The Current Economic Crisis in Historical Perspective

Thomas Weisskopf

The United States, and indeed much of the world capitalist system, has entered into a period of generalized economic crisis since the early 1970s. This crisis has many facets, political and social as well as economic. Its three principal economic elements are a slowdown in economic growth, an increase in inflation, and an increase in unemployment.

Table 1 presents some aggregated data illustrating the deterioration of American economic performance since the early 1970s. First of all, there has been a significant slowdown in the rate of growth of the economy's ability to deliver real economic benefits to the American people. This slowdown is only imperfectly measured by the decline in the growth rate of real gross national product (GNP) per capita, which fell from 3.3 percent in the 1960s to 2.2 percent in the 1970s.* It is more fully captured by the decline in

*The figures for rates of growth of real GNP per capita in Table 1 are slightly misleading because the beginnings and endings of the three decades do not coincide with the same phases of the short-run business cycle. The early 1950s, late

I am greatly indebted to Sam Bowles and David Gordon for a series of stimulating discussions about most of the issues raised in this paper. I also owe a significant debt of gratitude to many constructive critics of an earlier version of the paper—including especially Jim Campes, Robert Heilbroner, Victor and Walter Weisskopf, and Joan Hannon together with the other members of the San Francisco Bay Area collective of Socialist Review. —T.W.
The Current Economic Crisis

long-term increase in the rate of inflation. The figures in Table 1 show that the average rate of increase in the consumer price index was about three times higher in the 1970s than in the 1950s and 1960s. But these figures understate the severity of the problem, for throughout the 1970s there has been an upward surge in the trend rate of inflation (adjusted for cyclical effects). By the early 1980s the trend rate was more than 10 percent per year, roughly twice as great as it was in the early 1970s. This persistence of high and rising rates of inflation is unprecedented in American economic history.

The third major element of the United States' economic crisis is the secular increase in rates of unemployment. According to the figures in Table 1, the average rate of unemployment for the whole civilian labor force rose from between 4 and 5 percent in the 1950s and 1960s to more than 6 percent in the 1970s. This increase was not simply due to the increasing proportion of the labor force composed of women and minorities (traditionally subject to higher rates of unemployment), for the unemployment rate of white males also rose significantly. In the economic downturn of the mid-1970s, the official unemployment rate climbed to its highest level since the 1930s; and cyclical expansions in the 1970s have not reduced unemployment to the low rates achieved in earlier decades. Many economists and politicians like to assert that the long-term upward drift in unemployment has little welfare significance, because it reflects the changing composition of the labor force and correspondingly higher rates of voluntary unemployment. But this is simply an ad hoc effort to explain away the growing severity of the problem.

Economic difficulties similar to those of the United States have affected virtually every other advanced capitalist country; some (e.g., West Germany and Japan) have suffered less, while others (e.g., Italy and the United Kingdom) have suffered even more. Although the current economic crisis is not (yet) comparable with the Great Depression of the 1930s in the degree of suffering imposed upon the American people, it nonetheless marks a sharp break with the buoyant prosperity of the earlier postwar period. In the following pages I intend to bring a historical perspective to the analysis of the current economic crisis in the United States. First, I will discuss the crisis in the context of a long history of ups and downs in the development of capitalism; second, I will analyze the crisis in the perspective of the postwar boom that preceded it.
A Long-Run Historical Perspective

If one looks back through the history of capitalist economic development, major structural crises are not unprecedented. Moreover, such crises arise with almost cyclical regularity; periods of prosperity are followed by periods of crisis, which in turn give way to new periods of prosperity. The period since World War II has included both phases of such a cycle; the world capitalist economy first experienced a period of prosperity that lasted for approximately two and a half decades, and it then entered what we now perceive as a major economic crisis.

To some people on the left, with an apocalyptic bent, the current crisis suggests that the capitalist system is approaching a breakdown. To most people on the center and the right, the current crisis represents a serious problem, but one that could be solved more or less readily by the application of sound policies by economic decision-makers. Neither of these views appears very accurate to me. At several points in its long turbulent history, capitalism has been in at least as much trouble as it is today, and in the past it has always recovered in one form or another. Indeed, there is much evidence in support of a very rough kind of long-wave pattern characterizing the development of capitalism. If one goes back about 130 years, one can discern a period of relatively good times beginning around the middle of the nineteenth century and continuing up to the 1970s, followed by a period of relatively bad times from the 1870s to the 1890s (when there occurred what was at that time labeled the “Great Depression”). Then a renewed period of prosperity lasted from the 1890s up to the First World War and (in the United States) through the late 1920s. There followed a period of serious economic difficulties, the worst of which was the Great Depression of the 1930s. But the depression and war years were followed again by the postwar boom and now the latest economic crisis. With the increasing integration of the world capitalist economy, economic booms and crises have become increasingly synchronous across different capitalist nations.

We can thus discern in the history of capitalist development an overall pattern of long waves, each of which is roughly fifty years in length. There is no single common cyclical mechanism that generated all of these waves. Each of these waves of prosperity and crisis has been profoundly different. It is useful to recognize that capitalism, as it has developed, has moved successively through phases of good and bad times—each such phase roughly two or three decades in length—and that we are now well into yet another of the “down” phases that have historically succeeded the “up” phases. Rather than explaining these long waves by a common recurring cyclical mechanism, it is more accurate to argue that each wave begins on the basis of a new capitalist “institutional structure.” This is a set of social/economic/political institutions that provide a certain stability and thereby generate prosperity for a capitalist system. Such an institutional structure works for a while—perhaps for two or three decades, depending on various circumstances. But sooner or later, each such institutional structure begins to run into trouble, as internal contradictions develop. The very basis of the expansion becomes contradictory, in that it generates forces that restrain the expansion. I would argue that in each of the previous periods of capitalist prosperity, one can point to internal contradictions that ultimately brought the expansion to an end and precipitated the systemic economic crisis.

Compared to the endogenous nature of the crisis, the subsequent recovery is usually more autonomous. Each crisis creates conditions under which major institutional change can take place, as the classes and/or interest groups favored by the current institutional structure are weakened by its economic contradictions. The crisis poses a challenge to capitalists in particular, for they are the principal operators and beneficiaries of a capitalist system. They are challenged either to reform it in some fundamental structural ways, so as to provide the institutional basis for a new period of accumulation, or else to yield to revolutionary changes which would radically restructure the mode of production as a whole. Thus each crisis reflects the exhaustion of the particular institutional structure that characterized the preceding long wave upswing, and it can only be resolved by some major restructuring that establishes a new and viable institutional structure for accumulation. While the nature of the crisis itself circumscribes the set of possible outcomes, it does not lead inexorably to any particular one. What kind of new structure eventually gets established—and whether or not it remains consistent with the capitalist mode of production—depends to a large extent upon the political actions of different classes confronting the crisis situation.
Thomas Weisskopf

This general model can be applied to the periods of crisis in the American economy in the late nineteenth century and in the 1930s. Each of these challenges to the system was ultimately met by major structural changes that laid the basis for a subsequent stage of accumulation. It was not that capitalists got together and acted self-consciously to restructure the system. Rather, a series of changes and reforms, sometimes even forced upon a reluctant capitalist class by political leaders and/or noncapitalist classes, gradually caused capitalists to change their way of doing business and thereby to restructure the system so as to lay the basis for a profitable new period of accumulation.

In the late nineteenth century the difficulties that American capitalism encountered had much to do with growing competition among capitalists. Increasingly cutthroat competition generated economic instability and weakened capitalist control over the working classes. The shift from a predominantly competitive type of capitalism to a much more monopolistic form of capitalism ultimately paved the way for a new and more profitable period of accumulation. This structural shift was accomplished by mergers and takeovers that led to the concentration of capital into large units with a much greater ability to control labor and markets. The whole process was facilitated by the growth of governmental regulation of finance and industry, which had the effect of promoting greater business concentration and streamlining the system so it would work more effectively on capitalist terms to produce the economic growth of the early twentieth century.

That model, however, did not work forever. By the 1920s the very monopolistic structure of business that had been part of the solution to the difficulties of the late nineteenth century became the source of new difficulties. The distribution of income shifted against workers and aggregate consumption demand began to decelerate, very much along the lines suggested by neo-Marxian “underconsumption” theorists. By the 1930s, the underlying consumption problem could no longer be offset by other sources of demand, and the increasing inadequacy of aggregate demand compounded itself into the Great Depression. Thus a major crisis had resulted from the growing contradictions of the monopoly capitalist stage of development.

The resolution of this crisis on capitalist terms initially owed much to the boost in aggregate demand represented by massive military expenditures for World War II. But the new institutional structure on which postwar capitalist prosperity was built involved an augmented role for the state in the economy, which included the pursuit of Keynesian demand-management policies, the provision of social security and social-service benefits to a substantial part of the population, and other measures enhancing the economic security of individuals and firms. Partly as a consequence of working-class struggles, partly as a consequence of capitalist initiatives, the crisis of the 1930s led to a restructuring of the system, moving it from a stage of “monopoly capitalism” to a new stage of “security capitalism” in which a significant measure of state-sponsored economic security was grafted onto the monopolistic core of the capitalist economy. This combination helped to stimulate the vigorous postwar boom of the American economy.

This whole approach to the analysis of the development of capitalism suggests that what we are witnessing in the 1970s and 1980s is an economic crisis generated by the internal contradictions of an initially successful institutional structure established after World War II. If we want to understand the nature of the current crisis, and to consider what possible structural solutions may exist (either within the capitalist order, or outside it), we must first analyze what made possible the prosperity of the 1950s and 1960s and then see what contradictions developed out of it.

Sources of the Postwar Boom

The period from the end of World War II to the late 1960s was one of overall economic prosperity for the United States’ economy. Although the business cycle took its toll in a series of cyclical recessions, these recessions were relatively mild and short-lived by historical standards. The trend rates of growth of per capita output and productivity were relatively high, and rates of unemployment and inflation were relatively low (see Table 1).

The postwar prosperity of the American economy was grounded in the new institutional structure that emerged after World War II. Both domestic and international aspects of that structure contributed significantly to the long-wave upswing, and I will analyze the process in more detail below. However, certain general environ-
mental conditions were also favorable to rapid economic growth in the postwar period.

First of all, this was a period in which key natural resources were available in plentiful supply both inside and outside of the United States. Most kinds of energy-related inputs (e.g., coal, oil and natural gas) and basic raw materials (e.g., agricultural, mineral, and forestry products) were not vulnerable to sharp increases in cost because of physical constraints on resource availability or accessibility. Second, this was a period during which the capacity of the earth to receive the waste products of industrial production, without serious environmental deterioration, had yet to be exhausted in most parts of the world. Thus productive activities in the United States were not subject to any major constraints imposed by the need to maintain ecological balance. The physical constraints of the natural environment are of course not the only determinants of the cost of raw materials and waste disposal to an economy. Many social and economic circumstances mediate these physical constraints, so that costs may be high even in a context of physical abundance and costs may be low (at least temporarily) in a context of scarcity. But favorable physical supply conditions, both in the United States and in the rest of the world, did contribute to the favorable economic availability of energy and other key resources to the American economy in the 1950s and 1960s.

Turning now to the postwar institutional structure itself, I believe that two international elements of that structure were especially critical for the postwar boom of the American economy. First, and most important, was the international political, economic, and monetary stability that was assured by American political and economic hegemony over the world capitalist system. To consider briefly again the long-term history of capitalism, the international stability of the capitalist system has been assured only at times when a single nation has been dominant and taken responsibility for political order and monetary discipline. This hegemonic role was played by Great Britain in the nineteenth century ("Pax Britannica") and it was played by the United States in the quarter century following World War II ("Pax Americana"). American political and economic dominance contributed to a stable economic and political climate within which capitalist trade, investment, and output could grow very rapidly. Although the gains from this stable world capitalist economy were shared unequally, the economies of all the advanced capitalist powers were major beneficiaries.

Second, the fact that it was the United States that played the role of hegemonic power in the postwar world capitalist system meant that the American economy gained special advantages, in addition to those stemming simply from the stability of the international order. For example, the use of dollars as the key currency for international payments in effect forced other nations to make short-term loans to the United States: this permitted American capitalists and the government to undertake more long-term foreign investment and/or more foreign aid and/or more imports of goods and services than would otherwise have been possible. Moreover, the use of American military forces and aid to defend the "free world" (by maintaining governments friendly to capitalist enterprise) provided American capitalists with channels of influence that facilitated their access to third-world resources and markets and provided certain competitive advantages vis-à-vis capitalists from other nations. Perhaps most critical for the United States was the way in which American political and economic hegemony assured favorable terms of access to third-world mineral and energy-related raw materials (notably oil), thereby helping to keep down the real price of key raw materials relative to industrial output.

The Principal Domestic Elements of the postwar institutional structure in the United States provide substance to the label "security capitalism" suggested earlier. First, there was the more or less explicit agreement between organized labor and corporate capital whereby workers would get rising real wages and substantial economic security, while capitalists would get a reasonably disciplined and cooperative labor force that would not offer a political challenge to the capitalist order. The left wing of the American trade union movement was sacrificed for this truce between labor and big capital, which contributed both a substantial amount of stability and a mass consumption base to the postwar American economy. Although this capitalist-labor accord centered on the relations between private-sector corporations and unions, it was consummated in the context of a series of key government measures (such as the Wagner Act of 1935 and the Taft-Hartley Act of 1947) that set the legal framework for collective bargaining in the United States.
The second important new domestic element of the institutional structure was the commitment of the state to stabilize the macroeconomy by means of Keynesian techniques of demand management. Among advanced capitalist nations the United States was relatively late in this respect; systematic application of Keynesian policies began only with the Kennedy administration in the early 1960s. However, well before this time, the growth of government military expenditures associated with the “cold war” and the Korean War served the Keynesian function of promoting high levels of aggregate demand. Indeed, throughout the postwar period the ability of the United States government to stimulate aggregate demand has been linked to the political acceptability of high levels of government spending for military purposes. In conjunction with the rising real wages emerging from the capital-labor accord, and the “automatic stabilizers” embedded in state-sponsored programs for economic security, government demand management was successful in preventing the kind of massive downturn that disrupted the capitalist economies in the 1930s and threatened their political and economic future. Thus Keynesian helped to maintain relatively high rates of employment and capacity utilization and to avoid the waste of periodic sharp downturns that slowed down the long-run rate of growth in earlier stages of American capitalism.

Finally, the third key element of the domestic institutional structure of the postwar period was the role of the state in protecting people and businesses from the unpredictable (and often cruel) vicissitudes of the market. On the one hand, new and increasingly comprehensive government programs rendered workers less dependent for survival on their current wages than they were in earlier periods of capitalist history. There are now a variety of ways by which the working class, broadly defined, can receive income or benefits from sources other than their own employers. Among the most important of such sources are social security (which benefits not only retired people, but also the working family members on whom they would be dependent if they did not have access to social security payments), unemployment compensation, and various other kinds of government transfers and social services, all of which constitute a “social wage” that now supplements the “private wage” to a degree that has never been true in the past. Although the social wage by itself provides a seriously inadequate level of income for any working-class family that does not prevent it from having a

significant impact on capital-labor relations, for the threat of unemployment is no longer as effective a mechanism of capitalist control over labor as it used to be. While it is the middle and upper-middle income classes who have received the lion’s share of social wage transfers and services in the United States, they have also paid for much of it in higher taxes; the poor have received much less, but most of what they have received represents a redistributive gain.

On the other hand, the United States government in the postwar period has also become increasingly protective of private business constituencies. For example, the growth of government military spending has spawned a “military-industrial complex” of corporate contractors who are virtually assured of continuous profitability because they are considered to be major national assets. Similarly, the government is extremely reluctant to allow major banks or corporations to go bankrupt because of the disruptive consequences such failures would have both for the owner, managers, and workers and for related sectors of the economy. Special interest groups have become increasingly active and effective in gaining protective legislation of one kind or another from Congress. Corporations, by virtue of their size and power, have since the early days of monopoly capitalism always had a great capacity to protect their own interests. But in the contemporary era of security capitalism they have gained the modern capitalist state as a significant source of protection from the full impact of market forces.

Both the international and the domestic aspects of the postwar institutional structure of American capitalism represent, to a significant degree, the outcome of structural reforms that responded to the failure of the capitalist system in the 1930s. American international hegemony owed much to the emergence of the United States as the largest and economically healthiest nation on the victorious side of World War II. But the framework of the postwar world capitalist economy was established by negotiators at Bretton Woods who sought deliberately to avoid the systemic international economic problems of the interwar period of crisis.

The reforms that led to the capital-labor accord, Keynesian demand management and the protective state were aimed at the most serious economic problem of the Great Depression: inadequate aggregate demand. Some of these reforms were pushed very strongly by working-class organizations, some were initiated by
government officials, and many of them had to be introduced over the intense opposition of particular capitalists. But the end result was a new stage of capitalism that was, in fact, more conducive to capitalist growth (for a period of a couple of decades) than the stage preceding it. The overall institutional structure had been converted from a depression-prone system to a new type of system that was relatively immune to that type of threat to the viability of capitalism.

All of the difference factors discussed above contributed to the rapid economic growth of the American economy in the postwar period. The favorable resource availability and international institutional conditions, as well as the capital-labor accord, provided a strong impetus to aggregate supply, while the three domestic aspects of the institutional structure provided a complementary boost to aggregate demand. Economic growth itself helped in turn to contain the extent of both inflation and unemployment. A gradually increasing rate of growth in per capita output in the 1950s and 1960s provided the system with the resources to meet, in a non-inflationary manner, the growing real claims placed upon it by various classes and interest groups. Moreover, the stability of the international system—and the dominant position of the United States within it—enabled the American economy to avoid the kind of external shocks (e.g., oil price increases) which have exacerbated inflationary pressures in all the advanced capitalist economies in the last decade. Finally, the rising trend rate of economic growth, combined with a domestic institutional structure geared to the support and management of aggregate demand, contributed to success in keeping rates of unemployment relatively low—by American historical standards—during the 1950s and 1960s.

**Contradictions of the Postwar Boom**

The postwar economic environment and institutional structure provided the American economy with rapid growth, relatively low unemployment and a fair degree of price stability. Why did the boom not last forever, as it was assumed that it could by many economists and public officials in the 1960s? In retrospect, one can see not only that the critical conditions of the postwar period turned from favorable to unfavorable, but that their metamorphosis was a natural consequence of the boom itself. In other words, like previous periods of capitalist prosperity, the postwar boom was inherently contradictory.

First of all, the favorable resource and environmental supply conditions were bound, sooner or later, to be undermined by sustained economic growth itself. Thus, the rapid growth of United States industrial production in the 1950s and 1960s put increasing pressure on the domestic supply of raw materials and nonrenewable resources; imports of oil and key mineral inputs increased as a percentage of total United States consumption. Similarly, the rapid growth of industrial activities began to increase environmental costs as the waste-absorbing capacity of air, water, and land was more and more heavily burdened. Similar processes were at work in other advanced capitalist nations, so that Ricardian problems of natural-resource supply began to affect the world capitalist economy as a whole.

These Ricardian problems loom increasingly ominously as a long-term secular constraint on the growth potential of “spaceship earth.” But their effect on the postwar American capitalist economy was limited so long as American firms had privileged access to foreign resources to substitute for dwindling or more costly domestic resources, and so long as capitalists could prevent the social costs of environmental deterioration from being translated into the private costs of doing business. But just as the postwar boom increasingly undermined the initially favorable conditions of physical supply, so it ultimately undermined the favorable conditions of economic accessibility that temporarily shielded American capitalism from the cost-increasing implications of growing resource scarcity. For reasons to be discussed at greater length below, the political strength of raw-material-exporting nations abroad increased to the point where the terms of trade turned against the United States, and the political strength of the environmental movement at home increased to the point where American capitalists were no longer able to externalize the costs of waste disposal.

**Turning to the international aspects of the postwar institutional structure, one can see that the favorable condition of America hegemony was bound to be short-lived because of its very success in promoting capital accumulation throughout the world capitalist system. Thanks to the international economic stability assured by United States dominance, the other advanced capitalist**
nations in Western Europe and Japan were able to rebuild their economies rapidly. By the 1960s they were becoming effective rivals economically as well as politically. European and Japanese firms became much more competitive with United States firms in the worldwide market for such products as automobiles and electronic equipment, and the rival capitalist powers became increasingly restless about the special advantages that the United States derived from the international monetary system. The resultant erosion of American dominance of the world capitalist system led to the restructuring of the whole postwar international monetary system in 1971, with the devaluation of the dollar and the shift from dollar-based fixed exchange rates to floating exchange rates. The restructuring contributed to generalized international economic instability throughout the 1970s, and it also deprived the United States of its privileged position within the international framework.

An additional contradictory element in the postwar international hegemony of the United States developed out of American relations with third-world nations. As the "policeman of the free world," the United States government took primary responsibility for military aid to pro-capitalist governments and—where necessary—military intervention to prevent nationalist and/or socialist movements from severely restricting the favorable access of capitalist enterprise to third-world resources and markets. In a context of growing nationalist self-consciousness around the world, linked to the process of decolonization that accelerated after World War II, this put the United States increasingly into conflict with third-world revolutionary movements. The cost of defending the empire mounted for the hegemonic power, reaching its debilitating peak with the escalation of the war in Vietnam in the late 1960s and early 1970s. While other advanced capitalist nations benefited from worldwide boom conditions and relatively low military budgets, the United States found itself increasingly strained—both economically and socially—by the demands of the war effort.

In an overall context of increasing pressure on resource supplies, diminishing American hegemony and increasing rivalry among advanced capitalist powers, the economic bargaining power of some of the third-world raw-material-exporting nations increased substantially. The successful OPEC cartel represents the most visible and most important example of this process. Its ability (in conjunction with multinational petroleum corporations) to shift the terms of trade against the oil-importing nations was enhanced by its ability to play off the oil-importing nations against one another and by the declining capacity of the United States government to control third-world states. In a characteristically contradictory fashion, the huge increase in the real cost of imported oil had a particularly adverse effect on the United States' economy because, in their earlier state of blissful hegemony, American policy-makers had allowed the economy to become geared to a continual flow of low-cost energy from abroad.

Finally, the domestic elements of the postwar institutional structure of American capitalism also generated contradictions that would ultimately render them problematical. The domestic capital-labor accord did attenuate, up to a point, the traditional and often damaging struggle between capital and labor over wages. But I would argue that this very success in the material domain contributed to a gradual intensification of struggle in other areas; for example, over the issues of capital control of the production process. The fact that capitalists could provide material security and growing real wages for a substantial portion of the labor force did not do away with all sources of capital-labor conflict, for as workers solidified their gains in this domain, they quite naturally became concerned about other spheres of capitalist dominance. This led to increasing challenges to the capitalist's traditional freedom to produce, invest, hire and fire irrespective of the social consequences. Thus workers, minority groups, and local communities began to organize themselves around demands for greater workplace democracy, affirmative action, community control, etc., all of which involved an effort to limit the decision-making freedom of capitalists in the interest of broader social goals than high profits and growing real wages. These new kinds of struggles generated increasing problems for capitalists at the enterprise level; even more significantly, they resulted in increasing pressure on government to legislate restrictions on capitalist activity so as to improve the quality of the work environment and worker safety, to reduce racial and sexual discrimination, to protect consumers and the environment. All of these movements and challenges gradually undermined the relatively harmonious relations between capital and
labor that had been fostered by the capital-labor accord and contributed to an increasingly contentious business climate.

The use of Keynesian techniques of demand management and military spending to stabilize the American macroeconomy also proved contradictory in the long run. Precisely because of the success of the stabilization efforts in limiting recessions to the relatively mild variety of the 1950s and 1960s, the prospect of massive depression, unemployment, and financial collapse receded as a plausible threat to the economy. Business, unions, and everyone else began to see that there could not be a serious and protracted downturn, on the scale of the Great Depression, because the government would intervene with an expansionary macro-policy to prevent it. Periodic recessions would continue to occur, but no government could afford politically to permit a major economic downturn to destabilize the system. This meant that the lid was taken off price and (money) wage restraint. Large corporations could raise prices even in bad times, inefficient businesses no longer had to worry so much about bankruptcy, unions did not have to consider pay cuts, because no one would have to live through a long economic slump. The major actors in the economic arena came to perceive that the government was guaranteeing them against economic loss, so they could, for the most part, continue business as usual rather than reforming and changing things. Thus, the classical capitalist medicine of periodic economic downturn became increasingly ineffective as a restraint on inflationary pressures and as a stimulant to economic efficiency.

The high levels of military spending that helped to stimulate the demand-constrained American economy of the 1950s and 1960s further exacerbated the economic problems that began to arise toward the end of that period. First of all, the military demand for resources added to all the other claims on the economy that put growing pressure on the potential supply of goods and services as the Vietnam War escalated in the late 1960s. Second, the fostering of the military-industrial complex created a major sector of the United States’ economy where incentives for inefficient low-cost production were particularly weak. Third, it is arguable that the national priority placed upon the expansion of military capabilities resulted in an undue concentration of financial and intellectual re-

sources on research and development activities that would promote technological progress only in military and closely related industrial activities.

The last key element of the postwar domestic institutional structure—the protective role of the state—contained some important contradictory elements as well. The growth of welfare-state transfers and programs, if not the protection of particular business interests, was functional for postwar American capitalism: it promoted a relatively steady growth in aggregate demand and helped to legitimate the system as a whole. But the development of a welfare state has a dynamic logic that leads to greater and greater economic expectations from the general public. As people begin to get some benefits from government and some protection from the ravages of an unfettered capitalist system, as the whole process of income distribution becomes more politicized, everybody begins to expect more from the economic system. Such expectations have been characterized by Daniel Yankelovich as a “philosophy of entitlement,” which in effect continuously increases the cost of legitimating the capitalist system. For the overall vitality of the American economy these rising economic aspirations—and the rising ability of different groups to act upon them with political pressures on the government—proved dysfunctional, for they led to increasingly incompatible claims on available resources. As the rising costs of state protective activities reduced the resources available for economic growth, American capitalism confronted ever more sharply the classical capitalist conflict between legitimation and accumulation.

Many of the contradictory processes I have discussed here reflect ultimately a basic contradiction of liberal democracy in a capitalist society. On the one hand, the liberal democratic political framework is very useful as a means of stabilizing and legitimating the capitalist system. On the other hand, liberal democracy is increasingly used by various groups in order to improve their economic and social position at the expense of the long-run capitalist interest in profitable accumulation. This contradiction was intensified during the postwar boom, for the boom itself was based on an institutional structure that relied on a greatly enhanced role for the liberal democratic state.
Sources of the Current Crisis

The analysis of the preceding section suggests the reasons why real economic growth has slowed, inflation has accelerated, and unemployment has risen in the 1970s. Among the causes of the slowdown in real economic growth, the reduced accessibility and increased cost of key raw-material inputs and waste-disposal processes had a direct adverse effect on the growth of productivity in the American economy. Likewise, the increased instability of the international economic system, and the deteriorating position of the United States within it, contributed to the difficulty of maintaining productivity growth and reduced the value of American output in terms of its purchasing power over foreign goods and services. For a flexible and resilient capitalist economy, these adverse developments would have had only a temporarily debilitating effect on economic growth. The burden of the deteriorating overall economic environment would soon have been diverted away from capitalists, who would then have had both sufficiently investible resources and sufficiently profitable investment opportunities to engage in a new surge of domestic capital formation. In this process technological advances and substitution away from scarce inputs would help to meet the challenge posed by the changes in the economic environment; a form of "reindustrialization," involving substantial changes in both the industry composition and productive techniques of the United States economy, would revitalize American capitalism.

The fact that such changes have not occurred, and that the American economy has in many ways stagnated rather than revived during the past decade, can be attributed in large part to the contradictions of the domestic institutional structure of postwar American capitalism. First of all, the capital-labor accord, the avoidance of mass unemployment and the growth of state-sponsored measures to promote economic security have reduced the ability of capitalists as a class to protect their profits by shifting the burden of hard times on to others. Beginning in the 1960s a variety of noncapitalist groups—organized labor, the elderly, consumers, environmentalists, minorities, and even welfare recipients—developed an increasing ability to put political pressure on the liberal democratic state to defend their interests. At the same time the rise in importance of the social wage, as well as government macroeconomic stabilization policy, combined to restrain the disciplinary impact of the reserve army of labor; 12 the threat of unemployment was increasingly ineffective as a whip to induce greater work intensity and more moderate wage demands by unionized workers. As the growth in real income available to United States residents slowed down in the 1970s, the growth in the real claims of private wages, government transfers (e.g., social security), and public services (e.g., health and educational programs) could not be restrained to the same extent; thus increasing pressure was placed upon the share of national income going to profits (after taxes).

Table 2 presents some evidence on the decline of profitability in the American economy in the 1970s. The before-tax share of profits in national income dropped from roughly 22 percent in the 1950s and 1960s to roughly 18 percent in the 1970s; the corresponding after-tax profit share dropped from around 15 percent to a little above 12 percent. The rate of profit on total private capital investment in the economy showed a similar pattern of decline in the 1970s, both before and after taxes. Lower current rates of profit tend to reduce expectations of future profitability; it is these
reduced profit expectations, more than the reduced availability of investible funds from current profits, that discourage new investment and growth in a capitalist economy. The last set of figures in Table 2 confirm that the rate of net investment in the economy declined along with profitability in the 1970s. It should be stressed that all of the data refer to domestic business activity only; there is evidence that American corporations have attained higher rates of profit abroad in the last decade, but this has hardly helped to alleviate the crisis of the United States’ domestic economy.

Quite apart from any adverse impact on the rate of profit, the growth in political power of noncapitalists from the 1960s to the 1970s may also have restrained the capitalist growth process by placing increasing restrictions on capitalists’ decision-making freedom with respect to the environment, worker safety, product safety, and other such social concerns. Except where they are very poorly legislated or enforced, such restrictions on capitalists generate important social gains in terms of unmeasured (and insufficiently appreciated) benefits like environmental protection, worker health, and consumer protection. But in a capitalist society, these same progressive regulations may also impose a general cost on the public by depressing profit expectations and hence the incentive for capitalists to invest.*

There is another important mechanism by which the domestic aspects of the American postwar institutional structure seem to have ultimately slowed down economic growth. Just as the postwar period has been a period of unprecedented economic security for many (but certainly not all) noncapitalists in the United States, it has been a period of much greater security for most businesses. In earlier times, periodic sharp downturns would wipe out large numbers of inefficient firms and small businesses, unleashing the process of “creative destruction” that ultimately stimulated economic efficiency and productivity growth. But the postwar period has witnessed the development of a capitalist state that refuses to allow economic downturns to go very far, that seeks to prevent financial or business collapse (e.g., by bailing out troubled companies like Lockheed and Chrysler), and that caters to a bloated military-industrial complex. As a consequence, the competitive capitalist pressures to reorganize firms and restructure the economy no longer operate as strongly and the private enterprise system in the United States has become increasingly flaccid. In some of the other industrialized capitalist nations, the productivity-restraining effects of growing business security have been offset to some degree by active state policies to promote the rationalization of the private sector. However, American capitalists remained much more wary of any such role for the state, and throughout the 1970s there was very little to make up for the obsolescence of creative destruction. The inflexibility of American capitalism has been especially damaging to economic vitality in recent times because of the rapid changes in the world economic environment that have occurred in the past decade.

*The impact of progressive regulations on profits is, to be sure, a controversial issue. There can be little doubt that they increase business costs; the key question is whether businesses have been able to pass the higher costs on to consumers, or whether they have had to absorb at least a part of them in lower profits. Evidence for the latter alternative is provided by the general downward trend of profit shares and rates in the 1970s (see Table 2), which shows that businesses were unable to pass on all cost increases in such a way as to maintain profits at levels comparable to the 1960s. Of course, the fact that regulations increase prices and/or lower profits does not mean that they are detrimental to the general societal welfare; the corresponding social gains would have to be taken into account to make an overall judgment.

**Turning now to the second major aspect of the current economic crisis, I believe that the accelerating inflation since the late 1960s can best be analyzed as a consequence of the growing imbalance between economic claims made upon the American economy and the economic resources it can deliver.** On the one hand, the real income available per working person grew fairly rapidly from the end of the war up to the late 1960s and then slowed down significantly during the following decade. On the other hand, there has been a continual growth of claims upon the economy since the beginning of the postwar period. People’s aspirations for economic well-being, as well as the ability of many of them to act upon their aspirations by obtaining higher money wages, increased retirement benefits, more social services, etc., have been increasing more or less steadily since the 1950s. At the same time, government military and related programs have claimed a consistently high fraction of available GNP, contributing in particular to a surge in claims during the escalation of the Vietnam War in the late 1960s.

As long as the overall economic pie was growing rapidly, the economy was able to satisfy the growing real claims placed upon it
by various classes of Americans. Indeed, the very success of the economic system in meeting many of those claims over two decades further strengthened people's sense of entitlement and their resolve to assure growing economic benefits. Then, when the real value of available output per person began to slow down by the late 1960s, there was no corresponding mechanism to slow down the claims placed by the public and by the state upon the system. Quite understandably there was considerable resistance to cuts in wages, cuts in social services, cuts in military outlays, and cuts in profits. Nobody was inclined to accept any decline in real income; and many were able to use their ability to press economic claims, either in the marketplace or in government, in order to try to shift the burden onto others. The end result of such efforts is accelerated inflation, because if the sum total of the claims (made in dollars at anticipated prices) exceeds the total available resources (in dollars at anticipated prices), then the general price level will necessarily rise more than anticipated. This will, in turn, frustrate many of the claimants, who wind up with less real income than they expected; so the whole process is set off again and continues in an upward spiral.

The inflationary process can, in principle, be restrained by a tight government monetary policy that refuses to provide the growing supply of money needed to finance economic transactions at ever higher prices. However, the very same pressures that generate the inflationary spiral in the first place preclude the use of restrictive monetary policy until very late in the game. The government itself comes under great political pressure to accommodate rising money incomes and prices rather than to precipitate higher rates of unemployment and business failure by slowing down the economy.

The same kinds of forces that have stimulated inflation in the United States economy have been operating in the world capitalist system as a whole. For example, third-world oil exporters have increased their claims upon the world capitalist economy, as well as their ability to act upon those claims, because of a change in the international structure of power. Multinational oil companies, in turn, refuse to absorb the burden of those claims, so they pass them on (and add some of their own) to oil consumers around the world. Thus, the whole phenomenon of rising oil prices really reflects, on an international scale, an imbalance between claims and available real output. The claims placed on the world capitalist economy by oil producers, multinational firms, workers, retired people, etc., have been growing as both economic aspirations and the ability to act upon them have increased in the postwar era. But for the last decade the capacity of the world capitalist economy to meet those growing claims, in real terms, has not kept pace; as a consequence, inflationary pressures have mounted in virtually all of the capitalist nations. In short, capitalism has been transformed from a depression-prone to an inflation-prone system by its postwar institutional structure.¹⁵

The third element of the current economic crisis—the upward trend in unemployment rates—is related to the rising trend in inflation. For as inflation grows, capitalist governments come under increasing pressure to do something about it. The conventional policy prescription is to slow down the economy via fiscal and monetary restraints, and this is the policy to which the United States government has regularly turned (except for the unpopular Nixon wage/price controls). The immediate consequence of such an anti-inflationary policy is a sharp rise in unemployment, followed eventually by some moderation of the rate of inflation. Since the postwar institutional structure limits the use of unemployment to combat inflation, the United States government has been prevented from pursuing such an anti-inflationary policy long enough to rein in all the inflationary pressures. Instead, the stop-go pattern of macroeconomic stabilization policy actually followed has worsened the trade-off between unemployment and inflation, with the result that both tend to become more serious with each successive short-run business cycle. Thus the worsening trend in unemployment rates in the past decade can be attributed to the (relatively unsuccessful) efforts of the government to fight inflation with medicine appropriate to an earlier stage of capitalist development.

Finally, it is worth noting that inflation and unemployment are not only serious economic problems in their own right, but they both serve to exacerbate the long-run slowdown of economic growth. The financial uncertainties associated with inflationary times, and the low rates of capacity utilization associated with periodically high rates of unemployment, dampen the incentive to invest in new productive capital formation and slow down the rate of growth of productivity in the economy.
Implications of the Crisis

The long-wave historical framework developed earlier suggests that a resolution of the current crisis will have to be based on a new institutional structure. Major institutional changes will be required to overcome the contradictions that have undermined the postwar institutional structure in the past decade. Depending on political struggles to come, these changes could lead to a reformed and revitalized capitalist structure or even possibly to a fundamental transformation of the capitalist mode of production.

One point that deserves initial emphasis, however, is that some of the contradictions that have contributed to the current economic crisis are unlikely to be fully overcome under any conceivable institutional conditions. First of all, Ricardian constraints on the physical availability of natural resources are likely to weigh more heavily in the future than in the past. Land, forests, oil, minerals and other basic raw materials, as well as the waste-absorbing capacity of the earth, are ultimately limited in supply; as the demands of a growing world economy mount up, these resources will be subject to a secular trend of rising real cost. While increased accessibility of foreign resources, and/or technological change, could alleviate these constraints, it is doubtful that such measures could provide more than temporary or partial relief from the long-run problem. The ecological balance of the world’s environment has undergone a qualitative change in the latter part of the twentieth century. This will not necessarily end the historical capitalist pattern of long-wave upswings and downswings, but it is likely to reduce the buoyancy of upswings in terms of conventional indicators of economic growth.

A second, related contradiction that has tended to weaken the American economy in recent times is also unlikely to be fully overcome under any future institutional structure. Here I am referring to the erosion of the United States' hegemony over the world capitalist system. It is certainly possible that international economic stability may be restored under some kind of joint or supranational capitalist authority, although such a development would require a great deal of negotiation and compromise of a kind that is scarcely in evidence among the major capitalist powers today. But even if a stable international capitalist economic structure can be refashioned, it will not be one from which the American economy will

draw many special privileges or economic advantages vis-à-vis rival capitalist economies. Perhaps more important, it will never again be one that will provide such favorable access to the raw materials and energy of third-world nations. Thus if the American economy is to rejuvenate itself with a new wave of prosperity, it will most likely have to do so by coming to terms with a more modest rate of economic growth than was achieved during the last long-wave upswing represented by the postwar boom.

To initiate a new upswing in the American economy, it will be necessary to reform both the international and the domestic aspects of the postwar institutional structure. But, for the reasons just noted, restructuring of the international aspects cannot be expected to play the major revitalizing role. Contrary to the apparent belief of some members of the new administration of Ronald Reagan, there is no feasible way in which the United States could restore its “number one” status in the world to an extent that would generate significant economic benefits for the American economy. Thus, for example, even an attempt to seize Middle Eastern oil fields would contribute a new element of chaos into world oil supply conditions, with the result that the real cost of imported oil to the United States would almost surely rise. The best that the American economy can expect from a new international institutional structure is a return to the overall stability of the international economy that characterized the postwar boom period. But to achieve such a “New International Economic Order,” the United States will have to be prepared to share extensively with other nations both international political influence and the related economic benefits. In short, the claims of other nations to the world’s economic pie will have to be accommodated much more than in the past in order to achieve the underlying international stability needed to improve the prospects for growth in the pie itself.

Given the limited potential of international restructuring alone to generate a new long-wave upswing in the United States, the primary focus of a successful restructuring process will have to be on the domestic aspects of the postwar institutional structure of the United States. Something will have to be done about the excessive claims on available resources, and the obstacles to a growing rationalization of production, which have resulted from the breakdown of the capital-labor accord, the contradictions
The Current Economic Crisis

burden of restructuring the system on workers, farmers, the elderly, small businessmen, and other beneficiaries of state-sponsored security and protection. At the same time, American corporate capitalists certainly appear to be powerful enough to avoid taking up the burden of sacrifice themselves.

Is there, then, no way out of the current crisis of the American economy? I see several possible scenarios for the coming years in the United States. First, it is possible that no significant restructuring will take place in the near future; indeed, this remains a likely possibility even under the current Reagan administration. The kind of reforms that would be involved in reducing claims on real output, releasing resources for investment in growth, and rationalizing American industry, will be resisted strongly in the political arena. The result may well be continued "muddling through," with the situation gradually getting worse as the futile effort to keep the macroeconomy under control via traditional fiscal and monetary policies is continued until it becomes totally bankrupt. This is a prescription for growing social and political tensions, if not economic chaos. Sooner or later, therefore, I think we will see more fundamental efforts to deal with the deteriorating economic situation. The nature of the new institutional structure that will ultimately emerge in the United States will depend on the political forces that have taken shape in the interim. But any new structure will have to provide a coherent answer to the central question arising from the current impasse: who will bear the burden of the restructuring process?* To illustrate the range of possibilities before us, I will discuss in the following section three alternative economic strategies to deal with the current economic crisis, each of which is characterized by a basically different answer to the central question posed.

*In posing this as the central question upon which resolution of the United States' economic crisis hinges, I am endorsing the zero-sum perspective stressed by Thirou (1986) in his analysis of the current crisis: "Whose income do you... plan to cut in the process of solving the economic problems facing us?" I am therefore rejecting any alternative lines of analysis implying that there are ways of revitalizing the American economy that do not impose (at least in the short run) substantial burdens on many people. I simply do not believe that there is enough slack in the economy, in either the private or the public sector, to permit a painless mobilization of resources to generate a new economic boom.
Three Strategies to Overcome the Crisis

The alternative economic strategies I will discuss below involve new institutional structures whose establishment will impose significant burdens on different strata of American society. I will distinguish broadly between a conservative strategy, which imposes most of the burden of change on the poorer and weaker classes; a social-democratic strategy, which seeks to share the burden widely among many different groups; and a democratic-socialist strategy, which places the burden on the well-to-do in general and the corporate capitalist class in particular. Each of these strategies represents a radical departure from the status quo, for it is characteristic of the security capitalist institutional structure of the postwar United States that it tries to avoid placing a significant burden on any major constituency.

The conservative strategy seeks to conserve the economic power and privilege of the dominant capitalist class while revitalizing the economy. Reindustrialization and growth are to be stimulated by a sharp rise in corporate profitability and in the economic rewards to top executives and managers. To re-inflate profits and stimulate growth on terms most favorable to the economic elite, it will clearly be necessary to cut back on the economic claims of almost everyone else. Thus the growth of workers' wages and salaries must be slowed down and the whole apparatus of the welfare state—social security, publicly supported medical care, unemployment compensation, aid to urban areas and small businesses, etc.—must be trimmed. Moreover, those types of government regulation that aim to serve social goals by imposing costs on business by restricting their decision-making freedom—e.g., legislation to protect the environment, consumers, workers, and minorities—must be curtailed.

In short, the conservative strategy calls for extensive dismantling (if not the complete evisceration) of the state-sponsored network of mechanisms developed under postwar security capitalism to provide some degree of security, protection, and income redistribution to the American people. Conspicuously shielded from the hatchet's blade, however, are some of the major corporate beneficiaries of government munificence, most notably the large private military contractors. This is both because the military-industrial complex is considered an important part of the corporate capitalist economic base to be reinvigorated, and because, in some versions of the conservative strategy, a stronger military posture is believed capable of yielding significant economic gains from American relations with foreign nations. (As noted earlier, however, it would not be realistic for any strategy to count on anything more helpful to the United States economy in the international sphere than the restoration of overall stability via shared management of the capitalist world economy.) The promise that the conservative strategy holds out for the majority of the American people, who will be bearing the heavy economic burden required to unleash the animal spirits of the corporate capitalists, is that some years down the road living standards will begin to rise again for everyone. This is the classic "trickle-down" theory of the distribution of benefits from capitalist economic growth.

Consistent with the essential thrust of this conservative strategy for economic revitalization, there are in fact two quite distinct variants currently under discussion and consideration in the United States. The first is the market-based conservative strategy, which (especially in the United Kingdom) has also been labeled monetarist. This variant seeks to implement the conservative strategy by comprehensively cutting back on the role of the state and unfettering the market, thereby turning the clock back to an earlier stage of capitalist development. Apart from the assault on the welfare state, an essential component of this variant is to halt the effort to practice Keynesian demand management and instead to (try to) maintain a slow, steady rate of growth of the money supply. In the context of current conditions in the American economy, this monetarist approach would rely on a major economic downturn, with a concomitantly sustained period of high unemployment, in order to achieve the important conservative objectives of slowing down the growth of wages and squeezing out inefficient firms. Thus the burden of restructuring would weigh most heavily on workers, especially the large numbers laid off, but it would also affect many business victims of a classical capitalist process of "creative destruction." Moreover, in the context of the regional social and economic differentials characteristic of the contemporary United States, this approach would greatly exacerbate hardship in the "frostbelt" and
contribute much of its economic stimulus to the already more buoyant “sunbelt.” But advocates would again argue that present suffering will ultimately be rewarded by future gain, as people follow the logic of the market from weak to strong industries and from depressed to prosperous areas.

The market-based conservative strategy suffers from some potentially serious political and economic problems. First of all, it is questionable whether people who have struggled for decades to curb the operation of unfettered market capitalism, and thereby to achieve some degree of state-sponsored economic security, will accede to major economic setbacks in exchange for the promise of “pie in the sky, by and by.” Can the burden of such economic sacrifice be imposed upon the majority of the people in the context of an (admittedly very imperfect) liberal democratic political framework? The election of Ronald Reagan has shown that hard economic times create a climate in which people are willing to try something new, but this is still a far cry from accepting the kind of sustained sacrifice required to make the conservative strategy work.

Second, even if the market-based conservative strategy could be implemented over a cowed political opposition, there are serious questions about its prospects for success on its own terms. If indeed a return to a historically earlier form of capitalist institutional structure were feasible, and if it did succeed in lowering wages, raising profits, and inducing a wave of inefficient-business failures, would the high profits for the surviving corporate victors necessarily stimulate a new wave of productive capital investment? In order to take the major risks and to commit the large amounts of resources necessary to restructure the American economy, capitalists need to be assured about the prospects for future stability—economic, political, and social—and about the adequacy of future demand for their products. But the cost of market-induced redistribution and rationalization in favor of large corporate capitalists could well be very high in terms of political and social unrest. Moreover, a purgatory period of economic depression and the associated limitation of workers’ wages and government programs could well lead to serious deficiencies of aggregate demand. The prospect of both political tensions and economic problems could well sour capitalists’ expectations of future profitability and thereby undermine the very capitalist initiative on which economic recovery is predicated.*

Because of the risks and uncertainties inherent in the market-based conservative strategy, an alternative state-directed or corporatist approach has been advanced as a better way to achieve the same ends. This variant of the conservative strategy seeks to redistribute and to rationalize in favor of corporate capital not by unfettering the market but by judicious state planning of the “re-industrialization” process. Advocates of the corporatist approach do not believe that modern capitalist economies are sufficiently flexible to restructure themselves via voluntary responses to market signals; hence they see the need for a qualitatively enhanced role of the state in the restructuring process. Corporatists agree with monetarists about the dismantling of many elements of the welfare state; but they do not trust in unemployment to restrain the growth of wages (nor do they wish to risk the political and economic consequences of a major downturn), and they do not expect market incentives to achieve a salutary form of creative destruction in a turbulent political and economic environment.

Thus the corporatist variant of the conservative strategy calls for direct government efforts to restrain wage growth, if not by negotiation with business and labor leaders, then by some form of wage-price controls (with the emphasis on wages!). Equally important, the corporatist approach calls for the state to act as a national coordinator of investment and research, allocating investment funds and government contracts to those corporations prepared to reorganize themselves and coordinate their efforts to build a stronger national economy. In the context of the United States, this would involve as much emphasis on modernizing the industries of the Northeast and Midwest as on stimulating new industries in the South and West. Japan is held out as a model of cooperation between the state and corporate capital; the explicit objective is to increase the concentration and centralized planning of business

*According to recent press reports, this appears to be an important reason for the failure of Margaret Thatcher’s version of the monetarist strategy to revitalize the British economy.
activity in order both to rationalize the American economy and to enable American firms to compete more effectively in world markets.

Unlike the monetarist variant, the corporatist variant of the conservative strategy clearly involves the establishment of a historically new capitalist institutional structure in the United States. Such a structure would be consistent with the historical pattern of an ever-increasing state role in the economy through successive stages of capitalist development. Perhaps the most serious potential difficulties in implementing this approach lie in the political and ideological realms: could a form of capitalist state planning be made acceptable to an American populace and business community strongly and traditionally hostile to centralized government power? And some of the same problems that seem likely to jeopardize the monetarist variant could also prove troublesome for the corporatist variant of the conservative strategy: could popular resistance to economic sacrifice, and worker and small-business resistance to industrial rationalization, readily be overcome in the context of a liberal democratic political framework?

The second general approach that might be brought to bear upon the structural problems of contemporary capitalism is the social-democratic strategy. The essential idea of this strategy is to spread the burden of economic sacrifice that people will have to bear in order for the economy to be revitalized. Whereas both variants of the conservative strategy lay virtually the whole burden on the poor and the working classes, the social-democratic strategy tries to even out the burden and thus avoid some of the political resistance to change on the part of those most adversely affected. Labor, business, retired people, farmers, all classes and groups negotiate a kind of "social contract," according to which each party agrees to cut back over the next five years or so, accepting a temporarily lower standard of economic well-being and the dislocations inherent in the restructuring of the economy in exchange for a guaranteed share of the benefits of future prosperity. Such a strategy is dependent for its success on negotiations among leaders of well-organized and well-disciplined constituencies, and it involves a major role for the state in arranging and enforcing the terms of the social contract. As in the case of the corporatist variant of the conservative strategy, some form of wage-price controls or "incomes policy" will almost surely be necessary to control the distribution of the burden of austerity; but in this case the distribution would be more equal. The international counterpart to a burden-sharing domestic institutional structure is a "New International Economic Order" in which the United States would participate on a relatively equitable basis in a jointly managed world capitalist economy.

If shared austerity is the distinctive feature of the social-democratic strategy to overcome the current economic crisis, a second and equally critical component of the strategy is state-directed rationalization of the economy. The institutional structure of security capitalism in the postwar United States involved the state increasingly in the provision of security and protection to people and to businesses; it thereby undermined the classical capitalist process of renewal by creative destruction, without substituting any alternative process. Like the corporatist version of the conservative strategy, the social-democratic strategy calls for a new institutional structure in which the state takes on a qualitatively enhanced role in planning a process of reindustrialization. But the social-democratic approach is distinct from the corporatist approach in that it seeks to maintain rather than cut back on the functions of the welfare state, in order not to impose a disproportionate burden on the weaker classes. But since something must give in a supply-constrained context, this concern for workers and the poor must be implemented at the expense of other classes, notably the capitalists themselves. To finance such programs as worker relocation and retraining for more productive jobs, aid for the regions and groups disadvantaged by reindustrialization, continued protection of worker health, consumer safety, and the environment, the income claims of the rich will have to be restrained for a period of time and capitalists will have to be prodded into productive new investment without immediate rewards in the form of greater privileges and higher profits.

From a practical standpoint, the more egalitarian content of the social-democratic strategy may offer advantages over the corporatist conservative strategy in that it has more to offer key constituencies—such as organized labor—whose cooperation is likely to be essential for the successful implementation of state-directed rationalization.22 Whereas the corporatist objective is simply to restrain the growth of workers’ wages, to yield higher profits as a source of
an incentive for capitalist investment, the social-democratic approach would encourage schemes to promote higher savings out of growing workers' wages, so that resources would similarly be released for new investment but labor would retain a larger contractual claim to the future fruits of that investment. Thus a form of forced saving by workers—possibly via profit-sharing schemes—would substitute for savings by capitalists out of income appropriated from workers. It is a key assumption of the social-democratic approach that capitalists (with some encouragement from the state) would carry out the new investment even though they would not reap all of the future profit rewards.\(^{23}\)

The social-democratic strategy for dealing with a supply-constrained crisis is a logical extension of the institutional structure developed in the postwar period by "Eurosocialist" governments, typically led by social-democratic parties, in some of the European capitalist nations—notably Sweden, Norway, Denmark, the Netherlands, and Austria. Like the United States' postwar institutional structure, the Eurosocialist alternative worked well during the boom years of the 1950s and 1960s; in the long-wave upswing there was much more prosperity than austerity to be shared. But there is also some evidence that a social-democratic approach has enabled its adherents to survive the economic crisis of the 1970s somewhat more successfully than the United States and other countries characterized by a less planned and more confrontational form of institutional structure.

Still, there are some very real problems that would confront efforts to overcome the current economic crisis in the United States by social-democratic means. First of all, the more the initial distribution of income (by class, by region, by race, etc.) is perceived as unequal and unfair, the less acceptable will be a program of shared austerity that seeks to impose economic burdens equi-proportionately on the margin. Second, if large corporate capitalists are to accept lower profits for a period of time as their share of the burden of austerity, many of them will be tempted to take their capital abroad and invest where no such sacrifice is required of them. Third, if the labor movement is sufficiently organized and disciplined to enter into and abide by agreements involving sacrifice now in exchange for a better deal in the future, workers might well demand more from capitalists than their traditional share of the once again growing economic pie.\(^{24}\)

These pressures tend to make a social-democratic approach to austerity an unstable one, with an inherent tendency to move to the right (insofar as capitalists exert their power to control investment decisions) or to the left (insofar as workers develop their strength in numbers via organization and discipline). It is noteworthy that in recent times the most prominent successes of the social-democratic strategy, such as they are, have occurred in small nations with relatively homogeneous populations, relatively equitable distributions of income, strong and unified labor movements and capitalist federations, and a historical tradition of government-sponsored compromise.\(^{25}\) It would clearly be a formidable task to make a social-democratic strategy work in a society as large, as heterogeneous, as unequal, and as individualistic as the United States.

Finally, there is a third general strategy for resolving the current crisis of American capitalism, and that is to replace it with a form of socialism. The essence of a socialist strategy is to place the necessary burden of economic sacrifice squarely on those who are best able to bear it: the rich in general and the corporate capitalist class—owners and executives—in particular. This would necessarily mean both the elimination of highly concentrated private holdings of income-producing property and the abolition of control by a small private directing elite over major economic enterprises and activities. Without the potential rewards of high profits, high executive salaries and privileges, and private domains of authority, corporate owners and executives could not be expected nor relied upon to play their characteristic capitalist role as the engineers of economic growth. The traditional capitalist functions of saving, investment, entrepreneurship, and enterprise management would have to be performed by a different class of people under a thoroughly revolutionized institutional structure. To lead to a renewed economic upswing, the alternative structure would have to make good use of the resources released by the wealthy and develop new mechanisms for revitalizing the economy.

Historical precedent suggests that the dispossession of a privileged propertied class is likely to lead to the institutionalization of an authoritarian form of socialism in which a new elite of govern-
ment officials dominates decisions-making processes and reaps a disproportionate share of the rewards of economic growth. Without entering into ongoing debates about whether the experiences of contemporary socialist nations are relevant to an advanced capitalist society like the United States, I will consider here only a \textit{democratic-socialist} strategy that I find more relevant and desirable for the contemporary United States. The democratic-socialist strategy is both more radical and more egalitarian than the social-democratic strategy discussed above, for it seeks much greater equity in the underlying distribution of income and wealth (rather than merely assuring equitable changes at the margin) and it seeks to promote democratization of the \textit{process} of economic decision-making (rather than merely promoting certain desired economic \textit{outcomes}). The central features of this strategy are qualitative changes in workplace organization and in control over investment decisions, so as to end the dominance of decision-making in each of these spheres by powerful and relatively unaccountable elites. A form of democratic worker/consumer/resident control over economic enterprises would replace the characteristically authoritarian control of capitalists, private-sector executives, and public-sector managers; and democratically accountable government agencies—at local, state, and national levels, depending on the activity involved—would plan the critical processes of saving and investment. Democratic socialist control at the micro and macro levels of the economy need not replace the market, but would rather complement and regulate it in the public interest.\textsuperscript{26}

The economic rationale of the democratic-socialist strategy to overcome the crisis of the American economy is as follows. First, the elimination of luxury consumption by the rich out of profit and high-salary income would release substantial new resources for productive capital investment. Second, on the assumption that corporate capitalist interests have contributed to bloated government military expenditures (both to sustain the military-industrial complex and to promote American multinational corporate expansion abroad), a democratic-socialist institutional structure would release additional resources from military use to be invested more productively in the civilian economy. Third, the shift from authoritarian to democratic forms of workplace organization would be expected to stimulate improved worker motivation and productivity by alleviating capital-labor and employer-employee antagonism in the production process. Productivity would be enhanced by a reduction in current costs of conflict moderation, as fewer resources would have to be devoted to monitoring, supervision, mediation and other tasks associated with problems of personnel management in hierarchical job structures.

As against such potential economic gains in a democratic socialist environment, there are surely also potential economic losses. Democracy takes time and effort, and it can be a cumbersome way of arriving at decisions as compared with more authoritarian mechanisms. Greater worker and consumer control may lead to more pressure for current consumption as against investment for the future. Reduced reliance on individual material gain incentives may have an adverse impact on economic performance, at least until different behavior patterns based on alternative reward systems begin to take hold.

But there are nonetheless some fundamental points to be made in favor of the democratic-socialist strategy as a realistic approach to the current economic crisis. Insofar as a period of austerity is really essential in order to release resources for productive investment rather than consumption, it would be politically much more feasible to get people to tighten their belts if the overall economic environment were much more equitable than at present, and if people would have that much more reason to believe that both present burdens and future benefits would be equally shared. Finally, one might reasonably argue that in a democratic-socialist society people's real needs would not have to be met so largely by rapid growth in material output. Without the insistent corporate capitalist drive for economic expansion, a new ethic of conservation could develop—an ethic that would encourage to a much greater extent the promotion of nonmaterial rather than material dimensions of human welfare. Under these circumstances the need for rapid economic growth would diminish; not only would this reduce the gravity of potential inefficiencies arising from democratic-socialist relations of production, but it would foster an overall institutional structure more compatible with the long-run ecological constraints that can be expected to weigh increasingly heavily on conventional patterns of economic growth in the future.

The very effort to describe the democratic-socialist strategy for
overcoming the current economic crisis of American capitalism makes it sound almost as utopian as it is attractive. Rather than a thorough restructuring of the capitalist mode of production—as difficult as that is to imagine—what is here at issue is a revolutionary transformation of that mode. To develop a system where corporate capitalists would be rendered dispensable, and the economy would be truly democratized, requires a dramatic change in the way that the American economy and society presently function. Obviously there are enormous political obstacles to revolutionary change, and there are formidable economic obstacles to making such a system work. But there are difficulties associated with all the strategies under consideration here, and it is well worth considering the full range of alternatives before us.

Summary and Conclusion

I HAVE ARGUED in this paper that the postwar economy of the United States has been characterized by an institutional structure that can be labeled “security capitalism.” In its heyday, security capitalism represented a viable and historically progressive solution to the demand-constrained crisis of prewar American capitalism. It provided simultaneously for high profits to stimulate capitalist economic growth and for a degree of economic security, protection, and income redistribution unprecedented in American capitalist history. But the postwar institutional structure of the economy contained internal contradictions that have rendered it increasingly unviable and unsatisfactory in recent years. It gradually eroded the favorable environmental and international conditions on which it initially thrived; and by virtue of solving problems of inadequate demand with the provision of increased economic security, it generated growing problems of inadequate supply and economic inflexibility. Thus contradictions inherent in the postwar long-wave upswing led to the subsequent long-wave downswing—a generalized crisis in which the American economy can no longer provide both for profit-fueled capitalist growth and widespread protection from the ravages of an unrestrained capitalist engine.

It follows from this analysis that economic recovery leading to a new long-wave upswing will have to be based on a new institutional structure that can overcome the current impasse of incompatible demands on an inflexible supply-constrained economy. Any new institutional structure will inevitably impose significant burdens on the American people, for resources will have to be mobilized for economic revitalization and patterns of economic activity will have to be substantially altered. How the burdens of the restructuring process will be distributed among classes and regions and other segments of American society becomes then a central focus of political struggles in the years to come.

I have outlined three fundamentally different restructuring strategies that could in principle lead to an economically viable institutional structure for the American economy in the future. Each of these alternative strategies imposes the burdens of restructuring on different strata of American society, and each leads to a different kind of new institutional structure. The conservative strategy imposes the burdens on the poor; a monetarist variant seeks a return to a historically prior form of free-market capitalism, while a corporatist variant envisages a new form of state-directed capitalism. The social-democratic strategy calls for sharing the burden of austerity and for an enhanced role for the state both in planning capitalist growth and in providing economic security. The democratic-socialist strategy imposes sacrifice on the rich and requires a fundamental transformation of the capitalist mode of production itself.

Each of these alternative strategies must confront major political and economic obstacles to successful implementation. In my view it will not be possible for the monetarist variant of the conservative strategy to be carried out in the United States, much less to succeed in restoring economic vitality to American capitalism. This is primarily because it defies the long-run trend in all advanced capitalist societies of increasing political intervention into the operation of markets in order to render capitalism more humane and hence more legitimate. Although the election of Ronald Reagan and a conservatively oriented Congress in 1980 suggests popular support for “getting government off the backs of the people,” and “unleashing the free market,” the economic program of the Reagan administration in fact falls well short of a coherent monetarist strategy. The heart of the Reagan program consists of cutbacks in most forms of government spending, in taxation and in government regulation, but a sharp increase in military spending; even if these proposals emerge relatively unscathed from a skeptical Congress, they will
mainly result in a painful redistribution of income and benefits from the poor to the rich and from the frostbelt to the sunbelt.*

The key to a successful monetarist strategy is to generate an economic downswing deep enough and long enough to purge the capitalist economy of its rising labor costs and inefficient businesses—in short, to abandon the very essence of Keynesian demand-side stabilization policy as well as major elements of the welfare state. There is no indication that the Reagan administration is contemplating such drastic change; and, if it were, it could surely not survive the 1984 election. With greater power to implement economic policy, even Margaret Thatcher has not been able to impose a thoroughgoing monetarist strategy on the United Kingdom. Whether the continuing crisis of the British economy should be attributed to her inability to impose the strategy in its entirety, or to the extent to which she has in fact imposed it, remains a topic of lively debate. But in either case there is no reason to believe that the economic program of the Reagan administration could have a more salutary effect on the American economy.

Although it is likely that the "radical economics" of Ronald Reagan will wind up resembling more the "muddling through" of Jimmy Carter than any of the restructuring strategies I have outlined above, one cannot expect continued drift, with piecemeal efforts at reform, to go on forever. Continued economic distress will eventually increase popular receptivity to truly major changes in the American economic system, and at some point a strong and purposeful political movement should be able to succeed in implementing a comprehensive program to deal with the economic crisis. When this does occur, the program is likely to be based around one of the three remaining strategies under consideration.

In the absence of significant growth and organizational cohesion of the progressive political forces in the United States, the most

*It is true that the "supply-siders" in Reagan's entourage, relying on a form of "supply-side economics" associated with the economist Arthur Laffer, expect the reduction in taxation and government regulation to stimulate productivity and economic growth sufficiently to reinvigorate the American economy as a whole. But the great majority of economists are almost surely correct in asserting that such effects will be negligible, and that the primary consequences of supply-side policies will be a regressive redistribution of income as well as increasing inflationary pressures. For a useful analysis of "supply-side economics" and current conservative economic policies in general, see Campen (1981).

likely strategy to emerge in the next decade or so is the corporatist variant of the conservative strategy. This variant is at least consistent with the long-run trend of growing state involvement in advanced capitalist economies, and it appears capable of overcoming some of the economic problems of the monetarist alternative (e.g., inadequate aggregate demand). But the prospect is doubly ominous, for not only does the strategy have highly egalitarian economic consequences but it also appears likely to have highly authoritarian political implications.

It is arguable that a corporatist conservative program of economic repression could be imposed upon the people of an advanced capitalist country only if accompanied by a new wave of political repression. The very structure of the contemporary capitalist system, which is so worrisome to many capitalists, owes much to the use of the liberal democratic political mechanism by other classes. To restore a system more palatable to corporate capitalists, it might well be necessary to undermine the ability of others to function within that political framework. Such an effort at political repression could take the form of growing authoritarianism—the removal of major decisions from arenas where they are subject to some degree of popular influence, and the concentration of power in the office of the president. It might well be buttressed by an ideological offensive—possibly organized around some alleged external threat to the nation—in which people would be called upon to sacrifice their economic well-being and some of their political rights for the benefit of the "national interest." Such an approach seems more likely to succeed than any direct attack on civil liberties and other democratic rights, for the American people will not likely yield these rights when the stakes are clear.

With the threat of a highly authoritarian form of capitalism looming, and in the context of current political realities, the best that progressive forces in the United States may be able to hope and work for in the 1980s is a program based on the social-democratic strategy for economic revitalization. Perhaps some elements of democratic socialism may be attainable in the next few decades, but it would seem quite unrealistic—indeed quixotic—to orient an American political movement toward a thoroughgoing transformation of the capitalist mode of production as a resolution of the current economic crisis.
The Current Economic Crisis

8 The concept of the “social wage” is discussed in detail by Gough (1979), and its empirical magnitude in the United States has been estimated by Bowles and Gintis (1981).

9 For a thorough analysis of the development of the postwar international capitalist monetary system, see Block (1977).

10 This term coined by Yankelovich is cited and utilized by Heilbroner (1978), p. 44.

11 The fundamental contradiction between capitalism and liberal democracy is the basic theme of Bowles and Gintis (1981), who analyze the issue thoroughly both in Marxian theoretical terms and in the empirical context of the United States. For an earlier, much briefer, exposition of the basic ideas, see Bowles (1978).

12 The reduced impact of cyclical downturns on the growth of both nominal and real wages in the United States is documented and persuasively analyzed by Bowles and Gintis (1981), section 6.

13 Evidence on the increasing importance of American direct private investment abroad, and on the higher profitability of foreign as compared with domestic investment, is presented in Edward, Reich and Weisskopf (1978), Table 13-6, p. 477.

14 The analysis of inflation presented here is based on the approach developed more rigorously by Rosenberg and Weisskopf (1981).

15 This is precisely the same conclusion reached by Heilbroner (1979) in a perceptive analysis of contemporary capitalist inflation.

16 See Heilbroner (1978), chapter 9; he draws out the implications for future economic growth as follows (p. 88): “The constraints of the environment, which are the great determining elements in the era into which we are moving, suggest that we have perhaps 25 years of growth . . . followed thereafter by an almost certain drastic curtailment . . . a winding down of expansion which . . . would impose a truly historic challenge to capitalism.”

17 This term was popularized by O’Connor (1973); see especially chapter 6.

18 The most impassioned and best publicized advocate of this variant of the conservative strategy is Milton Friedman. He has pressed his views in many books, articles, public speeches, and even television programs; a representative source is Friedman and Friedman (1979).

19 For a useful discussion of the regional dimensions of the current crisis of the American economy, and the regional consequences of a market-based strategy, see Rohatyn (1981).

20 This variant of the conservative strategy is reflected in some of the work sponsored by the Trilateral Commission; see Sklar (1980). One can also find important elements of it in the special report on “The Reindustrialization of America,” Business Week, 30 June 1980.

21 This role for the state in corporatist strategy is lucidly described by Gonick (1981) in the context of the contemporary Canadian economy.

22 This is surely one of the reasons why Felix Rohatyn, basically a corporatist conservative, advocates an economic strategy with a significant admixture of social-democratic elements; see Rohatyn (1980, 1981).

23 As an alternative to sharing some of their future profits with workers, in exchange for current restraint on workers’ consumption, capitalists might consider granting a greater degree of workplace democracy—thus substituting the sharing of control for the sharing of income as the quid-pro-quo of a social contract. Esping-Anderson and Friedlander (1980) report that this is already beginning to happen in some of the Western European capitalist nations.
The Current Economic Crisis


DONALD SHAFFER ASSOCIATES, INC.

ALL FORMS OF INSURANCE
Specialists in Pension & Employee Benefit Planning

11 Grace Avenue
Great Neck, N.Y. 11021
212-895-7005
516-466-4642