edu/jdevine/depr/d3.html#diag3d