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The Collapse of Capitalism?

Forrest Cookson explains the devastation in the US economy and surveys the fall-out

THERE is a saying that it is darkest just before dawn; but the inverse of that warns us that just when we are most successful, disaster strikes.

In the early 1930s, the industrial economies collapsed following an extravagant 1920s with excessive expansion of the financial system, misaligned exchange rates, a giant bubble in the American stock market, and a banking system in the United States that had gone without supervision.

The response to this, as the bubble burst, was to tighten credit availability, pushing the banking sector into collapse and sending the American economy and the world economy into a deep recession. Policy actions by the American government raised the real wage, reduced investment, and keep the American economy depressed until, finally, World War II led to dramatic expansion of expenditures by government and escape from a weak economic situation.

The initial attempts by the Roosevelt administration to raise wages by government decree caused a mismatch of wages to productivity that held up industrial revival for years. The key step of raising government expenditure never really took place until the war overcame conventional attitudes about the government deficit.

In this disaster, with the values of democracy and open markets at risk, Keynes formulated the key concept of using government deficits to offset declines in private demands. These ideas shaped economic policy of the industrial world after WWII and have been responsible for the continued expansion of the industrial economies. What failed was socialism. Keynes well understood that a system was needed, intermediate between the pure capitalistic model and the socialistic model.