The Crisis of Liberal Democratic Capitalism: The Case of the United States

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THE United States, along with numerous European capitalist countries, is in the midst of a crisis of accumulation. Despite the current move to the right in American politics—exemplified by the recent Reagan victory—there is little doubt but that this crisis presents an opportunity for the left unequalled since the mid-1930s. A coherent socialist alternative, however, requires a clear analysis of the origins of the crisis and a consistent set of principles for its resolution.

Our aim here is to question two elements of traditional Marxist theory that we believe impede the development of such an analysis. One is the notion that the logic of accumulation is set by the character of capitalist social relations alone, the role of the state being simply a response to the pattern of growth and to the crisis generated by the capitalist mode of production.[1] The other element is the idea that the state is a "factor of cohesion" in the social formation, its primary function being to reproduce the social relations of production.[2]

In contrast to these propositions, we suggest that the advanced

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1. For a classic statement of this view, see Paul Sweezy, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1942). See also Nicos Poulantzas's last work, *State, Power, Socialism* (London: New Left Books, 1978).

2. This position is presented in, among others, Sweezy, *The Theory of Capitalist Development;* Jürgen Habermas, *The Legitimation Crisis* (Boston: Beacon, 1969); James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's, 1973); Nicos Poulantzas, *Political Power and Social Classes* (London: New Left Books, 1973); and Louis Althusser, *For Marx* (New York: Vintage Books, 1970).

capitalist social formation may be better represented as an articulation of the liberal democratic state and capitalist production, in which the dynamics of the whole cannot be reduced to the structure of either. Further, under general historical conditions, this articulation renders the social whole a *contradictory* rather than a functional totality. Thus, liberal democratic capitalism consists of the social relations of capitalist production, the social relations of liberal democracy, and the structure of their articulation.[3] The current articulation, forged through social struggles spawned by the general crisis of the 1930s, has quite fundamentally altered the accumulation process, affecting both the character of distributional struggles and the mechanisms of crisis management and resolution. Although this articulation has been a critical element in the reproduction of class relations since World War II, it remains contradictory and, under current conditions, has contributed substantially to the persistence of relative economic stagnation and inflation.[4]

The juxtaposition of liberal democracy and capitalism itself introduces a contradictory element into the reproduction of the social relations of production, because of the discrepant forms of political participation supported by each. Capitalism structures practices through rights in *property,* to be exercised by owners or their representatives, while liberal democracy vests rights in *persons,* formally independent from ownership. As a consequence, popular struggles in liberal democratic capitalist societies typically attempt to apply the rules of the game based on person rights to contests within the sphere of capitalist production, where their application directly confronts and contests the power of capital.[5] Capital, conversely, has historically attempted to apply the rules of the game based on property rights to the policies and structure of the state.

Yet a key element of the current articulation of state and economy, "welfare-state capitalism" as it has been termed, is precisely the *blocking* of this dynamic of class struggle. Under the accord between capital and labor, forged in the depression and early postwar years, the work-

3. By liberal democracy we mean a state characterized by generalized civil liberties and universal adult suffrage, by its substantial separation from control over the allocation of social labor and the disposition of surplus labor time, and by formal rules of participation by rights equally vested in persons.

4. That liberal democracy has altered the accumulation process does not imply that it provides a sufficient political vehicle for the inauguration of socialism. The two views have been closely associated in socialist writings since Eduard Bernstein's *Evolutionary Socialism* (N Y: B. W. Huebsch, 1909), but they bear no logical relationship.

5. See Herbert Gintis, "Theory, Practice, and the Tools of Communicative Discourse," *Socialist Review,* nos. 50-51 (March-June 1980), pp. 189-232.

ing class has relinquished all claims for control over production, investment, and international economic policy in return for a relatively high level of employment and a secure claim on distributional gains.[6] Under conditions of U.S. international economic hegemony and cheap resources, the labor-capital accord contributed mightily to profits and growth. Yet the distributional power afforded labor has proven to be the central impediment to continued accumulation in the present situation.

The distributional power of labor, exemplified by its prominent position in the Democratic coalition that dominated politics in the post-war years, has, as we shall show, limited the accumulation process in several ways. First, the expansion of what we shall term the citizen wage—that part of a person's consumption supplied by the state by virtue of his citizenship rather than directly acquired by the sale of labor power—has led to a redistribution of the social product away from capital. Second, while the accumulation process (with its associated crises, wars, and inefficiencies) needs the support of direct state intervention into capitalist investment and production processes, the liberal democratic structure of the state has in important respects impeded this intervention.

More subtle, perhaps, but no less important, have been the resulting changes in the way the reserve army of the unemployed works to restore profitability by minimizing wage increases. In recent years the combined effects of the structure of collective bargaining agreements, the institutionalization of countercyclical economic policy, and the expansion of the citizen wage appear to have greatly reduced the negative impact of the reserve army on money wages. This greatly interferes with the ability of capital to restore its power over labor through the normal workings of the business cycle.

Throughout the early and mid-1970s, the various forms of popular access to the liberal democratic state enabled the working class to effectively thwart capital's attempts to pass on the burdens of increasingly adverse international economic conditions, the growing institutional irrationality of market allocations, and real scarcities, stemming from reduced access to natural resources.[7] The result has

6. The struggle to transport rights vested in persons to the economy was of course taken up with a vengeance in the 1960s and 1970s by other popular groups, such as blacks, women, and the elderly.

7. According to Weisskopf, the long-term decline in the before-tax profit rate may be largely attributed to the decline in terms of trade. See Thomas Weisskopf, "Marxian Crisis Theory and the Rate of Profit in the Postwar U. S. Economy," *Cambridge Journal of Economics*, vol. 5, no. 4 (December 1979).

Table 1

The Evolution of the Profit Rate in the Non-Financial Corporate Business Sector

Year[a]	Net Rate of Return on the Replacement Cost of Net Capital Stock: Before Tax	After Tax[b]
1948	15.6	7.9
1950	15.6	6.1
1955	14.5	6.4
1959	12.2	5.6
1965	15.9	9.1
1972	10.7	5.8
1977	9.5	4.9

Notes: a In the interests of comparability, the years presented here and in subsequent tables are those in which the before tax rate of return on the capital of the non-financial corporate business sector reached a cyclical peak.

b The after tax rates take account of both corporate income taxes and an estimate of the fraction of personal income from capital paid as personal income taxes. Both series are from an unpublished study by T. E. Weisskopf based on U.S. government data. See also the sources cited in footnote 8.

been a considerable fall in both before- and after-tax corporate-profit rates, as table 1 indicates.[8]

8. William Nordhaus's study, "The Falling Share of Profits," *Brookings Papers on Economic Activity,* no. 1 (1974), pp. 169-208, documents a similar trend. Martin Feldstein and Lawrence Summers's critique of Nordhaus, "Is the Rate of Profit Falling?" *Brookings Papers on Economic Activity,* 1 (1977): 211-28, also indicates a downward trend in the net rate of return on nonfinancial corporate assets (about 0.14 percentage points a year). Feldstein and Summers econometrically "eliminate" the trend by treating the years 1970-76 as exceptional (through the use of a dummy variable for those years) and by holding constant (in a multiple regression) the size of the GNP gap (potential minus actual GNP). For a summary of other indicators of a secular decline in corporate profitability, see the President's Council of Economic Advisors, *Economic Report of the President* (Washington, D.C.: U.S. Government Printing Office, 1980), pp. 141, 303. According to the council's data, the before-tax rate of return on depreciable assets, which had averaged 12.9 percent for the years 1955-69, averaged 9.4 percent from 1970 to 1978 and fell to 9.2 percent for the first three quarters of 1979. The ratio of the market value of net assets to their replacement cost fell from an average of 1.1 for 1955-69 to 0.85 for 1970-78 and 0.65 for the first three quarters of 1979.

Our aim is to understand how the interaction of the liberal democratic state and capitalist production contributed to this dynamic. We will begin our argument with a theoretical elaboration of the structurally contradictory nature of liberal democratic capitalism. The second section considers two basic Marxist axioms concerning the construction of capitalism: the separation of the worker from the means of livelihood and the separation of the state from the accumulation process. While these "dual separations" are indeed conditions for the reproduction of classical capitalism, their satisfaction cannot be presumed. They are thus problematic starting points in the analysis of capitalist dynamics. Rather, these conditions are achieved, if at all, through class practices. Both the economism of Marxist crisis theory and the functionalism of Marxist theory of the state stem from consistently ignoring this point. Moreover, these separations may be altered, lending a new logic to capitalist development, without thereby destroying either the hegemony of capital or the integrity of the wage-labor system.

In the third section we develop an integrated theory of the articulation of the state and the accumulation process that speaks to these novel conditions. The fourth section describes the specific conditions underlying the joint viability of capitalist growth and liberal democracy in the post-World War II era. During the long postwar boom, the evolution of state policy and class relations significantly altered the relationship between capital and wage labor, in a manner intimately connected to the liberal democratic structure of the state. In this section, we introduce the concept of the capital-labor accord and explore its institutional development in the U. S.

In the fifth section, we present evidence on the distributional consequences of the accord, namely, a decline in the share of total output available to capital due largely to the gradual increase in the share consumed by workers in the form of both market and state-provided goods and services. Contrary to widely held "wage squeeze" interpretations of the current crisis, there appears to be no long-term trend toward an increase in the before-tax ratio of wages to profits. These data thus strongly suggest the integral and direct role of the state in the current crisis.

The sixth section explores the effects of the accord on how the crisis itself provides the conditions for the resumption of the accumulation process, and the final section integrates these propositions with a general interpretation of economic crisis and inflation. We will show that a substantial restructuring of the relationship of the state to capitalist production, possibly including an adulteration of the liberal

democratic processes, may well be necessary for the restoration of profitable investment conditions. Despite the current disarray of the labor movement and the vitality of the new right, the ability of the capitalist class to impose the political transformation is far from assured.

CRISIS THEORY AND THE THEORY OF THE STATE

In the *Grundrisse,* Marx described capitalism in terms of material dependence, that is, the separation of producers from the means of production, and personal independence, that is, formal legal equality and due process.[9] A dual separation—that of the worker from the means of livelihood and of the state from the accumulation process—ensured that personal independence would not undermine the relationship of capital and wage labor. The separation of the direct producer from the means of production allows surplus value to be extracted and secures that the conditions of capitalist dominance will be grounded directly within capitalist production. The reserve army, not the state, is the immediate mechanism of control of labor by capital. Its decisive presence is felt in the second phase of capital—the extraction of labor from labor power in the production process—which, no less than in the first, is the purchase of labor power itself.[10] Moreover, it is primarily by enlarging the reserve army that crisis creates the conditions for the reconstitution of the accumulation process.[11]

In this view, the role of the state lies precisely in enforcing the rules of the game: protecting private property, preventing worker combinations, regulating access to land, and limiting poor relief to forms not injurious to the market in labor power.

However accurate this view is of the early stages of capitalist development, in advanced capitalism the impact of the state on both the reserve army and the relative power of labor and capital changes decisively. Through policies concerning immigration, family structure, regional development, schooling, and technical research, the state is now a critical part of the determination of the reserve army. In addition, through a massive increase in the citizen wage, the working class is partially buffered from the vicissitudes of the economy and therefore

9. Karl Marx, *The Grundrisse* (New York: Vintage Books, 1973).

10. This point is discussed in detail in Herbert Gintis and Samuel Bowles, "Structure and Practice in the Labor Theory of Value," *Review of Radical Political Economics,* vol. 12, no. 4 (Winter 1981).

11. Crisis also, of course, regenerates the conditions for accumulation by devalorizing capital, that is, reducing the monetary value, not the labor values, of the stock of constant capital. The critical importance of the reserve army in the cyclical restoration of the conditions for accumulation is documented in Weisskopf, "Marxian Crisis Theory."

has greater staying power in distributional struggles with capital. Finally, the state now regulates rather than prohibits worker combinations, constituting rather than merely validating the institutional form of capital-labor relations. The state thus mediates the effect of the reserve army upon the relative power of capital and labor. Consequently, neither aspect of the "dual separation" is directly operative. The state is a part of rather than a mere protector of the "rules of the game." In effect, the accumulation process cannot be understood as a purely "economic" or (worse) "self-regulating" process.[12]

Yet standard economic theories locate economic instability solely within capitalist production. The liberal Keynesian approach, focusing on effective demand, limits the state's role to compensating for destabilizing movements in investment and international trade. Those Marxist approaches that stress secular movement in the organic composition of capital and disproportionalities between sectors of the economy, render the state equally peripheral to crisis. Recent advances in Marxist crisis theory, in the hands of Kalecki, Boddy and Crotty, and others have recognized a more active role for the state. Nonetheless, these authors trace the accumulation crisis to a falling rate of exploitation without any reference to the state, leaving it only the subsequent role of disciplining labor and restoring reserve armies.[13]

Despite all their obvious differences, these theories reflect a common conception of the articulation of state and economy. In liberal theory, the state is an autonomous organ responsive to an electorate, whose multiple cleavages render stabilization policy a neutral exercise in the "public interest." In Marxist theory, the state is ultimately a reflection either of capital's dominance or of a balance of class forces forged within the dynamics of capitalist accumulation. In neither case, then, is the state more than a dependent variable in the process of accumulation. Thus the classical theory, in the hands of such represent-

12. Our critique of the "self-regulating" nature of the capitalist production process and of the economic interpretations of the labor theory of value that support this notion may be found in Herbert Gintis and Samuel Bowles, "Structure and Practice in the Labor Theory of Value."

13. See M. Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy: 1933–1970* (Cambridge: Cambridge University Press, 1971); R. Boddy and J. Crotty, "Class Conflict and Macro Policy: The Political Business Cycle," *Review of Radical Political Economics*, vol. 7 (1975); and Andrew Glynn and Bob Sutcliffe, *British Capitalism, Workers and the Profit Squeeze* (London: Penguin Books, 1972). Even Ernest Mandel, whose interpretation of the current economic crisis correctly emphasizes "the exceptionally high level of organization, numerical strength and combativity of the proletarist" and "the exceptionally pronounced political weakness of the bourgeois system," reduces these to "coincident" developments rather than structural determinants or causes of what he terms "generalized economic recession." See Ernest Mandel, *The Second Slump* (London: New Left Books, 1978), pp. 83–84.

ative writers as Plekhanov, Lenin, Bukharin, and Sweezy, treats the state as an element of what may be termed a functional totality. In the words of Paul Sweezy, the state is "an instrument in the hands of the ruling classes for enforcing and guaranteeing the stability of the class structure itself. . . ."[14] Save for a change in terminology, this conception is little different from that of the great liberal social-contract theorists of the seventeenth and eighteenth centuries.

This view may have some cogency where the working class is "free" but denied access to the state. Following World War I, however, and in some capitalist countries even earlier, the long-standing struggle of workers for political representation came to fruition. The classical liberal state, which vested the right of participation in owners of *property,* gave way to the liberal democratic state, which vests these rights in *persons* by virtue of citizenship. In this new context, the conception of the functional totality becomes quite problematic. Recognizing this shift but minimizing its impact, classical Marxism characteristically relegated democracy to a realm of appearance. Thus we have from the pen of Bukharin and Preobrazhensky: "the bourgeoisie . . . is able to maintain its dictatorship through keeping up certain appearances. The workers are given the right of exercizing the parliamentary vote every three or four years, but they are carefully excluded from all power in the administration. Yet because universal suffrage exists, the whole capitalist class loudly declares that the "whole people rules."[15] The mechanism whereby this hegemony of property is maintained, however, is revealed nowhere in their writings.

Modern developments in the Marxist theory of the state have attempted to fill this gap. Three basic approaches have emerged. Within the structuralist tradition, Nicos Poulantzas, Goran Therborn, and Fred Block offer a model in which the state is required to reproduce the conditions of accumulation, insofar as this is possible, by the very nature of its structural articulation with the capitalist economy.[16] The key to this model, though only fully presented in Block's work, is the independence of investment decisions from state control and the dependence of a popularly elected government on high levels of growth and employment for its continuance in power. In this conception liberal democracy itself ensures that the state remain functional to

14. Sweezy, *The Theory of Capitalist Development,* p. 243.

15. N. Bukharin and E. Preobrazhensky, *The ABC's of Communism* (Baltimore: Penguin Books, 1969).

16. See Nicos Poulantzas, *Political Power and Social Classes;* G. Therborn, *What Does the Ruling Class Do When It Rules?* (London: New Left Books, 1978): and Fred Block, "The Ruling Class Does Not Rule," *Socialist Review,* no. 33 (May 1977).

capital, because accumulation becomes a condition of the regime's existence. Ultimately it is the electorate that induces the state to conform to the needs of capital.

The second approach, the so-called "instrumentalist" theory of Miliband, Domhoff, and others maintains that structural explanations are at once unnecessary and insufficient. They argue that the considerable economic power of capital assures the economic elite enough political influence to nullify the power of a mass electorate.[17]

Both theories conform closely to the classical model. In one, the leading economic class directly rules, while in the other, it is spared this necessity by the determining power of its investment decisions. In neither case can the state be implicated in the production of economic crisis, save perhaps by inadvertence.[18] And in both, the state will respond maximally, if for different reasons, to reproduce the conditions of accumulation.

A third approach asserts that the state might figure substantially in the contradictions of advanced capitalism. This approach has been presented most forcefully in James O'Connor's pathbreaking *The Fiscal Crisis of the State*. O'Connor develops his argument in terms of the function of the state: ". . . the capitalist state must try to fulfill two basic and often mutually contradictory functions—*accumulation* and *legitimation*."[19] The presence of the legitimation function may impel the state to disrupt rather than to restore the accumulation process.

O'Connor presents a more accurate perception of the contradictory position of liberal democracy, but it is ambiguous and incomplete. Why must the state perform these two functions? What determines when they are satisfactorily executed? How may we determine the conditions under which the "accumulation" and "legitimation" functions might come into conflict? Finally, how do the various functions of the state generate the social conditions for their being met?

17. See Ralph Miliband, *The State in Capitalist Society* (London: Weidenfeld Nicolson, 1969). See also the survey and reformulation in Gosta Esping-Anderson, Roger Friedland, and Erik Olin Wright, "Modes of Class Struggle and the Capitalist State," *Kapitalistate*, nos. 4-5 (Summer 1976), pp. 186-220.

18. This view is shared by the capital logic school. See Elmar Altvater, "Some Problems of State Intervention," *Kapitalistate*, nos. 1-2 (1973).

19. O'Connor, *The Fiscal Crisis of the State*, p. 6. See also Habermas, *Legitimation Crisis*; C. Offe, "Structural Problems of the Capitalist State," in *German Political Studies*, ed. K. V. Beyme (Beverly Hills, Cal.: Sage, 1974), 1: 31-57; Andrew Martin, "Political Constraints on Economic Strategies in Advanced Industrial Societies," *Comparative Political Studies* 10, no. 3 (October 1977): 323-54; and I. Gough, *The Political Economy of the Welfare State* (London: Macmillan, 1979). Perhaps the most mature analysis in this vein is that of Alan Wolfe, *The Limits of Legitimacy: Political Contradictions of Contemporary Capitalism* (New York: Free Press, 1977).

These and similar considerations bid us seek an alternative framework. While securely in the tradition laid down by O'Connor, our approach differs in two fundamental respects. First, we will not rely on any purported "functions" of the state to explain its behavior. We posit the liberal democratic state and the capitalist economy as distinct structures whose articulation may be described as a *contradictory totality*. This not only allows us to avoid the oft-noted pitfalls of functional explanations,[20] but it also facilitates our study of the structure of the state. Second, our formulation avoids reducing the state to a site of *ineffective intervention* into a crisis that is precipitated by the autonomous process of capitalist accumulation, in favor of the state as a site that is *integral to the production* of a crisis as well as to its resolution. In the U. S., conservatives have long recognized liberal democracy as "part of the problem" as well as part of the solution. Both Marxists and liberals, by contrast, have persisted in treating the tendency toward crisis solely as a congenital weakness of capitalist accumulation, to which the state may respond more (liberal) or less (Marxist) effectively. The conservatives, we believe, have more accurately assessed the situation.

The notion that the state can actively participate in the production of economic crisis will allow us a much better understanding of the emergence of crisis from systemic contradictions in the social formation. Evidence for this active participation will be presented below.[21]

The observable participation of the state in the accumulation process renders questionable the derivative conception of the state in instrumental and structuralist theories. But these theories have insuperable problems on the level of theory as well. The instrumentalists supply only the crudest of mechanisms for explaining the superior influence of that minute proportion of the citizenry that owns the means of production, and it cannot explain the difficulty social democratic parties encounter in trying to alter substantially the patterns of accumulation and growth. The structuralists supply an important missing link—the influence of investment options and the threat of "capital strike"—but overlook the fundamental point that the "rules of the game," that is, the structured articulation of state and economy, are themselves subject to change.[22] Structuralist theories, in other

20. Herbert Gintis, "Welfare Economics and Individual Development: A Reply to Talcott Parsons," *Quarterly Journal of Economics* 89 (May 1975): 291-302.

21. The conceptual framework outlined here and in the next two sections is elaborated in some detail in our two forthcoming books. One is a critique and reformulation of some aspects of Marxist social theory; the other concerns liberal democracy and the Marxist theory of the state.

22. See Fred Block, *The Origins of International Order* (Berkeley: University of California

words, cannot account for the reproduction and transformation of *boundary relations* among structures participating in the social totality. There is no "structural" reason why the freedom of capitalists to determine the pace and pattern of investment must remain unobstructed. The reproduction of structures and their articulation is explained in part by the structures themselves—but only in part.

SITES, PRACTICES, AND THE LIMITS OF STRUCTURAL EXPLANATION

It will be impossible to understand the dynamics of the state and capitalist production by limiting ourselves to purely structural categories. We must go further and ask: what do structures structure? The answer is that structures structure social practices. By a practice we mean a social intervention with the purpose of transforming or stabilizing some aspect of social reality. We may distinguish practices by their object—the nature of the entity to be transformed. Thus the object of an *appropriative practice* is the natural world, and its purpose is the creation of specific use-values. The object of a *distributional practice* is the distribution of use-values among individuals and groups, and its purpose is the attainment of a preferred distribution. The object of a *political practice* is some set of social relations, and its purpose is the transformation or stabilization of the structures on which they are based. Finally, the object of a *cultural practice* is the constellation of symbols and cultural forms, on the basis of which lines of solidarity and fragmentation among groups are formed, and its purpose is the transformation or reproduction of these "tools of discourse."[23]

Both the state and capitalist production are sites of social activity whose characteristic social relations structure the social practices occurring within them. The state and capitalist production are capable of articulating as a contradictory totality precisely because they represent distinct, alternative modes of organizing comparable appropriative, distributive, political, and cultural practices. The possibility of such a contradiction is precluded in structuralist theory because it is assumed that there is correspondence between structures (or levels, or regions) and practices. Thus, according to what we elsewhere term the isomorphism of sites and practices, economic practices take place in the economy, and political practices take place in the state. Yet both in the state and in capitalist production, individuals and groups act to reproduce and transform the characteristic social relations and tools

Press, 1977), for an admirable case study of the process by which the capitalist class seeks to maintain or alter the rules of the game.

23. Herbert Gintis, "Theory, Practice and the Tools of Communicative Discourse."

of discourse that structure their practices. An attempt to alter the manner in which investment and the division of labor is controlled in a capitalist enterprise is no less "political" than a campaign to change the way in which decision making is structured within the liberal democratic state.

The structuring of political practices in the two sites is, however, dramatically divergent. While the liberal state promises only equal treatment of all before the law, the liberal *democratic* state, in its developed form, is based on formally equal participation of all adults on the basis of their natural rights as citizens. Thus the liberal democratic state vests rights both in persons and in property. Yet according to the structure of capitalist production, political participation of inidividuals and groups depends on property alone; effective power is in the hands of property owners or of those delegated by them.

The principles of rights vested in property and rights vested in persons are not only distinct; they are in potential conflict. The principle of free association of the workers is in direct opposition to the principle of free individual contract. Principles of antidiscrimination, which claim that all citizens have the right to equal treatment by employers or potential employers, constrain the free exercise of property rights. The right to employment, minimum health and safety conditions, due process, and democratic control in the accumulation process is contrary to any notion of a private sphere beyond the reach of the popular exercise of rights in persons.

It is true, of course, that the separation of the direct producers from the means of production dramatically limits the democratic potential of the universal nature of rights of persons exercised in the state. Private property in the means of production puts important limitations on the state that are both structural (for example, capital strike) and instrumental (for example, capitalist ownership of the means of production in the communications industry). The liberal democratic constitution does not allow popular sovereignty, even within the limited sphere of the state's activities. But just as surely, as Marx noted in his *Class Struggle in France,* the liberal democratic state does not assure the domination of capital:

> The general contradiction . . . of this constitution consists in this: the classes whose social slavery it perpetuates, proletariat, farmers, the petty bourgeoisie, it places through universal suffrage in the seat of political power. And from the class whose very social power it sanctions, from the bourgeoisie, it withdraws the political guarantees of this power. It renders democratic the political rule of the bourgeoisie, which at every moment propels the underclasses to victory and jeopardizes the very foundations of bourgeoise society. From the oppressed, this democratic

constitution demands they not push from political to social emancipation; from the bourgeoisie, it requires that they not regress from social to political hegemony.[24]

In contrast to this view, the structuralist theory of the state recognizes only a range of site interactions. Ultimately it posits that the internal development of a site is autonomous—save that its limits of change are set by its boundary relations with other sites. Thus the sites of social practice interact only as a form of *delimitation* along common boundaries. A capital strike is of course a major form of delimitation. Were delimitation the sole form of interaction of sites, the problem of boundary maintenance, that is, the reproduction of the characteristic articulation of sites, would not arise. But it is not. A major additional form of interaction is the *transportation of practices across site boundaries.* Individuals and groups, in their struggles within one site, will at times attempt to draw upon experiences in other sites. Thus the internal workings of a site of social practices can promote the transformation of another site, not by virtue of their common boundary relations, but rather by virtue of the common participation of individuals and groups in both.

Since practices are necessarily structured by the characteristic social relations within which they are embedded, they cannot be directly transferred from one site to another. Thus, the pressure for such a transfer becomes a pressure for structural transformation: the transportation of practices necessarily involves an accomodating reorganization of the social relations of the site of destination.

The structuralist theory of the state produces an ahistorical, stable, and harmonious picture of the articulation of the state and capitalist production, in part by ignoring this transportation of practices. Only the secure isolation of political practices—the confinement of person rights to the state site and property rights to the site of capitalist production—allows the autonomous operation of the structuralist dynamic, whereby each "level," without human inerference, reproduces the conditions of existence for the other. Yet if state and capitalist economy articulate as a contradictory totality, it is due in part to the distinct nature of the various practices characteristic of a given site and the tendency for them to be transported across boundaries.

Having struggled to attain the principle of person rights in the state in the course of the nineteenth and early twentieth centuries, workers and others have often disagreed over how much these rights should take precedence over property rights in the economy itself. The structure of the interpenetration of person and property rights

24. Karl Marx, *Class Struggles in France, 1848-1850, Mark Engels Werke,* vol. 7 (1970).

in this totality is thus central to an understanding of the contemporary crisis of U. S. capital.[25]

THE ACCORD: A RECONSTITUTION OF THE CAPITAL-LABOR RELATIONSHIP

The joint reproduction of capitalism and liberal democracy in virtually all of the advanced capitalist countries in the post-World War II era is easily misunderstood. This impressive historical regularity has prompted many Marxists (and not only Marxists) to posit a unique functional relationship between the capitalist mode of production and the liberal democratic state. Yet the interwar years in Europe, which saw the demise of liberal constitutions and parliamentary government in far more countries than witnessed their survival, and the recent political histories of the capitalist social formations in Africa, Asia, and Latin America, should make us skeptical about any such inherent compatibility.[26]

The history of liberal democracy in the twentieth century, no less than the theoretical arguments of the previous section, supports two conclusions. First, the liberal democratic state is not the "natural form" of the state in a capitalist social formation. Rather it is one of several possible forms of state, and the conditions for the joint reproduction of liberal democracy and capitalism are fundamentally conjunctural.[27] Moreover, as we shall presently see, the likely development of such

25. Liberal economist Arthur Okun posed the problem of this interpretation in two recent works: *Equality and Efficiency: The Big Tradeoff* (Washington: Brookings, 1975); and "Our Blend of Democracy and Capitalism: It Works, but Is in Danger," *Brookings Institution General Reprint Series*, no. 351 (1979). Robert Dahl identifies the modern corporation as a site of conflict between democratic rights and property rights and argues within the liberal democratic political tradition for the primacy of the former. Dahl "On Removing Certain Impediments to Democracy in the U.S.," *Dissent*, Summer 1978.

26. James R. Kurth, "Delayed Development and European Politics," xerox, 1977; R. Packenham, *Liberal America and the Third World* (Princeton: Princeton University Press, 1973); G. Therborn, "The Travail of Latin American Democracy," *New Left Review*, nos. 113-14 (January-April 1979); and Robert Dahl, *Polyarchy* (New Haven: Yale University Press, 1971).

27. The attempt to construct a structural (or synchronic) theory of the relationship of liberal democracy to the capitalist mode of production has been no more successful in the hands of Marxists (e.g., Lucien Goldmann, *The Philosophy of the Enlightenment* [London: Routledge, 1968], and Bukharin and Prebrazhensky, *The ABC's of Communism*), than it has in liberal social science (e.g., Seymour Martin Lipset, *Political Man* [Garden City, N.Y.: Doubleday & Co., 1960]; Lucian Pye, *Aspects of Political Development* [New York: Little, Brown & Co., 1966]; and Talcott Parsons, "Evolutionary Universals in Society," *American Sociological Review*, vol. 29, no. 3 [June 1964]). See, by contrast, the admirable historical work of Barrington Moore, *Social Origins of Dictatorship and Democracy* (Boston: Beacon Press, 1966), and G. Therborn, "The Rule of Capital and the Rise of Democracy," *New Left Review*, no. 103 (May-June 1977).

social formations is toward a breakdown of capitalism, of liberal democracy, or of both. Second, the relationship between liberal democracy and the accumulation process is an historical relationship, conditioned by a particular nexus of class forces. The reproduction of liberal democratic capitalism can be understood only through a careful study of the accumulation process and the class alliances and alignments associated with it.

The particular historical conjuncture underlying the successful joint reproduction of liberal democracy and capitalism in the United States during the post-World War II era may be described as an *accord* between capital and labor. This accord granted workers the possibility of real distributional gains, while at the same time ensuring the continued dominance of capital within the site of capitalist production. By an accord we do not mean a balance of class forces, less still a cessation of class conflict. Rather an accord is a restructuring of class relations. The accord is not a permanent constitution of class relations, but it does tend to be durable over extended periods of time. We speculate that class accords are reconstituted with each major restructuring of the primary mechanisms of the accumulation process and thus may coincide roughly with the long swings characteristic of capitalist growth. In the U.S., for example, the postwar accord, now in the process of disintegration, corresponds to the long postwar expansion.[28]

The accord characterizing the postwar boom is the product of the class struggles of the 1930s and 1940s.[29] The terms of the accord are revealed in five major pieces of legislation, each the hard-fought product of class and other struggles.

First, and perhaps most important, the Wagner Act of 1935 provided the first legal framework for collective bargaining and thus ratified the partial supersession of the atomistic labor market through the organization of labor unions. This act also instituted the National Labor Relations Board as a permanent intervention of the state in the structuring of the capital-wage-labor relationships. Second, the Social Security Act of 1935 marked the commitment of the state to guaranteeing minimum living standards for substantial segments of the population. This act directly involved the state in what would come to be a massive redistribution of income among workers and most likely

28. David Gordon, "Stages of Accumulation and Long Economic Cycles," in *Processes of the World-System*, ed. T. Hopkins and I. Wallerstein (Beverly Hills, Cal.: Sage, 1980).

29. We have benefited here greatly from the related research in progress of Michael Pill, Nancy Rose, Michele Naples, Lee Martindale, and Karen Travis and from Anthony Woodiwiss, "The Struggles of Capital: The Sources of Capitalist Resilience in the United States," unpublished manuscript, August 1979.

between capital and labor as well. Third, the Employment Act of 1946 for the first time expressed the responsibility of the state for the level of employment. The act hardly guaranteed full employment. As a Senatorial critic at the time quipped, it "promised anyone needing a job the right to go out and look for one."[30] But the Employment Act did reflect the final demise of the idea of regulating the economy solely on the basis of the competition among capitals. The associated ascendancy of Keynesian aggregate-demand management did much to politicize the issue of unemployment. The Taft-Hartley Act of 1947 prohibited secondary boycotts and other trade-union practices essential to building class solidarity around political as well as economic demands. Finally, the McCarran Act of 1950 provided the legal basis for the elimination of Communists and other leftists from the trade-union movement.

These five legislative acts reflect a significant triple reconstitution: of the relationship of workers to workers, of capitals to capitals, and of capital to the working class. In each case, a major rearticulation of the state with the site of capitalist production was critical, in that there was a decisive intervention of the state in the intra- and interclass relations that represented a profound restructuring of the interpenetration of property rights and person rights.[31]

The legislative record only hints at the profound impact of the postwar accord. It restructured the terrain, the tools, and the stakes of class struggle. The state, as we shall see, became a major locus of class struggle. Always an antagonist in the class struggle, the state now joined capitalist production as one of its major sites.[32] The accord eliminated revolutionary socialist demands, or for that matter, any other demands outside of the encompassing idiom of person rights and property rights, from political discourse. The language of liberal democracy, the lexicon of rights, was thus installed as the nearly universal means of political discourse.[33] The organizational tools were no less radically transformed. The two major vehicles for the expression of working-class

30. Cited in Woodiwiss, "The Struggles of Capital."

31. The restructuring of the state and the accumulation process has its origins considerably earlier, in the first and second decades of this century, as admirably chronicled in J. Weinstein, *The Corporate Ideal and the Liberal State, 1900–1918* (Boston: Beacon Press, 1968); and in G. Kolko, *The Triumph of Conservation* (Chicago: Quadrangle Books, 1963).

32. The evolution of the state as a major locus of class struggle is revealed in Douglas Hibbs, "On the Political Economy of Long Run Trends in Strike Activity," *British Journal of Political Science* 8 (April 1978): 153–74, an insightful comparative study of strikes.

33. See Gintis, "Theory, Practice and the Tools of Communicative Discourse." This was the much-trumpeted but short-lived "end of ideology." See Daniel Bell, *The End of Ideology* (Glencoe: The Free Press, 1960).

interests became the Democratic party and the closely allied labor movement. Rank-and-file initiatives were virtually eliminated within a centralized and bureaucratic trade-union structure.[34] Thus the length of union contracts was extended, typically from a year in the 1940s to three years in the 1970s, and the practice of having union dues paid directly from the employer to the union treasury became widespread. The change in stakes was equally dramatic, as labor and capital bargained less and less over technology and effective control of work processes and more and more over wages and hours. Between 1930 and 1939, only 36 percent of all strikers went out primarily over hours and wage issues, as opposed to 56 percent between 1950 and 1959.[35]

More broadly, the accord represented a narrowing of class struggle to three axes: the distributional (the struggle over real wages, taxes, rents, and public social-service expenditures); the formal democratic (the struggle over citizenship rights, voting eligibility, and civil liberties); and the substantive democratic (the struggle over what terrain liberal democratic principles are to apply: community control of schools, worker control over safety conditions at work, freedom of information, controls over investment).

While the accord meant that capitalism as a system was no longer seriously questioned (indeed for two decades the word "capitalism" disappeared from political discourse), the substantive democratic axis of struggle did afford the opportunity for at least a partial assault on the capitalist control over the accumulation process. However, in the immediate post-World War II era it was the distributional axis that became the dominant focus of class struggle.

Liberal social policy of the 1950s and 1960s reflected this domination in its commitment to equality of economic and social opportunity, with rights as the central issue, and in its management of the macroeconomy through Keynesian techniques.[36] The relationship between these two strands of social policy was strongly complementary. The reduction of racial and sexual discrimination in employment, education, and training would improve the mobility of labor and thus provide the well-functioning labor markets so essential to the successful application of Keynesian macropolicy.[37] And conversely, by an in-

34. We owe much of this formulation to Michele Naples.

35. U.S., Department of Commerce, Bureau of the U.S. Census, *Historical Statistics of the United States* (Washington, D.C.: U.S. Government Printing Office, 1975), p. 12.

36. The quintessence of liberal social policy may be said to have been reached in 1964 with the "first Keynesian tax cut" and the inauguration of Lyndon Johnson's War on Poverty.

37. Racial and sexual discrimination and other forms of labor segmentation pressure primary labor's wages upward long before anything approaching full employment is reached

genious (if no longer altogether convincing) argument, Keynesian economics purported to show that a substantial redistribution of income to working people and away from corporations would not lower the rate of profit. If the profit rate is constrained primarily by aggregate demand, and if the less-well-to-do save less than the rich from each additional dollar received, then egalitarian social redistribution will enhance aggregate demand and support a high rate of profit.[38]

We shall see, however, that the political and ideological dominance of this version of liberal social policy, and the primacy of distributional struggle in class conflict, depended upon quite specific and contingent historical conditions. The viability of the accord from the standpoint of capital, that is, its compatibility with the accumulation process, depended, above all, on the integration of workers into the political process, not as a class but as members of distinct interest groups organized around distributional issues. The evolution of a conservative, hierarchical, and economistic trade-union movement was important in this process, but it was more an effect than as a cause.[39] The essential conditions underlying the dominance of the distributional axis of class struggle included the belief that egalitarian redistribution would promote, or at least not retard, economic growth and the existence of a sustained material pay-off to interest-group politics, a pay-off made possible by rapid economic growth. In our closing sections, we will argue that these conditions are now substantially weakened. Our immediate task, however, is to explore the short-term effects of the accord.

THE ACCORD: DISTRIBUTIONAL CONSEQUENCES

There can be little doubt that the accord described above had a

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in the secondary markets, thus necessitating direct state intervention (training, antidiscrimination suits, incomes policies) in order to achieve full employment without wage-push inflation.

38. A. Hensen, *Full Recovery or Stagnation* (London: 1938); P. Sylos-Labini, *Oligopoly and Technical Change* (Cambridge: Harvard University Press, 1969), and others have advocated ever-increasing public expenditures to counter secular stagnation. This argument is different from ours in that it does not rely on a diminishing marginal propensity to consume and hence does not recommend specifically egalitarian public expenditures. Nonetheless, it does present a positive correlation between public expenditures and the profit rate. A recent statement of the favorable impact of income transfers via aggregate demand stimulation is contained in a report for the U.S. Congressional Joint Economic Committee: ". . . public income transfers accrue largely to low-income households that tend to have a higher than average propensity to consume. Thus the programs help raise aggregate demand, which induces increased production and a higher level of GNP." U.S., Congress, Joint Economic Committee, *Income Transfer Programs in the United States: An Analysis of Their Structure and Impacts*, prepared by Sheldon Danziger, Robert Havemen, and Robert Plotnick, May 1979, p. 77.

39. See Adam Przeworski, "Proletariat into a Class," *Politics & Society* 7, no. 4 (1977): 343-401, for a perceptive general treatment of the dynamics of economistic class struggle. Convincing historical explanations of the triumph of economistic unionism are hard to come by. However, see F. Grob, *Workers and Utopia* (Chicago: Quadrangle Press, 1961).

dramatic and initially salutory effect upon the accumulation process. The much celebrated "end of ideology" at home was complemented by the emergence of a stable U.S.-dominated world economic order. Indeed, a strongly anti-Communist trade-union leadership came to play a major role in cold-war foreign policy, particularly in the campaign to promote anti-Communist trade unions in Europe. Profits flourished in the favorable environment of the first two postwar decades.

In the long run, however, the accord was considerably more problematic from the standpoint of capital, for it actively undermined both the separation of workers from their means of subsistence and the separation of the state from the accumulation process. The accord also undermined labor's political and ideological position, especially its ability to successfully contest capital's hegemony or even to defend its hard-won distributional gains once the crisis of the 1970s began to unfold. We have addressed these parallel developments in labor's position elsewhere and will not treat them here.[40]

The logic of rights vested in persons rather than property and the ascendancy of macroeconomic management, which held the state directly responsible for the conditions of accumulation, combined to create a cultural climate that dramatically facilitated the transporting of practices from the liberal demoncratic state to capitalist production, a change characterized by demands for democratic control of the labor process. Nowhere is this more clearly revealed than in the highly effective welfare-rights movement. This powerful coalition of local and state groups, coordinated in its heyday by the National Welfare Rights Organization, grew directly out of the civil-rights movement of the late 1950s and early 1960s, borrowing not only its tactics, but also its discourse. Access to a decent standard of living and to adequate housing and medical care was promoted as a natural right.[41]

The consequences of the increasing integration of the state and the accumulation process have been considerable. In this section we shall present the distributional aspects, reserving the effects on crisis resolution for the next section. A major consequence of the accord stems directly from the pre-eminence of the distributional axis of class struggle: the post-World War II decades have witnessed a substantial redistribution from capital to labor. Contrary to a common inter-

40. Samuel Bowles, "The Keynesian-Welfare State and the Post-Keynesian Political Containment of Labor" (Paper presented to the Nicos Poulantzas Memorial Conference, Paris, 1981).

41. Frances Fox Piven and Richard A. Cloward, *Poor People's Movements* (New York: Pantheon, 1977).

pretation among Marxist economists, however, this shift can not be attributed to a wage-push-induced profit squeeze. If such a squeeze had taken place, it would have been revealed in the direct, private distributional conflict between capital and labor in the corporate sector. Yet, as table 2 indicates, the share of wages and salaries in the net domestic income of nonfinancial corporate enterprise has not increased over this period. The oft-noted increase in the share of "employee compensation" in national income does not indicate a wage squeeze but rather the shift of the labor force out of self-employment into paid employment and the bookkeeping convention that counts the employer's payroll taxes toward social insurance as employee compensation rather than as before-tax profits.[42]

The major distributional gains made by workers were not achieved in their direct confrontation with capital over the bargaining table, but in the state. The working class has increasingly relied upon the citizen wage as the concrete form of its distributional victories. The resulting trend toward the socialization of consumption is central to our analysis of the accumulation process, for it is not only the most immediate consequence of the emergence of the state as a major locus of class struggle, but it also reflects the increasing power of the working class in the liberal democratic state.

It is hardly surprising that the major gains of the working class have occurred through the citizen wage, for the state, which vests rights in persons, is a more auspicious arena of class struggle than the capitalist economy, which vests rights in property, over which workers have the least control. But much of the underlying impetus for this trend may be located in the logic of the accumulation process itself.

Demands for the socialization of consumption stem from four aspects of the accumulation process.[43] The first is the tendency of the expansion of capital to undermine the family and the informal residential community as units of noncommodity redistribution. A combination of labor mobility, the decreased stability of marriage, and the increasing tendency to live apart from children and parents has reduced

42. Here we take issue with Ernest Mandel's otherwise comprehensive and insightful interpretation of what he terms "the second slump." We find no convincing evidence that either an increase in the organic composition of capital or a decline in capacity utilization contributed significantly to the secular deterioration of the profit rate. See *The Second Slump*, pp. 26–27. According to Weisskopf's estimates, the average rate of capacity utilization fell only slightly (from 85 percent to 82.3 percent) between the first and last postwar cycles, the organic composition of capital remained unchanged, and the rate of before-tax profits fell from 13.7 percent to 9.4. Weisskopf, "Marxian Crisis Theory."

43. See the more extended treatment of Ian Gough, "State Expenditures in Advanced Capitalism," *New Left Review*, no. 92 (July-August 1975), pp. 53-92.

Table 2

The Evolution of the Wage Share

Year	Wages, Salaries, and Wage Supplements Paid as a Percentage of the Net Domestic Income of the Non-Financial Corporate Business Sector
1948	.68
1950	.66
1955	.68
1959	.72
1965	.66
1972	.69
1977	.69

Source: Calculated from the President's Council of Economic Advisors Report (Washington, D.C., 1980), p. 226. Employer contributions to social insurance are a payroll tax and thus are included before tax profits. Employer contributions to social insurance for the non-financial corporate sector are estimated from the Survey of Current Business, July issue, various years.

family size and undercut neighborhood cohesion. As a result the average number of workers per household has fallen from 1.6 in 1940 to 1.3 in 1979.[44] The percentage of all U.S. households that received no income from the sale of labor power rose from 13 percent in 1963 to 19 percent in 1976, partly due to the increase in the number of female-headed and aged-headed households and partly for apparently unrelated reasons.[45] The ability of the family or the neighborhood to provide economic security either over the business cycle or over the life cycle has thus sharply declined. The result has been powerful demands for unemployment insurance, social insurance for the aged, and payments to families with children and without earners.

Second, demands for these and other redistribution programs have

44. U.S., Bureau of the Census, Department of Commerce, *Historical Statistics of the United States* (Washington, D.C.: U.S. Government Printing Office, 1975), pts. 1-2, pp. 3, 39.

45. Peter Gottschalk, "Transfer Scenarios and Projections of Poverty into the 1980's," mimeographed, 1978.

been intensified by the sustained postwar increase in the degree of inequality in "before tax" incomes.[46]

Third, the need to regulate the supply of qualified labor and legitimize the evolving class relations and systems of control of the labor process, in conjunction with strong popular demands, has led to a vast expansion of public education. This movement has effectively removed schooling from the sphere of commodity circulation.[47] A simliar development is now taking place in the area of medical care.

Fourth and more generally, the accumulation process has made the proposition that market allocations are efficient less plausible. Both monopoly power and the noncommodity status of critical components in the production process (for example, clean air, nuclear and chemical waste disposal) have long been recognized as sources of what neoclassical economists term "market failure." The accelerating frequency of ecological disasters and the growing sense that the competitive market does not protect the consumer from unconstrained price gouging by the large corporations have prompted increasing demands for the socialization of the circulation process in general. Most notable are the campaigns for rent control, nationalization of the oil monopolies, environmental protection, price control in the necessities, "life line" free access to heating oil and other home necessities, and gas rationing.

None of these four tendencies has displaced the commodity from its central position in the process of capitalist production. But each has had major effects, the most important of which is the evolution of the citizen wage. In 1976, 44 percent of all household units received a governmental cash transfer. This transfer averaged $3,368, constituting 24 percent of their mean post-transfer income. The aged received cash transfers constituting 39 percent of their mean post-transfer income.[48] State programs also make very significant noncash contributions to medical care, vocational rehabilitation, child nutrition and education, and housing.

We may gauge the quantitative importance of the citizen wage by comparing a rough measure of its growth with the growth of the

46. See Peter Henle, "Exploring the Distribution of Earned Income," *Monthly Labor Review*, vol. 95, no. 12 (December, 1972); E. Smolensky and M. Reynolds, *Public Expenditures, Taxes and the Distribution of Income: The U.S. 1950, 1961, 1970* (New York: Academic Press, 1977).

47. See Samuel Bowles and Herbert Gintis, *Schooling in Capitalist America* (New York: Basic Books, 1975).

48. U.S., Congress, Joint Economic Committee, "Income Transfer Programs in the United States," p. 23. Our treatment of the citizen wage and its impact on the cyclical pattern of wages owes much to the research in progress of Juliet Schor.

Table 3

Sources of Workers' Consumption: The Wage and the Citizen Wage, 1948-1977, in Constant (1967) Dollars

Year	Gross Average Weekly Earnings[a] (1)	Estimated Weekly Direct Taxes on Earnings[b] (2)	Spendable Average Weekly Earnings[c] (3)	Estimated Weekly Social Welfare Expenditures[d] (4)
1948	68	1	67	14
1950	74	2	72	16
1955	84	5	79	19
1959	96	9	82	25
1965	101	10	91	32
1972	109	12	97	61
1977	104	10	94	71
Average Annual Rate of Growth, 1948-1977	1.5%	7.9%	1.2%	5.6%
Increase, 1948-1977	36	9	26	57

Notes: a Gross average weekly earnings of production and non-supervisory workers, in 1967 dollars.

b Estimated weekly direct taxation (including employee contributions to social insurance) for production or non-supervisory workers, in 1967 dollars.

c Spendable average weekly earnings of production or non-supervisory workers, in 1967 dollars, for a worker with three dependents.

d Estimated weekly social welfare expenditures under public programs per family of four, in 1967 dollars.

Sources: "Social Welfare Expenditures Under Public Programs" per week per family of four data for 1948-1970 are from U.S. Bureau of the Census Historical Statistics (p. 340) and for 1972 and 1977 from U.S. Bureau of the Census Statistical Abstract of the U.S., 1978 and 1979. The series covers both transfer payments (social security, public assistance) and health, educational, vocational rehabilitation, housing, veterans' programs, and child nutrition. The initial per capita series in current dollars has been deflated by the consumer price index and multiplied by four and expressed on a weekly basis to render it comparable to the spendable take-home pay series. Estimated average weekly earnings and gross average weekly earnings of production and non-supervisory workers on private nonagricultural payrolls in 1967 dollars: U.S. Dept. of Labor, Handbook of Labor Statistics, 1978, p. 325. Estimated direct taxation (including employee contribution to social insurance) per week for production and non-supervisory workers with three dependents is column (1) minus column (3).

after-tax receipts from the sale of labor power. Table 3 indicates that in 1977 average weekly citizen-wage expenditures by all levels of government per family of four were approximately three quarters of the average take-home pay for a single worker with three dependents. Further, over the three decades from 1948 to 1977 the rate of growth of real per capita citizen-wage expenditures was five times the rate of growth of the real take-home pay.

It will be important in what follows to distinguish between two related aspects of the citizen wage: its impact on proximate distribution and its impact on the reproduction of the labor-capital relationship. To assess the impact on proximate distribution, we would have to take account of the incidence of the expenditures and the related taxes. That its direct effect is generally egalitarian (in the sense of the net difference in a "before" and "after" tax and expenditure measure of the inequality of incomes) is without question. The immediate fiscal net impact of the state is evident from the data in table 4. In no sense does this table indicate that the over-all impact of the state is egalitarian, as the effect of the state cannot be reduced to the immediate micro-economic impacts of its fiscal activities. Although it is possible that even the immediate net redistribution takes place entirely within the working class, it is, as we shall see, unlikely.

We have sought to determine the long-term trends in the share of

Table 4

Pre and Post Fisc Income Distributions: 1950 and 1970

Income Concepts	Gini Ratio of Incomes (a measure of income inequality) 1950	1970
a. Initial Income (factor income "prior to" taxes and government transfers or expenditures).	.436	.446
b. Post fisc income (receipts "after" taxes and government expenditures and transfers).	.360	.339
c. Difference in Gini Ratio, (b-a).	-.076	-.107

Note: A Gini Ratio of zero indicates perfect income equality; a Gini Ratio of one indicates that all income is received by the richest group of income recipients. Thus a lower Gini Ratio indicates less income inequality.

Source: Smolensky and Reynolds, Public Expenditures, Taxes, and the Distribution of Income: The U.S. 1950, 1961, 1970 (N.Y.: Academic Press, 1972).

total output consumed by wage-and-salary workers and to estimate the shifting relative importance in that share of citizen-wage expenditures and the sale of labor power. Because none of the available statistics provide breakdowns by type of income (property income, wages, and salaries) either for tax incidence, for the incidence of the impacts of government programs, or for consumption propensities, our estimates are based on the following plausible and internally consistent assumptions: all saving is out of property incomes; all of what the social security administration terms social-welfare expenditures are received by wage and salary earners, and the effective rate of taxation on personal income from property is one third. Our results appear in table 5.

That part of the total product consumed by wage-and-salary workers, expressed as a fraction of gross national product, has gradually but significantly increased. All of the increase may be attributed to the growth of social wage expenditures from 8 to 19 percent of the total output. The claim of property-income recipients on total output has correspondingly declined. Table 6 expresses the gross share of property owners, which is simply the total minus the wage and salary share from the previous table, and the property share net of depreciation and non-citizen-wage government purchases. Both measures of the claim of property owners on total output showed quite significant declines from 1948 to 1972, and a slight recovery in 1977.

While the empirical categories used do not correspond to Marxist class notions, for our "wage-and-salary workers" are not the working class, they do allow a tentative assessment of the class distributional impact of the accord. The accord promoted distributional conflict as the predominant axis of class struggle, and the capitalist class lost.[49] The growth of the citizen wage is strongly implicated in a distributional shift adverse to capital. The impact of this shift on the accumulation process as a whole has not been adequately explored, and we cannot offer a definitive analysis here.[50] Other popular political gains, such as

49. It matters little how one classifies the upper levels of the salary earners or "service" workers: their pay and their consumption levels represent a cost to capital under any schema. Those who would choose to represent these payments as allocations of surplus value toward the payment of unproductive labor merely shift attention to an analogous question: why has the capitalist class had to surrender an increasing share of its revenue to unproductive workers?

50. For a definitive analysis, we would need to know more about the distribution of the relevant tax burdens and about the effects of these programs on productivity as well as on the balance of forces in the struggle over wages, intensity of work, and other working conditions. Even if the distributional effects could be definitively estimated, the impact of social-wage expenditures on the rate of economic growth would depend on the relationship of the expenditures to the expected rate of profit and thence upon the rates of gross investment and technical change. See Samuel Bowles and Herbert Gintis "The Welfare State and Long Term Economic Growth, *American Economic Review*, May 1982,

Table 5

Workers' Consumption as a Fraction of Total Output

Year	Consumption Financed From Returns to Labor[a] (1)	Social Welfare Expenditures[b] (2)	Total Workers' Consumption[c] (3)	Social Welfare Exp. As a Fraction of Total Workers' Consumption (4)
1948	.58	.08	.66	.12
1950	.58	.08	.66	.13
1955	.55	.08	.63	.13
1959	.55	.10	.65	.15
1965	.54	.11	.65	.17
1972	.52	.19	.71	.27
1977	.51	.19	.70	.27

Notes: a Personal consumption expenditures financed from returns to labor are estimated as total personal consumption expenditures minus government transfers to persons minus personal consumption expenditures financed from property incomes. This latter term is estimated as disposable income of the property owning class minus total personal savings. Disposable property income is the quantity (national income minus seventy percent of proprietor's income minus employee compensation minus the portion of imputed 'rental income' and 'net interest' which represent the fictitious (non-monetary) incomes allocated in the national income accounts to offset the 'consumption' by non-capitalists of owner-occupied housing and checking accounts, minus corporate tax liability) multiplied by two thirds. The critical assumptions here are (a) all transfers accrue to wage and salary recipients; (b) all net personal savings is done out of property income; (c) seventy percent of proprietor's income represents a return to their labor; and (d) the effective average tax rate on property incomes after social insurance and corporate tax liabilities is one third. Most of the imputed portion of rental incomes and net interest do not represent property incomes in the sense used here: they are comprised almost entirely of fictitious 'returns' to owner-occupied housing and personal checking accounts. A quantitatively insignificant estimated share of top-level executive salaries has been subtracted from employee compensation. Data are from U.S. Department of Commerce, Survey of Current Business, July edition, and President's Council of Economic Advisors 1980 Report. Total output is measured by gross national product. These data and those in Table 6 are described in greater detail in a mimeographed appendix which is available from the authors.

b See notes to Table 3.

c Column (3) = Column (1) plus Column (2).

d Column (4) = Column (2) divided by Column (3).

Table 6

Capital's Share of Total Output

Year	Capital's Gross Share[a] (1)	Reproduction of Constant Capital[b] (2)	Government Costs Not Related to Social Welfare Expenditure[c] (3)	Capital's Net Share[d] (4)
1948	.34	.07	.11	.16
1950	.34	.07	.12	.14
1955	.37	.09	.15	.13
1959	.35	.09	.15	.09
1965	.35	.08	.15	.12
1972	.29	.10	.14	.05
1977	.30	.10	.13	.07

Notes: a Equals one minus the share of workers' total consumption (from Table 5).

b Depreciation, estimated by the national income accounts revised capital consumption estimate.

c Including foreign.

d Available for net domestic and foreign investment and capitalists' personal consumption.

Source: Column (1) is one minus Column (3) of Table 4. Column (2) and Column (3) are from the President's Council of Economic Advisors 1980 Report.

the Occupational Health and Safety Act of 1970 and the Clean Air and Water Act of 1971, also appear to have been costly to capital. By inhibiting capital's attempts to tranfer the costs of production to workers and others, these acts have almost certainly had a significant negative effect on the over-all rate of profit and economic growth.

We do not wish to argue that these regulatory programs, and the redistributive programs described above, are the sole or even primary cause of the slowdown in the capitalist growth process, experienced not only in the U.S. but also in most advanced capitalist countries. But we believe that they have made a significant contribution to the slowdown.[51] More importantly, these programs, and the political

51. Our proposition that a progressive shift in the political alignments of class and other forces that is adverse to capital has played a central role in the evolution of the current crisis is complemented by Weisskopf's comprehensive empirical study of the post-war U.S. economy, "Marxian Crisis Theory." He concludes that "a rise in the strength of labor vis-à-vis capital—

configuration they represent, pose a major barrier to the familiar reconstitution of the accumulation process through crisis.

THE ACCORD: CONSEQUENCES FOR THE RELATIONSHIP OF UNEMPLOYMENT TO THE ACCUMULATION PROCESS

As we observed at the outset, the restoration of the accumulation process through crisis depends critically on the operation of the reserve army. If we are correct, however, the ability of the reserve army to provide the conditions for restarting the engine of rapid capitalist growth has been significantly impaired in the course of the long postwar boom. Unemployment is both more costly to endure and less effective in restoring the conditions for profit. The logic of the accord itself played a major role in this important change.

Unemployment rates since World War II have been much lower than they were between the world wars or before World War I. From 1890 to 1914, the rate of unemployment averaged 10.4 percent, from 1920 to 1939, it averaged 14.9 percent, and from 1946 to 1979, it averaged 6.2 percent.[52] What explains the dramatically lower recent rates? Keynesian demand-management techniques cannot be entirely dismissed as a contributing cause. At particular junctures, such as during the massive budgetary deficits in the years 1975-77, countercyclical policy has averted a potentially disastrous crash.[53] But at least as important, the costs of massive unemployment to the capitalist class have increased dramatically. These costs are both political and economic.

The political cost of extended periods of mass unemployment was perhaps best demonstrated by the explosive growth of a radical trade-union movement during the 1930s and the growing power within that movement of Communists and other leftists. Less dramatically,

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as reflected in a suitably adjusted wage share of income—accounted fully for the long-term decline (in the before-tax-rate profit of nonfinancial corporations)." Our approach differs from his, however, in its emphasis on distributional struggle in the state as a decisive element in the recent accumulation process and as a neglected aspect of Marxian crisis theory. See also Giovanni Arrighi, "Towards a Theory of Capitalist Crisis," *New Left Review*, no. 111 (September-October 1978), pp. 3-24.

52. These rates are the number of unemployed workers divided by the number of wage and salaried workers plus the number of unemployed. The conventional indices, which express the unemployed as a fraction of the total labor force, fail to measure the extent of unemployment within the capitalist mode of production, because they include in the "employed" category owners of the means of production. The data used are from Richard C. Edwards, Michael Reich, and Thomas Weisskopf, *The Capitalist System* (Englewood Cliffs, N.J.: Prentice-Hall, 1978); and *Historical Statistics of the United States*.

53. Annual Federal Budget deficits in 1975, 1976, and 1977 ran at the unprecedented levels of $70.6, $53.8, and $48.1 billions, respectively.

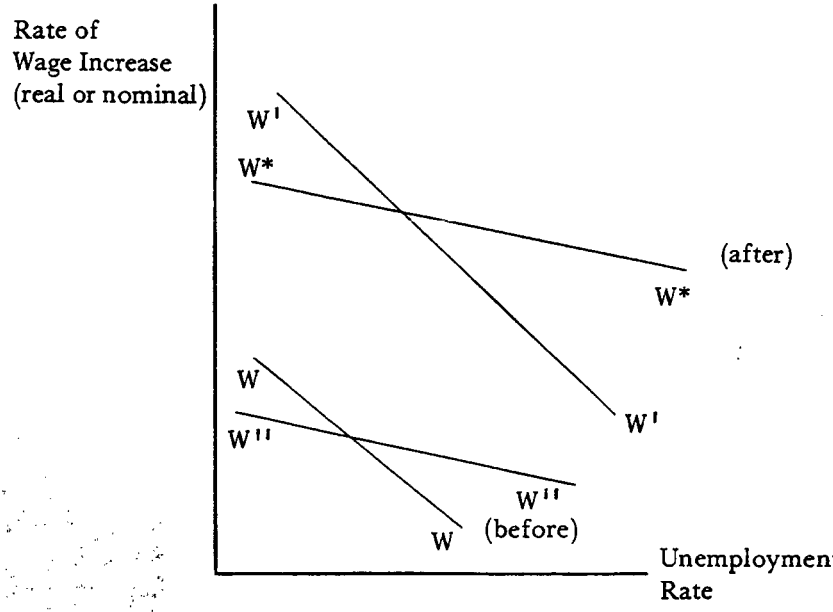
the electoral success of an incumbent president appears to depend critically on avoiding high levels of unemployment, at least in the year or so prior to the vote. Thus the upper levels of the state apparatus have a very immediate interest in avoiding mass unemployment. The unwillingness of Nixon to prolong the 1970 recession long enough to have a decisive effect on money wages, for example, was probably due to the upcoming 1972 election. Although there have always been political costs to mass unemployment, the degree to which unemployment has become a political issue has increased notably in the post-World War II period. Indeed, a national political commitment to an end to mass unemployment was an integral part of the accord.

The economic costs of mass unemployment may be attributed to the increasingly open and competitive international capitalist economy. Prolonged and deep recession seriously impairs the ability of a capitalist class to compete on international markets. While the effect of mass unemployment on nominal wages may enhance a nation's competitive position, a prolonged period of low levels of gross investment means less implementation of production techniques.[54] Of the two effects, the latter appears to predominate, leading to a growth imperative for countries quite analogous to, and no less binding than, the more familiar competitive whip among individual capitals: grow or perish.

High levels of unemployment are not only more costly to capital. They also appear to be increasingly ineffective in disciplining labor. It will be useful in what follows to distinguish between two quite distinct changes in the cyclical relationship of unemployment to nominal (money) or real (inflation corrected) wages. First, the rate of wage increase at any given level of unemployment may increase. This is represented in the accompanying figure by a shift from the presumed existing relationship ww to a hypothetical new relationship w'w'. Second, the effect of a change in the unemployment rate upon the rate of increase in wages may be reduced. This is indicated by the shift from ww to w''w''. We find that both shifts have taken place, at least in the case of nominal wages, which is represented by a shift from ww to w*w*: not only is a given *level* of the unemployment rate associated with higher rates of wage increase, but the depressing effect on wages of a given *increase* in the unemployment rate is less powerful.

On this point there can be little doubt. The usual negative relationship between unemployment and wage increases has been weakened. Indeed, Haveman's study reveals a dramatic shift: for 1952-68 there

54. Among the advanced capitalist countries, high levels of gross investment are strongly (positively) correlated with increasing shares of world trade.



Shifts in the Slope and Location of the Trade-off between Unemployment and Wage Increases

was a strong negative relationship between the rate of unemployment and the rate of increase in money wages; for 1969-76 there was no statistical relationship whatsoever.[55] Most likely, however, the trend has been gradual rather than discontinuous. Two studies, which compare the impact of economic contraction upon money wages in each of the six post-World War II recessions, reveal a steady erosion of the ability of a given level or increase in the rate of unemployment to constrain money-wage increases.[56] Both studies indicate that the rate of wage increases in the trough of the last two recessions was more rapid, not slower, than at the previous peaks. One of these studies,

55. Robert M. Haveman, "Unemployment in Western Europe and the United States: A Problem of Demand, Structure, or Measurement?" *American Economic Review* 68, no. 2 (May 1978): 44-50.

56. See *Economic Report of the President;* and Jeffrey Sachs, "The Changing Cyclical Behavior of Wages and Prices: 1890-1976," *National Bureau of Economic Research,* Working Paper no. 304 (December 1978).

Table 7

Percentage Point Change in the Rate of Change of Money Wages and Real Wages Associated with the Downturn in the Business Cycle (difference between peak quarter and two quarters after the trough)

Cyclical Downturn	Percentage Point Increase in Unemployment Rate	Percentage Point Decline (-) or Increase in Rate of Change of Hourly Earnings in Manufacturing (adjusted for overtime and interindustry shifts)	
		Money Wages	Real Wages
1948-49	4.0	-7.2	-2.1
1953-54	4.2	-3.4	-1.9
1957-58	4.7	-1.4	0.2
1960-61	2.2	-0.5	0.1
1969-70	3.4	0.8	2.2
1973-75	6.1	2.9	2.6

Note: The table should be read as follows. From the peak in 1948 to the second quarter after the trough in 1949 the rate of unemployment rose by 4 percentage points (from 4.2 percent to 8.2 percent, not shown in the table); the rate of increase of money wages fell by 7.2 percentage points (from 9.1 percent to 1.9 percent, also not shown), and the rate of increase in real wages fell by 2.1 percentage points (from 4.6 percent to 2.5, also not shown), and analogously for the other contractions.

Source: President's Council of Economic Advisors 1979 Report, p. 145.

by the President's Council of Economic Advisors, reveals an analogous trend for real wages. These data are presented in table 7.[57]

Two important caveats are in order. First, the long-term shift in the cyclical behavior of real wages is much less well documented than that of money wages. Our own calculations indicate that the results in the far right column of table 7 are quite sensitive to the particular data and statistical methods used.[58] Second, changes in

57. Robert Boyer, "Wage Formation in Historical Perspective: The French Experience," *Cambridge Journal of Economics* 3, no. 2 (June 1979): 99-118, makes a similar argument for France. Haveman, "Unemployment in Western Europe," shows a sharp decline in the relationship of unemployment to money-wage increases in the United Kingdom.

58. It might be thought that table 7 reflects a secular and exogenous increase in the rate of inflation rather than any shift in the operation of the reserve army. However, this argument is both empirically and theoretically suspect. The origins of the "exogenous" price increases and their independence from the wage raise would first have to be specified. (OPEC price increases will not do the job, as the trend in question appears to be a monotonic one covering a long period of price *declines* for oil as well as price increases). In any case, the last column

the profit rate depend not only on changes in money wages, or even real wages, but upon changes in labor productivity as well. An adequate treatment of the cyclical pattern of labor costs would require an integrated analysis of the relationship of unit labor costs to the price level. Our own study of the effect of contractions on labor productivity in the nonfinancial corporate business sector reveals no trend in the disciplining effect of recession upon labor productivity.[59] Thus we doubt that the decreasing capability of the reserve army to curb money-wage increases has been compensated for by a shift in labor productivity. The result is that the use of periodic unemployment to restore capital's power over labor has fundamentally changed.

The familiar cyclical pattern persists; the reserve army has not been banished, but its effects have been weakened. It is striking that an alteration of such decisive importance to the accumulation process is so poorly understood. The increasing insulation of the working class from the reserve army cannot be related to the growth of trade unions, for the relative numerical importance and probably the economic and political strength of the labor-union movement have been in decline, not ascendancy, during almost the entire postwar boom.[60] Nonetheless it may well be that the increase in the length of the typical collective-bargaining agreement—an integral part of the evolution of hierarchical and economistic unionism—has effectively shielded signifi-

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suggests that a general attenuation of the reserve army's effect did take place, even accounting for the increase in the rate of inflation. We have performed another test, one that appears to be less sensitive to the particular data and methods used: we have eliminated the upward trend in money wages by comparing the rate of nominal wage increase in the trough years with the average of the two adjacent peaks (preceding and succeeding). The percentage point decline (–) or increase (+) associated with the contraction calculated in this manner is as follows: 1949, -5.7; 1954, -3.3; 1958, -1.0; 1961, -1.6; 1971, -0.8; 1975, +1.2. The results of table 7 are thus strongly confirmed, particularly since the 1975 contraction was by far the most severe.

59. A similar pattern does emerge with respect to the before-tax rate of profit. If we compare the profit rate at the peak and at one year after the trough, the usual cyclical analysis would lead one to expect a profit-rate increase as the contraction restores the conditions for profit. Indeed, for the first four contractions, the increase in the rate of profit averages about half a percentage point. For the last two contractions, the profit rate stood about one point *lower* a year after the trough, compared to the previous peak. Calculated from Daniel M. Holland and Steward C. Myers, "Trends in Corporate Profitability and Capital Costs," in *The Nation's Capital Needs: Three Studies*, ed. Robert Lindsay (New York: Committee for Economic Development, 1979), p. 38.

60. Union membership as a percentage of employment in nonagricultural establishments fell from a high of 35.5 percent in 1945 to 26.7 percent in 1972 (U.S., Department of Labor, 1975). These figures probably understate the effect of unions on wage setting. The fraction of the work force working in establishments where there is a significant degree of unionization is much larger. Gains won or defended by unionized blue-collar workers tend to be reflected in white-collar pay patterns.

cant numbers of workers from the wage-depressing effects of high levels of unemployment during a recession.

Insulation from the reserve army might also result from the growth of working-class families with multiple wage earners. While a family with two or more wage earners is no less dependent on the sale of labor power in general, it is significantly shielded from the effects of particular unemployment, except in the very unlikely case of multiple wage earners working in the same occupations and industries. Among what the Census Bureau terms "husband and wife families" with the family head in the labor force, the percentage of families with no member other than the household head in the labor force has fallen from 60 percent to 43 percent.[61] But this trend is more than offset by another: the rapid growth of households headed by a single adult. The net result, as we have indicated in the previous section, is a decline, not an increase, in the average number of earners per household. Thus unless "husband and wife families" predominate in the wage-pattern-setting segment of the working class, we have little reason to identify a growth of multiple wage earners as a primary source of the shifting pattern of wages.

A contributing element in the growing unresponsiveness of wages to economic contraction may well be an increase in the racial, age, sexual, and other segmentation of labor markets. Thus, as unemployment becomes increasingly concentrated among blacks, women, and teenagers, the over-all unemployment rate may not measure the real threat of job loss to all workers. Although the evidence on the general trend in labor market segmentation is somewhat contradictory, there appears to be a significant growth in racial, sexual, and age differences in unemployment rates over the postwar period.[62]

Of greater importance in the declining power of the reserve army, we hypothesize, is what can be called the *partial deproletarianization of wage labor.* The classical proletariat had no access to its means of subsistence other than through the sale of labor power. Yet much of the working-class standard of living is now acquired not through the sale of labor power, but through the exercise of the rights of citizenship. Access to a portion of one's living standard independent

61. U.S., Bureau of Labor Statistics, Department of Labor, *Handbook of Labor Statistics* (Washington, D.C.: U.S. Government Printing Office, June 1979), p. 84.

62. We have measured the degree of labor-market segmentation by the sum of the differences in the (four) unemployment rates of white and black males and females. Comparing years of comparable levels of over-all employment (1949-50; 1974, 1978), this index has doubled over the postwar period. Our data are from the Bureau of Labor Statistics (1979) and the President's Council of Economic Advisors (1979).

of the sale of labor power relieves some of the pressure of the reserve army upon both the employed and the unemployed, not to mention those on strike—hence, the attenuation of the reserve-army effect. Moreover, the level of citizen-wage expenditures is designed to move anticyclically, to compensate for movements in the unemployment rate and the level of wage income.

The inadequacy of the current levels of income and other support is not at issue here. If we take the sparse "low income budget" of the Bureau of Labor Statistics as a standard, families receiving even a broad range of payments at their maximum levels of eligibility fall far short of making ends meet. Considering families receiving food stamps, medicaid, and Aid to Families with Dependent Children, the levels of payments in various states in 1976 were as follows: New York, 82 percent of the "low income budget"; Illinois, 64 percent; Texas, 42 percent; Mississippi, 29 percent.[63] Although these levels of payment may not allow even a minimal standard of living, the presence of these programs and other noncash payment programs has altered the accumulation process and broadened the terrain of class struggle. Very briefly, the growth of the social wage has undermined—though only minimally as yet—the asymmetry between capital and labor in the struggle over the determination of wages and work.

This partial deproletarianization may be attributed in some important measure to the terms of the capital-labor accord. The social programs that constitute the social wage were the hard-won fruit of class struggle along the distributional axis. As such they were a necessary part of the reproduction process of the capital-labor relation. But the channels that have limited and tamed the class struggle have profoundly altered the accumulation process and limited the options open to capital.

THE CURRENT ECONOMIC CRISIS: ORIGINS AND DEVELOPMENT

The liberal democratic state has affected the capitalist accumulation process in two, quite substantial ways: a gradual redistribution of the total product away from capital and a decreased ability of the reserve army to discipline labor. These effects have played a critical role both in producing and in prolonging the current period of economic stagnation and rapid inflation, the timing and extent of which was indicated in table 1. The net before-tax rate of return of the nonfinancial corporate sector fell from a cyclical peak average of about 15 percent in 1948-65 to 10 percent in 1972-77.

63. President's Council of Economic Advisors (1978), p. 226.

Several general developments have acted as a backdrop to this current economic decline. First, the postwar era has witnessed a gradual but accelerating deterioration in the terms of trade between the United States and the rest of the world. By raising input prices and lowering product prices of internationally traded goods, this development has exerted a strong downward pressure on the before-tax corporate profit rate. Specifically, given an essentially constant wage share (see table 2), the increased volume of exports needed to acquire a given level of imports will impinge upon real net corporate revenues.

Second, the extraction of labor from labor power has become increasingly problematic and costly for capital. Among the developments contributing to the "work problem" are levels of unemployment that are generally lower than in the prewar years, the attenuated impact of unemployment on worker discipline, and a general decrease in worker satisfaction and commitment.[64] It appears likely that the deterioration of the capital-labor accord has retarded the growth of labor productivity. Coal mining, the sector with the most marked recent labor productivity decline, and the only one for which there is a detailed case study available, dramatically illustrates this relationship.[65]

Possibly exacerbating this long-term decline are two further elements whose quantitative importance is more difficult to determine: increasing natural scarcities, associated with the depletion of resources, and growing irrationality in the market allocation process, involving a divergence between real social costs of commodities and their market prices.

All of these elements have contributed to a fall in the rate of profit through a decline in the rate of relative surplus value. These factors may have contributed as well to an increase in the amount of

64. Thus Graham Staines, study director of the 1977 U.S. Department of Labor Quality of Employment Survey, in "Is Worker Dissatisfaction Rising?" *Challenge* (May-June 1979), reporting on changes in worker attitudes between 1973 and 1977 alone, can write: "The sky has finally fallen. Workers in virtually all occupational and demographic categories evidenced appreciable, unmistakable manifestation of rising discontent." A similar set of results can be ascertained in an earlier period as well. See *Work in America*, Report of a Special Task Force to the Secretary of Health, Education, and Welfare (Cambridge, Mass.: MIT Press, 1973).

65. M. Connerton, R. B. Freeman, and J. L. Medoff, "Productivity and Industrial Relations: The Case of U.S. Bituminous Coal," unpublished manuscript, Harvard University (December 1979), p. 1, conclude: "In 1969, 15.6 net tons of coal per worker-day were produced in underground mines; in 1977, 8.7 net tons were produced. What explains this remarkable trend in productivity? . . . While other factors were also operative, *deterioration in industrial relations in the coal industry* is a major cause of the observed downward trend." Michele Naples's econometric work in progress will cast light on the generality of this phenomenon for the manufacturing sector of the economy.

constant capital consumed in the production process. An increase in the rate of absolute surplus value might, of course, have offset these trends, by forcing workers to bear the burden of the crisis through lower consumption levels. But, at least until very recently, as we have noted, capital has been quite unsuccessful in this effort.

These general developments cannot of course be solely attributed to the liberal democratic nature of the capitalist state. However, the structure of the state does help explain why the state is unable to maintain the general rate of profit and pace of accumulation when confronted by these adverse changes. This ineffectiveness is particularly evident in the very events surrounding the onset of the current crisis.

Contrary to common belief, the current downturn was not precipitated by the international economic events of the early and mid-1970s but began almost a decade earlier. From 1961 to 1965 the U.S. economy experienced a period of unusually rapid growth. In December 1965, with labor markets tightening, and upward pressure on wages and declining productivity, Lyndon Johnson's economic advisors counseled the president to engineer a recession. But the necessary tax increases were out of the question for a head of state confronting an electorate increasingly restive over the Vietnam War. Government spending cuts, which might have been an alternative instrument to recess the economy, were impolitic on two grounds: the imperatives of a war buildup, just then moving into high gear, and the War on Poverty—Johnson's bid for peace on the home front—with its attendant expansion of domestic social outlays.

Tight labor markets continued, and unit labor costs in the private business sector exploded. Having risen an average annual rate of 0.4 percent from 1960 to 1965, unit labor costs, that is, money wages paid per dollar value of output, grew at 3.8 percent in 1966 and averaged 4.8 percent for 1966-70. The before-tax rate of return to capital in the nonfinancial corporate sector peaked in 1965, began its decline in 1966, and fell precipitously during the succeeding four years. By 1970 the before-tax rate of return had fallen to 59 percent and the after-tax rate of return to 51 percent of the 1965 levels.

The political constraints faced by the Johnson administration precipitated rather than caused a crisis. The character of the crisis had already been molded by secular trends endemic to advanced liberal democratic capitalism. The ensuing destabilizing events merely corroborate this fact. Unprecedented levels of price inflation, coupled with the pitched decline in the U.S. terms of trade in the 1970s, failed to place the full burden of increased production costs on the shoulders of labor. Only the frantic price acceleration of 1978-80,

the product of a conscious Federal Reserve policy of monetary accommodation, succeeded in significantly eroding real wages, and this at the expense of a dangerously weakened and potentially explosive international economic environment for U.S. exports and foreign investment.

The recent inflation itself cannot be understood without reference to how the liberal democratic state structures the political power of capital and labor. Inflation is a symptom of crisis in a capitalist social formation that is unable to make effective use of massive unemployment for restoring the conditions of accumulation. Thus monetary policy is no mere reflection either of the interests of capital or of the "structural imperative" to maintain an adequate rate of profit. Recent contributions that have treated the inflationary process as an outcome of the clash of distributional interests are a major advance,[66] but they have tended to locate the dynamics of inflation in the accumulation process without adequate stress on the particular character of the state. An adequate understanding of the inflation process requires an analysis of the structure of the liberal democratic state and its articulation with the accumulation process.

As a step in this direction, we shall describe a simplified model in which the price level, the profit and wage rates, and the level of demand are jointly determined in three stages: workers secure a specific money wage based upon their general bargaining strength and the size of the reserve army of labor; capitalists set prices, in the face of given input costs, to maximize profits; and the state adjusts the supply of money and the availability of credit according to the pressures placed upon it by capital and labor, leading to a certain level of product demand. In order to avoid capital flight, state policy will attempt to ensure internationally competitive domestic profit and interest rates, its choice of inflationary versus deflationary measures being limited by the influence of capital and labor.

The inflationary bias of liberal democracy is due in part to the power of the working class to veto "excessive" levels of unemployment, and to attenuate the depressing effects of unemployment upon money wages. A low level of unemployment will lead in two ways to high increases in wages. First, low unemployment limits the disciplinary

66. This model is developed analytically in Bob Rowthorn, "Conflict, Inflation, and Money," in *Capitalism, Conflict, and Inflation* (London: Lawrence and Wishart, 1980). See also Jeffery Sachs, "The Changing Cyclical Behavior of Wages and Prices"; Charles S. Maier, "The Politics of Inflation in the Twentieth Century," in *The Political Economy of Inflation*, ed. John H. Goldthorpe and Fred Hirsch (Martin Roberson, 1978); John H. Goldthorpe in ibid.; and Lester Thurow, *The Zero-Sum Society* (New York: Basic Books, 1980).

effect of the reserve army. Second, with a politically determined "acceptable" level of unemployment, monetary authorities are likely to accommodate money-wage increases by expanding the money supply and hence raising prices. Money-wage gains thus become less and less likely to promote increases in the unemployment rate.[67] If monetary authorities were expected to respond to substantial wage gains with deflationary measures, wage demands would surely be tempered, as the post-1974 German and Swiss experience has indicated. Thus the veto power of labor tends to increase inflationary wage pressures.

The level of wage demands will also depend on the anticipated costs of their attainment. In addition to the size of the reserve army, these costs will depend upon the resources available to workers to withstand strikes and spells of unemployment. These resources are in turn strongly affected by the level of the citizen wage, which may be maintained or increased when wage income is no longer available.

Thus the increased power of labor both to veto excessive unemployment and to secure an increasing share of consumption in the form of public services and transfers can be expected to reduce the effect of current levels of unemployment on money-wage increases. This shift in the relationship between unemployment and wage changes is shown in the above figure. The result is clearly an inflationary bias to monetary policy when the political power of labor is relatively strong.

State actions are also implicated in determining the price increases instituted by capital, quite apart from the pressure on prices from wage increases. Product price increases will depend not only upon current demand, but also upon expected future product demand. If capitalists are confident that monetary policy will not tolerate high levels of

67. Representative of this view is the following statement by Richard Cooper "Comment," in *Eurocurrencies and the International Monetary System*, ed. H. Stem et al. (American Enterprise Institute, 1976): "In the final analysis, the monetary authorities must—for political reasons—provide a money supply adequate to ratify any given level of money wages, no matter how it was reached, in order to avoid excessive unemployment." Furthermore, Robert J. Gordon, "World Inflation and Monetary Accommodation in Eight Countries," *Brookings Papers on Economic Activity* no. 2, 1977, presents data for Western Europe and the United States illustrating that over most of the postwar period the expansion of the money supply was largely an accommodation to wage increase. Gordon's interpretation of this data, however, differs from ours. Finally, Hibbs has found a strong positive correlation between the political power of the working class and the rate of inflation between 1960 and 1969 in twelve Western European and North American countries. This is reported in Andrew Martin, "The Dynamics of Change in a Keynesian Political Economy: The Swedish Case and its Implications," in *State and Economy in Contemporary Capitalism*, ed. Colin Crouch (London: Croom Helm, 1979).

unemployment, they can be assured that "excessive" price increases will not lead to a decline in effective demand, except on freely traded international commodities. Thus inflationary pressures are exacerbated.

In short, this brief overview suggests that the coexistence of inflation and unemployment, as well as the pattern of recessionary and expansionary state policies, can best be understood through an appreciation of the impact of the liberal democratic character of the contemporary capitalist state on the accumulation process.

CONCLUSION

The current economic situation is a crisis rather than a cyclical downturn in the precise sense that a restoration of the rapid and stable expansion of capital will require a structural reconstitution of the accumulation process. Careful study of crisis periods should alert us to the immense flexibility and resilience of capitalism as a mode of production and to the significant capacity of the capitalist class for system-preserving institutional innovation. Yet the resolution of a crisis has typically not been by re-establishing the status quo ante, but rather by restructuring the articulation of the state and the accumulation process, which leads to a new logic of class struggle. In the current period, the institutional framework governing the expropriation of surplus value, especially the present articulation of the liberal democratic state with the accumulation process, presents itself to the capitalist class as a problem rather than a solution. The last two major capitalist crises—that of the closing years of the last century and the Great Depression—also witnessed a restructuring of the relation of the state to the accumulation process. Indeed, it is the discordant logic of these two restructurings that is now being played out.

Earlier capitalist solutions to accumulation crises have relied heavily upon weakening the offensive capacity of the working class by expanding the reserve army. It was primarily the adverse shift in the economic environment that placed workers on the defensive and set the stage for decisive victories and consolidations by the capitalist class, both in capitalist production and in the state. We doubt that the reserve army will play as powerful a role in forcing a solution to the current crisis.

The other time-honored economic strategy of capital in crisis is imperialism. The world scope of the accumulation process allows capital the mobility often critical to the favorable resolution of domestic crisis and the maintenance of high-level profits. The large labor supplies in various politically subordinate nations of Asia, Africa, and Latin America can be exploited without being constrained by

popular suffrage, social programs, and trade union rights. Indeed, this international strategy is being actively pursued. But the feasibility of the imperialist response to the declining rate of profit is limited. The escalating world monetary disorder since the late 1960s—wildly fluctuating exchange rates, embargos, growing protectionism, interference with currency convertibility, freezing of assets—has greatly increased the costs and risks of international investment. Equally important, the power of the U.S. state in poor nations has declined, as recently dramatized by U.S. quiescence in the face of the development of popular regimes and Cuban military intervention in Southern Africa, the Sandinista victory in Nicaragua, and the collapse of the U.S. puppet regime in Iran. Recall, in analogous situations, the U.S.-planned military overthrows of the popular Arbenz government in Guatemala in 1954 and of Mosadegh in Iran in 1953 and the elimination of Lumumba in 1961.

The effects of the end of Pax Americana upon the options open to capital are not difficult to detect. The growth of U.S. direct foreign investments (corrected for inflation) doubled during the decade of the 1950s. It doubled again in the 1960s. From 1970 to 1978 it grew by less than one quarter.[68] Within the United States, a broad range of trade unions and community groups are actively pressing legislation to retard the export of capital and to obstruct the runaway shop.

The liberal democratic structure of the U.S. state did not create the conditions for world monetary chaos and national liberation movements, but it has quite decisively limited the ability of the U.S. state to respond effectively to its declining world hegemony. Without exaggerating the role of the U.S. movement against intervention in Indochina, it can be said that this popular mobilization has had a decisive impact on U.S. foreign policy. The official and popular sabre rattling of the late 1970s and early 1980s is perhaps less significant than the absence to date of any major intervention to restore U.S. power.

Popular pressure contributed to this decline in another, less obvious way. During the 1970s, the effective use of restrictive monetary policy to defend the international value of the dollar and its role as world currency was crippled by the political unacceptability of the massive unemployment that high real interest rates and tight credit would have entailed.

68. *Historical Statistics of the United States* (1975) and *Economic Report of the President* (1980). It is nonetheless true that the ratio of foreign to domestic investment and foreign to domestic profits rose during the 1970s. See Arthur MacEwan, "U.S. Capitalism and International Contradictions of the Current Crisis," unpublished manuscript, 1980.

It is perhaps not accidental that since both economic mechanisms for favorable crisis resolution have been impeded, if not blocked, by the liberal democratic state, capital's search for a solution to the crisis has focused primarily upon the state. The result has been a plethora of proposals. However, the deregulation, tax slashing, and social-service cutting strategies of the new right, the selective planning initiatives of the Trilateral Commission, the editors of *Business Week*, and the like, hardly suggest a unified program.[69] This lack of unity is nowhere more clearly indicated than in the repeated inability of U.S. capital to develop a rational and integrated energy strategy. Indeed, this cacaphonous orchestration suggests more the striking disunity of the capitalist class.

Nonetheless, there is more than one common thread in the strategies of the corporate planners, supply-side economists, and monetarists. All aim at an increase in the rate of exploitation, though the corporate planners and supply siders want to increase relative surplus value through rationalization, while the monetarists want to increase absolute surplus value through a lowering of workers' living standards. All seek a disarticulation of liberal democracy and the accumulation process. All have recognized the potential disruptiveness of liberal-democratic state intervention in the accumulation process. All have advocated market-based cost effectiveness criteria for all state programs and regulatory activities in order to impose the "rationality" of the commodity form on state practices. Again, the overt strategies diverge. Supply siders and monetarists want to develop a less interventionist state by reducing the citizen wage, restoring the commodity form as the sole allocational role outside the state, and relying upon monetary rather than fiscal macromanagement policies. The corporate planners accept the necessity of an interventionist state and seek to insulate its workings from the electorate. They want to shift effective decision making from the legislative to the executive branch of government and to insulate executive decision making from popular scrutiny and accountability. Models of this insulation strategy include New York City's Municipal Assistance Corporation, through which the major banks control the city's fiscal policy, and the Federal Reserve System, which is constituted so as to place the interest rate and the supply of credit "beyond politics."[70]

69. For the latter, see especially the June 30, 1980, issue of *Business Week* on "reindustrialization," which by-passes the ideology of Adam Smith to tout Jean Jacques Rousseau.

70. See Martin Shefter, "New York City's Fiscal Crisis: The Politics of Inflation and Retrenchment," *The Public Interest*, no. 48 (Summer 1977), pp. 98-127; A. Burns, "The Independence of the Federal Reserve System," *Challenge* (July 1976); and on the "new corpo-

The large-scale employment of temporary foreign workers represents a form of disarticulation of the liberal democratic state and the accumulation process that is little discussed in the U.S. but that is rapidly growing in importance. The growing role of what in Europe are called guest workers represents the de facto disenfranchisement of a significant segment of the direct producers. This avenue may well make it possible for capital to avoid the vagaries both of world economic disorder and of a liberal democratic working class.

The objectives of capital may be summarized as the depoliticization of the accumulation process and the commodification of the state. Capital, then, seeks to curtail the transportation of practices from the liberal democratic state to capitalist production and to promote a transportation of practices from capitalist production to the liberal democratic state.

A possibly viable response of workers is to politicize the accumulation process and to strengthen and extend democratic control of the state apparatus. While the impetus to politicize and democratize the accumulation process is hardly the dominant strand of labor's defensive program today, it may be seen as a possible culmination of the post-World War II accord. For the "logic of the process" of class conflict initiated by the accord is precisely the conflict of person rights versus property rights.

The incongruity of these two sets of rights—one liberal, the other democratic—has provided an axis of debate in liberal political and social thought for well over a century. The confrontation of classes has long sounded the contrapuntal discord of the liberal discourse. The present is no exception. Demands posed as universal rights and movements constituted by the universal discourse of liberal democracy are prone to become class demands and class movements. The extension of the suffrage to workers is a prime example of this process.

The crisis of capital may thus hasten the realization that the struggle over universal rights—the right to participate in political decisions, the right of a free press—is a class struggle. If we are correct in this conjecture, the ongoing conflict over the reconstitution of the accumulation process may starkly reveal the antidemocratic imperatives of capitalism as a system and thus unify for socialists two of the most powerful potential mass issues in the U.S. today: the defense and extension of democracy and the defense of living standards.[71]

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ratism," Phillippe Schmitters, "Still the Century of Corporatism," *Review of Politics* 36 (January 1974): 85-131, and Leo Panich, "The Development of Corporatism in Liberal Democracy," *Comparative Political Studies* 10, no. 1 (April 1977): 61-90.

71. On the relationship between democracy and the capacity of workers' organizations

Capitalism may survive the encounter. But liberal democracy may well be radically transformed—either toward a corporate authoritarianism, as a condition of capital's survival, or toward an instrument, however imperfect, of popular power.

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to mobilize a mass movement, see H. Klehr, "Leninism, Lewis Corey, and the Failure of American Socialism," *Labor History* 18, no. 2 (Spring 1977): 249-56.

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