THE CAUSE OF THE DEPRESSION IN THE NIGERIAN ECONOMY

By

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The crisis in the Nigerian economy has evoked a lot of responses. These responses are part confused and part ignorant. The non-economist can be excused for being ignorant and surprised. What is inexcusable is the fact that no real understanding of the crisis has managed to show through the comments of the economists in Nigeria.

Three main reasons account for this deficiency of the economists. The first is that to most bourgeois minds, a capitalist crisis appears as a natural disaster or as an error that has nothing to do with the character of capitalism.

The second is that the way Nigerian economists by and large are trained robs them of the capacity to make a deep analysis of the crisis. They take a narrowly national approach and see it as a matter of maladjustments here and there, such as an exchange rate or petroleum price maladjustment, which can be corrected by this or that isolated policy.

This is not surprising because, under the illusion of the long post-Second-World-War prosperity in the leading capitalist economies, it was thought that Keynes had conquered depressions. Consequently, a study of business cycles virtually disappeared from the syllabuses of universities. In place of it appearred the vague talk about 'instability' which may mean seasonal fluctuations, balance-of-payments disequilibria, strikes, inflation or changes in taxation or other government policies. In development economics, which is tailored for underdeveloped countries, 'instability' has meant predominantly balance of payments maladjustments, inflation, strikes and coups d'etat.

For Nigerian economists specifically, a third reason for the lack of insight into the real nature of the crisis lies in the country's buoyant agricultural export performance during and immediately after the Second-World-War and her petroleum export good fortune thereafter. Because of this fortunate export position, she was largely long insulated from shocks from the many capitalist depressions after the Second-World-War. These depressions themselves happened to be relatively mild and short-lived by comparison with the 1929 depression or the current one. Now the country and her economists are caught with their pants down. Everyone is in the dark and confused.

In this paper we try to show where not to look for the cause of the crisis and where to look for its real cause.

First we review the fancies of local opinion regarding the causes of the depression. Next we point out where one ought to look for the cause. Then we axamine the roles of mineral oil and diversification in the light of this. Finally, we look briefly at some causes suggested by some economic theorists in capitalist countries.

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NIGERIAN FANCIES

To the bourgeois mind, crises of the capitalist system are simply natural disasters or the result of the errors of this or that government. It is not surprising that some university social scientists who have commented on the crisis hold that there is nothing unusual about the Nigerian depression, because depressions and economic bad times have always been a characteristic of human society. Then they claim that if the right policies had been pursued the country would nevertheless have suffered less.

The first thing anyone should do who wants to understand what has hit Nigeria is to distinguish the economic disasters of precapitalist societies from depressions in the capitalist economy. Since the beginning of history, floods, epidemics, famines and wars have devastated populations, drastically disrupted production and caused tremendous hardship. We have also had economic declines caused by special events such as the exhaustion of a mineral resource that was the basis of an economic boom.

Two things can be said about events of this kind. First, they are not really natural disasters which cannot be erased from human society. The history of modern times in socialist countries has shown that by the development of science and socialist planning, these so-called natural disasters can be prevented. Secondly, disasters of the kind here referred to are quite different from capitalist depressions.

Another view which sees the crisis as more or less a natural or unavoidable disaster is the one which claims that the Nigerian crisis is part of 'a world-wide depression.'

There are two errors involved in this view. The first is that the crisis is not, in fact, world-wide. It is seen as world-wide only by eyes trained or inherently predisposed to seeing the capitalist world as the whole world. The crisis is actually an on-going event in the capitalist world. There is no depression, and there cannot be one, emanating from socialist economies.

The capitalist depression affects any socialist economy only to the extent of its exposure to the vagaries of capitalist money and other markets as illustrated by the case of Poland. Even so, it is only under capitalism, for instance, that a readjustment of economic activity produces a depression. A depression must be distinguished from financial problems such as beset Poland. In fact, as we shall soon see, a depression is caused in the capitalist economy not by shortage of funds but by what is apparently too much money.

The second mistake made by the 'world-wide recession' view is that this view imagines the current depression to be like the relatively short, largely inventory recessions which occured on the average every four years in the industrial capitalist economies from 1945 to 1975. The present crisis, however, is of a different character. We are certainly not dealing with a recession caused by the overstocking of warehouses and raw material stores in capitalist countries.

Another popular fancy in Nigeria, this time promoted by the so-called explanations of economists, is that the depression in Nigeria is caused by the fall in the price of and demand for mineral oil. If one were to press further and ask why the price of petroleum and the demand for it have fallen, one may get such answers as the discovery of North-sea oil, or the effectiveness of the campaign to economise petroleum consumption or find substitutes for petroleum from OPEC countries launched by the traditionally large consumers of petroleum, namely, the industrialised countries of the Northern hemisphere.

One may sometimes get the answer that the price of and demand for petroleum have been adversely affected by 'the recession in the world economy', and that is where the matter is supposed to end. However, far from being an explanation of the crisis, the so-called 'recession in the world economy' is a catch-all for avoiding explanation. Nigerians are left to feel that they are hit by a global natural disaster whose cause is mysterious and about which nothing can be done, except to try to 'lessen the suffering'.

Because Nigerian economists offer the so-called fall in petroleum price and the demand for petroleum as the economist's authentic explanation of the economic crisis in Nigeria, we shall dwell on this purported explanation in one of the sections below.

An explanation of the crisis that appears, at least to their authors, less superficial than merely blaming mineral oil is the claim that the crisis has occured in Nigeria because of what is called 'the structural weakness' of her economy. It is implied that if the economy were not 'structurally weak' either the depression would not have occured at all in Nigeria or it would have been less disastrous in its impact.

By 'structural weakness', adherents of this school of thought mean either lack of diversification or the dependency of the economy on the economies of the 'northern sector' of the world.

Because the 'structural deficiency' view is held by many economists as the key par excellence to the apparent mystery of the crisis, we shall also devote a section below to examining it.

Lastly, there is the widely held opinion that the Nigerian crisis is a 'managerial problem'. This view was first expressed by Chief AWOLOWO. Professor AKINYEDE has claimed that Nigeria's economy need not be depressed if she could pursue a self-regarding colonialist pattern of economic and foreign policies with regard to other African countries. Professor DIEJOMAOH has claimed that with a loan from the International Monetary Fund, the country can soon end the crisis, provided she 'curtails her expenditure'. The implication of views such as these is that the crisis is brought about by mismanagement or is removable by management according to the prescription of this or that advocate.

Since it is obvious from what we are going to say that the crisis cannot be explained as due to particular policy or managerial errors, there is no need to give any special attention to this view.

CAPITALIST DEPRESSION

Depressions have characterised capitalism from its infancy in Europe and America in the eighteenth century. Before the Second-World-War, these depressions happened every eight to ten years. After the Second-World-War they happened every four years. Why is this so?

To answer the question, we have to be clear about the nature of a capitalist economy. A capitalist economy is a modern, or industrial, economy where the means of production and distribution, namely, factories and factory equipment, farms and farm equipment, mines and mining equipment, transport equipment, shops and their wares, and financial houses and money to finance business, are owned predominantly by capitalists. Capitalists are private businessmen who found firms and engage the labour of those who have no capital to produce goods for sale with the sole purpose of realising profits, or to sell specialised and organised services for the sole purpose of making profits.

Thus production and distribution of goods and services are done basically by capitalist-owned firms for profit.

It is important to emphasise that the capitalist economy is not simply a market economy; it is a particular kind of market economy. It is not simply an industrial economy; it is a particular type of industrial economy. It is not simply a money economy; it is a particular type of money economy. It is, in fact, a market, industrial and money economy where the production and distribution of goods and services is done solely for profit in enterprises belonging to capitalists.

For the explanation of depressions, it is important to note three important characteristics of capitalist enterprises. First, they are privately-owned and autonomous. That is to say that their owners can form, develop or dissolve them as they wish and can take business decisions, guided by their own self-interest without reference to anyone. Secondly, profit for their owners is the sole purpose of existence of a capitalist enterprise. This means that if profit is not earned the enterprise is regarded as not doing well, and if this happens over a certain period, the enterprise is dissolved irrespective of its usefulness to society. Thirdly, capitalist enterprises compete. The meaning of capitalist competition is that each enterprise is trying to gain for its owners as much as possible of the potential surplus that the labour of society is capable of generating, say, within a year.

The capitalist economy is characterised by alternating periods of prosperity and depression. These alternations are popularly called 'industrial fluctuation' or 'business cycles'. During periods of prosperity, profit prospects are good, business is generally buoyant, a high rate of investment takes place, there is a growing demand for labour and unemployment is down or hardly existent, and earnings from labour and property are relatively high. During depressions, however, the opposite of these things take place. Profit prospects are gloomy; business is generally slack with factories, for instance, closed or running well below capacity; little investment takes place because capitalist firms are afraid of losses; the demand for labour falls and workers already in employment are retrenched in large numbers; earnings from labour and property (except for monopoly profits) are relatively low.

What is responsible for these alternations? Economists have given a lot of thought to the question. Several answers have been given. All the answers agree on one thing, however, that the fluctuations arise from different rates of investment. The difference in explanation arise from different economists emphasising different factors as mainly responsible for the rises and falls in the rate of investment. The variants in explanation do not interest us. We can concentrate on the main theme.

Why is investment important and why does it alternate cyclically in capitalist and not in other economies? To answer the question, we must first describe the phases of the business cycle more precisely. We have, strictly speaking, four phases: depression (or slump), recovery, boom and recession.

In a normal cycle, during a depression, the relevant variables namely, profit prospects, production, investment, sales, employment and incomes are relatively low. A recovery is marked by a rise in these indicators of the business situation. In the normal case, a recovery takes place essentially because stocks of raw materials and produced goods have run so low that it becomes profitable to restock. Once the restocking investment starts, this has a stimulating effect on the rest of the economy and there is a general recovery.

The recovery runs into a boom because as profit prospects rise during the recovery and businessmen sense the coming of steady increases in demand, they rush to stock more inventory for fear of a rise in costs or they expand their plants and adopt new technology and this calls for new fixed investment. The expansion and reconstruction of plant lifts the whole scale of the economy. The banks are willing to lend during the recovery because of bright profit prospects and because funds are plentiful as a result of uninvested funds that were held in the banking system during the depression. The expansion in lending helps to inflate the economy and sustain the atmosphere of profit prospects.

As prosperity becomes prolonged, however, reserves are exhausted, labour and raw material costs rise, the investment in plant calls for higher depreciation charges. The boom is ended because profit prospects are reduced as it proceeds. First, the expansion of plant or the rebuilding of inventory stock reaches a stage where the capacity or stock desired by businessmen has been largely attained so that capacity or stock building peters out. Secondly, the rise in costs means a decline in the rate of profit. It is sufficient for a few important firms to stop expansion for either reason and the effect spreads through the economy. Once the boom bursts, a recession starts.

In the recession, orders are cancelled, stocks of raw materials and inventory are allowed to fall, wages are held up, and retrenchment of workers takes place.

The commodity price increases and the rise in profits during the expansion phase of the cycle registers, in fact, a redistribution of purchasing power in favour of businessmen in general who will later not invest the funds for fear of business losses. It is not shortage of money during the boom that causes investment to stagger, bringing about the depression as some economists used to think. Evidence shows that since World-War II investible funds have been plentiful all the time and the rate of interest has been low, yet depressions take place.

Investment is arrested not because of shortage of investible funds but because of the narrowing of profit expectations due to rising costs and the termination of orders when the levels of stock and plant estimated as adequate during the expansion have been built.

The capitalist economy contains many paradoxes. One of them is that in order to barely sustain full employment of available labour and productive capacity, investment must keep on growing. Once new investment stops, this means a curtailment of orders for the output of producer goods industries, and a decline in profit expectations. Again, prosperity raises costs and thus lowers profit expectations. Thus the boom inexorably produces the next depression.

Business cycles, however, are not of the same severity. The explanation of differences in the scale and duration of depressions is complex. However, it can be said that the length of a boom or the severity of a depression depends on whether it is inventory rebuilding or plant and residential construction that predominates in the expansion phase of the cycle. If the expansion or the contraction is largely a matter of inventory adjustment, the depression is likely to be mild and relatively short-lived.

We can measure the mildness or severity of a depression in terms of the volume of unemployment and/or the average duration of unemployment per unemployed worker.

PROPAGATED AND CLIENT DEPRESSION

World depressions are caused by investment variations by capitalist firms in the three centres of workd capitalism, namely, the United States of America, Western Europe and Japan. The more ramified the business links between an industrial capitalist country and other countries, or the greater the share of a capitalist country in world trade, the greater will be the effects of its own cycles on other capitalistic economies.

Today the United States of America has the largest share of world trade among capitalist countries. She also has the most ramified business connections with the rest of the capitalist world. Consequently, the capitalist world today is most susceptible to cyclical and other crises originating from the economy of the United States.

The present depression actually originated from the U.S. economy around 1970. It began to involve the European economies seriously in 1975–76. It started to affect the Japanese and the underdeveloped economies seriously in 1980. It is thus a prolonged decline comparable to the situation in the early 1930s. It is not an inventory-dominant type of depression for which beggar-my-neighbour policies, such as devaluation, can be even a seemingly credible policy response.

However, a very small group of countries, namely, the United States, Britain, France, West Germany and Japan, are the ones that can really generate world-wide depressions. Among countries linked with them are the so-called underdeveloped ones. These countries have foreign oriented economies in the sense that export earnings are crucial to their stability and development and that their modern sector depends on imports for its sustenance. At the same time they have no industrial base of their own, being industrially dependent on metropolitan capitalist countries.

Consequently, depressions, from the centres of world capitalism have particularly severe repercussions on them. Since these countries do not generate world depressions themselves, the depressions that hit them most severely are those they inherit as clients. We may refer to such transferred depressions as 'client depressions'.

What is hitting Nigeria is a client depression.

PETROLEUM AND THE DEPRESSION

As we have seen, it is claimed by many simply that the depression in Nigeria is caused by the fall in the country's mineral revenue due to the decline in both the price of and the demand for petroleum. On the surface, this assertion looks true.

However, once the centres of world capitalism are depressed, the economies of their clients will necessarily be depressed because of the industrial and commercial links. After all, the economies of countries such as Nigeria are operated by transnational monopolies owned in the centres of world capitalism. The client country affected need not be a petroleum exporting country. Other countries have been greatly affected by the depression whether or not they are oil exporters. The Nigerian economy would still have been depressed if she had not been a mineral oil exporter. This is evident from the decline in the country's non-oil export revenue as shown by the data in Table 1.

Table 1: Decline in Nigeria's export earnings*

₦ million

	1980	1981	1982
Exports (f.o.b.)	7,147.7	6,127.1	4,013.0
Oil Sector	6,941.6	6,052.7	3,957.2
Non-oil Sector	0,201.1	0,074.4	0,055.8

Note: * *The figures are provisional*

Source: *Central Bank of Nigeria,* Developments in the Nigerian Economy during the First Half of 1982.

This table shows that while oil sector revenue fell from ₦ 6,941.6 million in 1980 to ₦ 3,957.2 in 1982, a fall of 43 per cent, correspondingly, non-oil sector revenue fall from ₦ 201.1 million to ₦ 55.8 million, a decline of 55 per cent. Apart from the fact that mineral oil gives the Nigerian economy a 30-fold to 90-fold export-income leverage, there is the significant fact that petroleum income declined less than non-petroleum income.

In Nigeria the fall in mineral oil revenue means two things essentially. First the government cannot realise as much from petroleum taxes as before. Therefore government programmes have to be restricted. Secondly, the country cannot earn as much foreign exchange through petroleum sales as before. Therefore she cannot pay for machinery, raw material, food and other imports on the former scale. In fact, she has run into a balance of payments problem, has had to import on credit, and has resorted to borrowing from foreign banks the foreign exchange to settle her bills.

The inability to import raw materials on the former scale is particularly important, because this means that her own factories, which depend heavily on raw material imports, have to cease or cut down production, and that workers have to be retrenched. Goods become scarce and this increases inflation.

As far as many Nigerian economists see it, this is the essence of the crisis.

As a matter of fact, however, far from being the villain, mineral oil is still the savieur of the country, as the leverage which she provides for her development demonstrates.

THE STRUCTURAL DEFFICIENCY CASE

Let us now take up the claim that the country's economy is suffering because she is structurally defficient and that what she needs to escape from depressions is restructuring. As we have seen by 'structural defects', the advocates of this view may mean that the economy is not sufficiently diversified or they may mean that it is too dependent on industrial centres abroad.

By 'diversification' is meant that the economy is dominated by one export good, namely, petroleum; that it does not have the right kinds of industries, that it is too tied to traditional customers.

The diversification case falls flat, however diversification is defined. The weakness of the case can be seen easily when it is realised that the most diversified capitalist economies are those from which the depression has emanated in the first place. The depression has also affected every capitalistic economy no matter the degree of diversification.

Those who speak and write about 'too much reliance on petroleum' suffer from another version of the petroleum fallacy. Petroleum revenue was to Nigeria a windfall. No one designed the high petroleum revenue as an act of policy. Nigerian resources were not diverted on any large scale to petroleum. The fact that 90 per cent of the country's export revenue is from petroleum is simply fortuitous. Petroleum provided a powerful means of diversifying the economy rather than diverted capital, labour and land from other production. Very little of Nigeria's own resources is invested in the petroleum industry.

It is misleading to give the impression that efforts have not been made to diversify the Nigerian economy since independence. To claim that 'enough has not been done' in the direction of diversification, as is often done, is question-begging. What is 'enough' and what is not is a matter of opinion. Given the strategy of raw-material export-led development plus import-substitution, which was accepted without question by all orthodox Nigerian and foreign economists for Nigeria, it is not easy to fancy which industry should have been established which has not been. At any rate various industrial branches have come into existence between 1960 and 1983. Diversification is not a new discovery which would have saved the country from depression had it been thought of by some brilliant policy-maker. It has been the inspiration and the practice of Nigerian development since the late 1950s. The whole of the pioneer industry scheme, the heavy investment in the infrastructure, and the various policies for attracting foreign investment were aimed directly at diversification and have yielded what fruits they could yield.

If anything went wrong in terms of the diversification of the economy's activity branch structure, it was the strategy of export-led and import – substitution growth itself that was questionable. As Latin American experience should have taught, this strategy was bound only to lead to a new form of dependence on metropolitan capitalist economics with various attendant deleterious consequences. Those who talk most about diversification are themselves incapable of putting forward any strategy that should have done better by way of diversification than what has been achieved.

The diversification of trading partners has also been pursued up to a point, as our record of trade with countries other than Great Britain shows. The data show that by 1981, Nigeria was exporting to several African countries, to China, Hong Kong, India, Japan and other countries in Asia, to Canada, the United States and other countries in America, to Hungary, Yugoslavia, Czechoslovakia, Poland, the USSR and other countries in Eastern Europe, and to all West European Countries. This is a far cry from the situation up to 1960.

If the diversification of foreign trade customers is put forward as a preventive measure with regard to depression, it is mere careless talk, because no country has more diversified customers than the United States, Britain, France and Japan whose economies are seriously depressed. There are 12 million unemployed in the United States, 3 million in Britain and so on. If customer-diversification is advanced as a curative treatment for propagated depression, it is equally thoughtless because in a world depression the customers of a depressed country will themselves be depressed.

Indeed one constant feature of capitalist depressions is the impulsive resort to beggar-my-neighbour policies by capitalist states, each in a scramble to save itself from sinking by clutching at its neighbour. The result has always been that they sink together in a storm that must submerge each and all, no matter the fuss to stay above the billows.

The other meaning of 'structural defect' has to do with dependence. The dependency of the Nigerian economy has become a scape-goat for many Nigerian economists to flog on any issue. Suffice it to make three observations. First, the economy of the United States is not dependent on any other. Yet the depression starts from there. Secondly, there are many degrees of dependence, independence and interdependence among capitalist countries and their Third World satellites. Yet the depression severely affects all the capitalistic economies. Thirdly, it may be asked what the price of economic independence is for a Third World country and whether those who like to imagine the Nigerian economy in a condition of independence know or would care for, if they knew, the measures necessary for arriving there. Freedom is never given to anyone on a platter of gold-economic freedom least of all.

EXPLANATIONS OF THE WORLD CAPITALIST CRISIS

As we hinted at the beginning, apart from the efforts made by Nigerian economists to explain the depression as it affects Nigeria, economists abroad have come forward with various explanations of the current world depression itself. We shall merely refer to these to round off our discussion.

Everyone agrees that the depression is not simply a phase of an inventory cycle, but this is where agreement ends.

Some claim that the crisis is caused by the price raising policy of the OPEC (Organisation of Petroleum Exporting Countries) cartel which has jacked up costs in leading capitalist countries thus causing a fall in profit expectations, leading to a prolonged depression. Others who complain of the price policy of OPEC claim it has led to insoluble balance of payments prolems which, in turn, have led to the collapse of the Bretton Woods arrangement for preventing sinking economies from dragging others down the pit.

Some have claimed that the entry of Third World manufactures into the world market has narrowed the market and diminished the profit expectations of some industries in the advanced capitalist world. The result is a diminution of investment in leading industrial centres. According to this view, what we are witnessing is a long process of re-adjustment of prices and restructuring of the industrial pattern in the world.

Keynesians, as was to be excepected, claim that the present deep depression has been brought about or been allowed to continue and deteriorate by the so-called supply-side economic policies of people like Ronald REAGAN and Margaret THATCHER. The REAGAN-THATCHER sort see the national economic imperatives to be the need to bring down the inflation rate, help firms cut down rising costs due to high fuel prices and wage increases, and save markets for exporters caught in the stiff competition that has erupted between the United States, Western Europe and Japan as a result of the revival of West European and Japanese industrial strength. To accomplish this, production firms must be encouraged to expand cheaply. Consequently, government must reduce taxes on businessmen and spend less, and wage increases must be discouraged.

As in the 1930s the effect of such policies far from leading to expansion bring about a contraction or a worsening of contraction. One must remember, however, that the 'supply-side' policy of the REAGAN-THATCHER sort is a desparate attempt to escape from the dilemma of post-Second-World-War Keynesian policies which led to a persistent inflation without curing the capitalist system of depressions as Keynesians expected.

The well-known economist, Joseph SCHUMPETER, had an explanation for business cycles according to which prosperity is caused by a general herd-like adoption by capitalist entrepreneurs of a certain innovation that has proved profitable. Once every competitor has installed the new technology, the spurt of investment ends and a depression starts. In a kindred explanation, Marxian economists link the present depression with the long boom after the Second-World-War which, in Schumpeterian terms, was caused by the third scientific and technological revolution. This is the revolution characterised by the age of plastics, space research, and electronic equipment. The facilities made possible by these revolutions can continuously be fully used if and only if the aim is simply to produce goods for man and not to make profits for private capitalists.

To a famous Russian economist, waves in capitalist activity consist of fifty-year cycles in addition to the normal short-term cycles. The period 1875–1895 was one of a great depression. From then to 1930 is about fifty years. The period from 1930, when another great depression occured, to 1980, when the current depression became an intensive world-wide event, is another fifty years. It is tempting to conclude that the present depression is a phase of the Kondratieff cycle.

If we adopted a Schumpeterian-Kondratieff view, the boom generated by the second industrial revolution ended with the great depression of the late nineteenth century; the boom occasioned by imperialist expansion ended with the depression of 1929–33; the boom associated with the Third Industrial Revolution has ended with the current depression.

There are people who believe that the end of capitalism will come in one great, prolonged cataclism, from which capitalism will be unable to survive. These writers imagine, mistakenly in my opinion, that Karl MARX held the same view. Those who think so claim that the current crisis signals the long-awaited catastrophic doom of the capitalist economy.

Whatever a detailed study of the crisis may later reveal, the essential point to hold for the explanation of capitalist depressions is that they are characteristic of the capitalist economy only and are caused by variations in capital stock building and expansion and innovations in plant. Whatever causes these variations is the cause of depressions.

THE PROFIT MOTIVE

Whatever the specific circumstances of any capitalist depression, the fact that cyclical depressions are characteristic of capitalist economies and of no other economies is important. Ultimately depressions cannot be explained without reference to two facts.

First, capitalist investment is anarchic because it is not disciplined by any social plan which ensures that at any time investment will be at the optional level as well as of the composition needed for a stable growth without inflation and without the greedy herd behaviour resulting in the alternation of booms and depressions.

Secondly, capitalist investment is *profit-governed* rather than need-governed. It is important to realise that when factories stand idle, workers are retrenched in thousands or millions, and enormous profits are herded rather than invested, it is not because society has no more need for the services of these resources. The resources are left unused, in spite of social need, simply because some capitalists will not realise from their use a rate of profit they consider 'a good risk'. Under capitalism, every investment is a 'risk' because the aim is not to produce the needs of society but to compete with others for the realisation of a general rate of profit that has come to rule. Any firm that does not realise this rate of profit or a higher one is said not to be doing well, no matter what services it is rendering to society.

Depression has never taken place in the Soviet Union since the socialist planned economy started there in earnest in 1923. In fact, whilst in the period 1929–1933 the capitalist world economy was passing through one of its great depressions, the young socialist economy in the Soviet Union was experiencing a phenomena growth, demonstrating what was a veritable miracle, namely, that a modern economy can operate without depressions.

This so-called 'Soviet-miracle' which has been repeated in other socialist countries, and has continued to this day, rests on a simple truth. A capitalist depression does not take place because there are no funds to invest or equipment to use. On the contrary, the fact that full employment is possible means that capacity and funds exist for this and that during a depression a lot of funds and other resources which should have been invested lie unused because of the fear of not realising profits. In the socialist system, since investment is not for profits but is simply for the production of social needs, investment cannot be arrested while resources are unused.

In a socialist economy, enterprises invest strictly according to a social plan and not wildly according to their own profit-dominated whims. Whatever autonomy they possess is restricted by the requirements of the investment, financial, labour use, and technological innovation plans which are obligatory.

With such a set-up, depressions are simply impossible. On the other hand given the facts of capitalist entrepreneurial autonomy and the primacy of the capitalist profit motive, depressions are simply a recurrent inevitability.