EXPLORATIONS

Democratic Capitalism at the Crossroads

ADAM PRZEWORSKI AND MICHAEL WALLERSTEIN

The ideology that orients the current right-wing offensive is in many ways a ghost of the 1920s: antistatist, emphasizing the hegemony of the entrepreneur, portraying popular consumption as inimical to national interests, and based on the belief in the rationality of the market and in the autonomous importance of money. Yet what is new in this ideology is the dominant role played by technical economic theory. In the 1920s, deflationary policies and the principles of the gold standard and of balanced budgets were justified as an accumulated wisdom derived from experience. The only abstract basis for these principles was the quantity theory of money. The ideological appeal was couched in terms of popular values, such as thrift, responsibility, and common sense. The spokesmen for this ideology were typically officials of the Treasury and the bankers. In the 1970s, in contrast, the justification is derived from seemingly technical theories: "monetarism," "*la nouvelle économie*," and "rational expectations" are all being offered as scientific reasons why everyone will be better off if the state withdraws from the economy and capitalists are allowed to accumulate without distributional considerations. Even the most naked program for an upward distribution of income—Reagan's economic policy—is masked as a "supply-side theory," with a concocted Laffer curve as its main theoretical mainstay.

It was Keynes who transformed macroeconomics from a frame of mind into a theory: a deductive method for analyzing the determinants of national income and for evaluating alternative policies. His followers constructed mathematical models of capitalist economies and described statistically particular economies in terms of these models. The new theory became the framework within which particular groups presented their interests as universal. It became the vehicle for the articulation of claims to hegemony and the language of economic policy. It is a lasting legacy of the Keynesian revolution that the terrain of ideological conflict has been conquered by technical economic theory.

While many people have subsequently claimed that the central principles of Keynesian economics had been presaged by Marx and some of his followers, in fact marxist economic theory has never been of economic importance for the left. Marx's theory provided a useful threefold analysis: first, capitalism is based on exploitation (the source of profit is surplus value); second, the private property of the means of production is the source simultaneously of the injustice and the irrationality of capitalism; third, the falling rate of profit is the source of crises. The theory has been politically useful only as a justification of revolutionary goals, specifically of the program of nationalization of the means of production. Marx's economics, even its most sophisticated version, is not a helpful tool for addressing workers' distributional claims within capitalism and it is useless as a framework for administering capitalist economies. It is easy to say "so what," but the fact is that all mass movements of the left historically have had to face precisely these tasks.

As a result, it has been the understanding of the capitalist economy and the policy recommendations provided by Keynesian economics that the left has embraced. But Keynesian economics is now badly tarnished. Two phenomena that have characterized much of the developed capitalist world since the early 1970s, a gradual increase in the rate of inflation and a gradual decline in the rate of growth, have proved remarkably unresponsive to the traditional interventions prescribed by Keynesian theory. Yet this deeply ingrained tradition perseveres, providing the basis for much of the left's current reactions to the conservative offensive. Many continue to insist that the supply of savings is not problematic, that demand is chronically insufficient, and that a redistribution of income, full-employment policies, and social spending are the only ways to get out of the current crisis. The problem is that such a response is no longer convincing. It represents a reaction of clinging to old ideas and old policies that the right claims, with some justification, have been tried and found wanting. An obstinate defense of policies associated with past failures abdicates the ideological terrain to the right and, we believe, is not necessary.

What, then, are the choices we face? At one level we are discussing a question about an economic project that would constitute a reasonable and appealing alternative both to the policies of demand management and to the current wave of right-wing supply-oriented economics. But economic theories are rationalizations of the political interests of conflicting classes and groups, and should be treated as such. Behind economic alternatives lurk visions of society, models of culture, and thrusts for power. Economic projects entail political and social ones.

The combination of democracy and capitalism constitutes a compromise: those who do not own instruments of production consent to the institution of the private ownership of capital stock while those who own productive instruments consent to political institutions that permit other groups to effectively press their claims to the allocation of resources and the distribution of output. It may be worth recalling that this compromise was deemed unfeasible by Marx, who claims that the "bourgeois republic" is based on a contradiction that renders it inherently unstable as a form of social organization. A combination of private ownership of the means of production with universal suffrage, Marx argued, must lead either to "social emancipation" of the oppressed classes utilizing their political power or to "political restoration" of the oppressing class utilizing its economic power. Hence, Marx held, capitalist democracy is "only the political form of revolution of bourgeois society and not its conservative form of life," "only a spasmodic, exceptional state of things . . . impossible as the normal form of society."

It was Keynesianism that provided the ideological and political foundations for the compromise of capitalist democracy. Keynesianism held out the prospect that the state could reconcile the private ownership of the means of production with democratic management of the economy. As Keynes himself put it: "It is not the ownership of the instruments of production which it is important for the state to assume. If the state is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic reward to those who own them, it will have accomplished all that is necessary."[1] Democratic control over the level of unemployment and the distribution of income became the terms of the compromise that made democratic capitalism possible.

The problem of the 1930s was that resources lay fallow: machines stood idle while men were out of work. At no time in history was the irrationality of the capitalist system more blatant. As families starved, food—already produced food—was destroyed. Coffee was burned, pigs were killed, inventories rotted, machines rusted. Unemployment was the central political problem of society.

According to the economic orthodoxy of the time, this state of affairs was simply a given and the only recourse was to cut the costs of production, which meant cutting wages and transfers. Some relief measures to assist the unemployed were obviously urgently required, but whether such measures were advisable from an economic point of view was at best controversial. In Great Britain the Labour government in fact proposed to reduce unemployment compensations: this was the condition for being bailed out by the IMF of the time, where "M"

1 John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace, Jovanovich, 1964), p. 378.

stood for the Morgan Bank. But in Sweden the Social Democratic Party, having won the election of 1932, broke the shell of the orthodox monetary policy. As unemployment climbed sharply with the onset of the Great Depression, they stumbled upon an idea that was truly new: instead of assisting the unemployed, the Swedish Social Democrats employed them. It was the beginning of the marriage of the left and Keynesian economics.[2]

Keynesianism provided the foundation for class compromise by supplying those political parties representing workers with a justification for holding office within capitalist societies. And such a justification was desperately needed. Ever since the 1890s, Social Democrats had thought that their irreversible electoral progress would culminate in an electoral majority that would allow them one day to enter into office and legislate their societies into socialism. They were completely unprepared for what ensued: in several countries Social Democratic, Labor, and Socialist parties were invited to form governments by default, without winning the majority that would have been necessary to pursue the program of nationalization but because the bourgeois parties were too divided to continue their traditional coalitions. Indeed, the first elected socialist government in the world was formed by the Swedish Social Democrats in 1920 just as they suffered their first electoral reversal. And once in office, socialists found themselves in the embarrassing situation of not being able to pursue the program of nationalization and not having any other program that would distinguish them from their bourgeois opponents. They could and did pursue ad hoc measures designed to improve conditions for their electoral constituency: the development of public housing, the institution of unemployment relief, the introduction of minimum wages, income and inheritance taxes, and old age pensions. But such measures did not differ from the tradition of conservative reforms associated with Bismarck, Disraeli, or Giolitti. Socialists behaved like all other parties: some distributional bias toward their own constituency but full of respect for the golden principles of the balanced budget, deflation, gold standard, etc.

Keynesianism suddenly provided working-class political parties with a reason to be in office. It appeared that there was something to be done, that the economy was not moving according to natural laws, that economic crises could be attenuated and the waste of resources and the suffering alleviated if the state pursued anticyclical policies of demand management. If the economy was producing at a level below its capacity, given the existing stock of capital and labor, a proper government policy could increase output until it approached the eco-

2 In fact, the question whether the Swedish policies were an application of the ideas of Keynes or were developed autonomously, from Marx via Wicksell, continues to evoke controversy. See Bo Gustafsson, "A Perennial of Doctrinal History: Keynes and the 'Stockholm School,'" *Economy and History* 17 (1973): 114–128.

nomy's full potential. The government had the capacity to close the "full-employment gap," to insure that there would be no unemployment of men and machines. Full employment became a realistic goal that could be pursued at all times.

How was this to be done? Here again Keynesian economics provided a technical justification for class compromise. The answer it provided was to increase consumption. In the Keynesian diagnosis, the cause of unemployment was the insufficiency of demand. Hence any redistribution of income downwards to people who consume most of it and any expansion of government spending will stimulate production and reduce unemployment.[3] Given the existing capital stock, the actual output can always be raised by increasing wages, transfers to the poor, and government spending, or by reducing taxes. Since raising output means augmenting the rate of utilization of resources, the same policies will diminish unemployment. Thus the distributional bias of the left toward their electoral constituency found a rationalization in a technical economic theory. As Léon Blum put it, "a better distribution . . . would revive production at the same time that it would satisfy justice."

But more was at stake. In the orthodox thinking, any demands by workers or the unemployed for higher consumption appeared as a particularistic interest, inimical to future national development. To increase wages or social services was to raise costs of production and to divert resources from the investment necessary for growth, accumulation of capital, and improved productivity. The welfare of the poor was a matter of private charity, not of economics. But in the Keynesian framework it is consumption that provides the motor force for production, and suddenly workers and the poor turned out to be the representatives of the universal interest. Their particularistic interest in consumption coincided with the general interest in production. The "people" became the hegemonic force in society. As Bertil Ohlin stated in 1938, "In recent years it has become obvious that . . . many forms of 'consumption'—food, clothing, housing, recreation— . . . represent an investment in the most valuable productive instrument of all, the people itself."[4] The terms of discourse became transformed.

Not all "Keynesian" positions are the same. One policy direction—warmly embraced by the radical left—focused on the redistribution of income toward

3 In theory there is another Keynesian instrument: increasing investment expenditures—and thus aggregate demand—by lowering interest rates. But the effect of nominal interest rates upon the level of investment proved empirically to be the weakest link of the Keynesian approach, a conclusion reached by Tinbergen in 1939. Therefore monetary policy was used in practice mainly to accommodate fiscal policy, that is, to prevent government deficits from driving up interest rates or to control inflation, but not to stimulate demand, at least not intentionally.

4 Bertil Ohlin, "Economic Progress in Sweden," *The Annals of the American Academy of Political and Social Science* 197 (1938): 5.

wages and transfers. This is what happened in France in 1936. A more cautious, and more successful, policy consisted of manipulating government spending, taxation, and the money supply. The Swedish policy of 1932 was exclusively an "employment policy": it consisted of productive public employment financed by deficits and increased taxation. Wage rates did not increase in Sweden until 1938, well after the economy was out of the slump. In fact, the simple formal framework of Keynesian economics, as is found in modern macroeconomic textbooks, favors government spending over redistribution of income: the "multiplier" for government spending is greater than unity, while for wages and transfers it is less than unity. Hence, at least in principle, government spending more than pays for itself in increased production, while distribution of income partially hurts other components of demand.

In all of its forms, the Keynesian compromise consisted of a dual program: "full employment and equality," where the first term meant regulation of the level of employment via the management of demand, particularly government spending, and the latter consisted of the net of social services that constituted the "welfare state." The Keynesian compromise, therefore, came to consist of more than an active role for the government in macroeconomic management. As the provider of social services and regulator of the market, the state acted in multiple social realms. Governments developed manpower programs, family policies, housing schemes, income assistance nets, health systems, etc. They attempted to regulate the labor force by mixing incentives and deterrents to participation in the labor market. They sought to alter patterns of racial and regional disparities. The result is that social relations are mediated through democratic political institutions rather than remaining private.

At the same time, the Keynesian compromise became increasingly dependent upon economic concessions granted to groups of people organized as nonmarket actors. Politics turned into an interplay of coalitions among such groups, giving rise to corporatist tendencies of direct negotiation, either between organized groups—particularly labor and capital—under the tutelage of the government or between each group and the government. The allocation of economic resources became increasingly dominated by relations of political forces.

The compromise was tenable as long as it could provide employment and material security. Indeed, by most criteria of economic progress the Keynesian era was a success. Whether or not this was due to the efficacy of Keynesian economic policies or was merely fortuitous is a matter of debate. Nevertheless, output grew, unemployment was low, social services were extended, and social peace reigned. Until the late 1960s, Keynesianism was the established ideology of class compromise, under which different groups could conflict within the confines of a capitalist and democratic system. And, with the possible exception of

Karl Rehn's 1951 program in Sweden and the Italian Communist Party's short-lived austerity policy of the mid-1970s, Keynesianism provided the only framework for such a compromise. The crisis of Keynesianism is a crisis of democratic capitalism.

Keynesian economics is demand economics. The supply of capital and the supply of labor are assumed to be constant. The supply of savings is determined endogenously: it always equals investment. As demand is stimulated, whether by government policies or exogenous events, production expands to match demand, income increases and so do savings until a new equilibrium is reached where savings again equals investment at a higher level of capacity-utilization. The level of output shifts to maintain the equality of savings and investment. Moreover, since the Keynesian problem is to bring the actual output to the potential level of the already existing capital stock, the accumulation of capital is ignored altogether, to the point where new investment is assumed to be nonnegative at the same time that the total stock of capital is assumed to be constant.

Keynesian economics is the economics of the "short-run," where the short-run is a situation rather than a period of time, in which cumulative changes of capital stock can be ignored. Given the Keynesian problem, this assumption is not unreasonable, but the effect is that this framework has nothing to say about the determinants of the potential level of output, about capital accumulation, or about productivity. The problem for Keynesian policies is always to close the gap between actual output and potential output, whatever the potential might happen to be.

Suppose for the moment that this problem has been solved and the economy is producing at its full potential. Since the already installed capital stock is now fully utilized, output cannot be increased without investment, that is, without new additions to the capital stock. In the demand view of the world, no longer Keynes's own but nevertheless very much "Keynesian," demand stimulation will still have the effect of increasing output, this time by "accelerating" investment.[5] Investors are assumed to make their investment decisions in order to increase production to match the expected future aggregate demand. Hence, the same government policies—spending, distribution of income, reduction of taxation—will continue to be effective, since by stimulating

5 This theory of investment was first suggested by J. Maurice Clark, "Business Acceleration and the Law of Demand: A Technical Factor in Economic Cycles," *Journal of Political Economy* 25 (1917): 217–235. Its modern form is due to Hollis Chenery, "Overcapacity and the Acceleration Principle," *Econometrica* 20 (1952): 1–28.

demand past the level of potential output the government will stimulate investment and economic growth.

But things look different when the supply of productive inputs is no longer taken to be fixed or passive. Now the question of whether the supply of savings is sufficient becomes problematic. The supply of savings available for investment is what is left from the total output after wages, transfers, and government expenditures have been subtracted. Hence the very measures designed to stimulate demand have the effect of reducing potential savings, that is, the savings that are available when the economy is running at its full potential.

As long as the economy operates below the full potential level there is no contradiction involved. The output determined by the level of aggregate demand is assumed not to be greater than the level possible given the already existing capital stock, and the supply of savings is not a constraint. Indeed, in such circumstances, savings are too high and the Keynesian remedies all involve a reduction of savings as a proportion of output. But when the economy is close to full employment the measures meant to increase aggregate demand and therefore to decrease aggregate saving have the effect of limiting the rate of growth of potential output. And since potential output is the ceiling for actual output, short-run demand stimulation turns out to have perverse effects for the long-run. When we encounter symptoms of insufficient investment—the stagnation of real wages, the decline of productivity, the obsolescence of plant and equipment—demand management provides no solution. Indeed, the stimulation of demand accentuates the problem when the problem is the shortage of capital.

The supply side is the kingdom of the bourgeoisie. Here the bourgeoisie appears hegemonic: the realization of its interest in profits is a necessary condition for the improvement of the material conditions of everyone. Increased output requires investment, investment is financed by savings, savings are financed by profits. Hence profits are the condition for growth. From the supply side it is savings that provide the motor for accumulation and, as all studies show, workers do not save much. Increases in wages and transfers as well as "welfare" spending appear, therefore, as hindrances to growth. So does taxation of the wealthy and any form of government intervention that restricts profitability, even if such restrictions reflect social costs and negative externalities.

Clearly, such a rendition of the economic system is not particularly appealing to those who consume most of their incomes. The natural response of the left is to claim that the very problem of the supply of savings is a false one.[6] This is a

6 See, for example, V. Perlo, "The New Propaganda on Declining Profit Shares and Inadequate Investment," *Review of Radical Economics,* Fall 1976; Paul Sweezy and Harry Magdoff, "Are Low Savings Ruining the U.S. Economy?" *Monthly Review* 7 (1980): 1–12, or, most recently, Emma Rothschild, "The Philosophy of Reaganism," *New York Review of Books,* April 15, 1982, pp. 19–26.

response embedded in the Keynesian framework in which investment and growth are constrained by insufficient demand, not by available savings. But the response is wrong. The inadequate rate of investment in the U.S. did not suddenly appear in the recessions of the last ten years. Investment, capital accumulation, and growth of output per worker have been lower in the U.S. than in any major advanced capitalist economies, except for Great Britain, throughout the postwar period.[7] What is fallacious in the claims of right-wing economists is not the assertion that the supply of savings is insufficient to finance the desirable level of investment, but the argument that savings are insufficient because profits are too low.

True, the mere fact that the level of investment is inadequate does not imply that savings must be increased—at least if we accept the possibility that most of current investment may be socially wasteful, superfluous, or otherwise undesirable. The aggregate balance always hides qualitative alternatives. One bomber absorbs as much savings as would a modern mass-transit system for the city of Chicago. If investment is insufficient, there are many places to look for waste, and nonmilitary public expenditures would not necessarily be the first place selected by a rational observer.

But such a qualitative response is not sufficient. Moreover, it is not synonymous with an indiscriminate cry for a continued expansion of government spending, for supporting obsolete industries, and for an obstinate stimulation of demand. The problem of the supply of savings must be faced as such.

The historical experience of several countries demonstrates that growth can be generated without pernicious effects upon the distribution of income when governments actively influence the rate and the direction of investment and the supply of labor. The post war German "miracle," the rapid growth of Japan, and the apparent success of the Swedish Social Democrats in combining relatively fast growth of productivity with the most egalitarian distribution of income in the West demonstrate that there exists an alternative to demand-management as well as to profit-oriented, right-wing supply policies.

Although they have been pursued in somewhat different forms in several countries, these alternative supply-oriented policies have never been formalized in a theoretical framework. Indeed, the Swedish Social Democrats seem to have stumbled upon them in 1951 in a manner reminiscent of their discovery of deficit spending in 1932: mainly as a remedy to the problem of maintaining price stabil-

7 For a recent study, see John Kendrick, "Sources of Growth in Real Product and Productivity in Eight Countries, 1960–1978" (paper prepared for the Office of Economic Research, the New York Stock Exchange, New York, 1981).

ity under conditions of full employment.[8] Of the German post-1949 policies it is typically said that they were a discovery of bankers who behaved as if Keynes had never existed. Yet both the Germans and the Swedes, along with a number of other countries, successfully pursued sustained programs consisting of public control over investment, elimination of inefficient industries, manpower policies designed to reduce structural unemployment, and expansion of the welfare system.

In order to understand abstractly these investment-oriented supply strategies, one must note first that in advanced capitalist economies productive investment is financed largely out of profit incomes. This implies that the rate of accumulation, that is, the ratio of the change in capital stock over total capital stock, is approximately equal to the product of two quantities: the rate of saving out of profits and the after-tax rate of profit.[9] For example, a 6 percent rate of growth could be accomplished by a saving rate of 60 percent combined with a rate of profit of 10 percent or, equivalently, by a saving rate of 30 percent combined with a rate of profit of 20 percent.

The crucial question is whether firms can be made to invest when the rate of profit is low. The argument of the right is that this situation is unfeasible, since without sufficient future rewards capitalists will not abstain in the present. Big business and the political forces that represent it always claim that the only way the volume of savings can be increased is by raising the after-tax rate of profit, an increase that is supposed to have two effects. First, given a constant rate of saving out of profits, either directly by firms or by the recipients of profit income, the aggregate volume of savings will rise in proportion to the increase in the aggregate volume of profits. Second, a higher rate of return is promised to induce a higher propensity to save out of profits. Giving more money to "those who save," in the words of the *Wall Street Journal*, will encourage them to save at a higher rate. Indeed, the central tenet of the new economics is that a redistribution of income in favor of profits is a necessary cost the society must bear in order to produce a higher rate of investment and economic growth. The policies of the right, therefore, are designed to increase the effective rate of profit by sharply reducing nominal rates of taxation of incomes derived from property, by cutting down nonmilitary public expenditures, by eliminating all of the profit-constraining regulation, and by limiting the right of workers to organize

8 Gösta Rehn, "The Problem of Stability: An Analysis and Some Policy Proposals," in Ralph Turvey, ed., *Wages Policy Under Full Employment* (London: William Hodge and Company, 1952).

9 Formally, $\Delta K/K = sP/K$, where K is the capital stock and ΔK its change, *s* is the rate of saving out of profit, P is the volume of profits, and P/K is the rate of profit.

and strike. They offer in return the promise of increased investment, improvement of productivity, and an acceleration of growth.

Yet there are countries—those mentioned above among them—in which the rate of investment has been relatively high while the after-tax rate of profit has been relatively low. These are the countries in which governments sought to alter the terms of choice of private decision makers between consumption and investment through taxes, credits, and direct subsidies.

Let us concentrate on the use of the tax system. Consider all taxes levied on incomes derived from the ownership of capital. They typically include a personal income tax on earned income ("salaries" of top executives), a personal income tax on property income, a tax on wealth, and a corporate profit tax. Given any mixture of these incomes there exists some average nominal rate of taxation of the aggregate property income. At the same time, all western countries use the tax system as an instrument for stimulating investment: by a preferential treatment of capital gains, depreciation write-offs, investment credits, and grants. Given a mix of these different manners of investing, there exists again an average rate of investment relief, a rate that depends upon the rate of investment. Hence, the effective tax rate—the rate at which incomes from profits are in fact taxed—will be determined by the difference between the nominal rate of taxation and the rate of investment relief.

Let us now compare different tax systems. When the nominal tax rate on profits is low, the tax system has the effect of keeping the after-tax rate of profit high—independent of the rate of investment. Such a tax system rewards wealth, not investment. It may—although the evidence is at best mixed[10]—provide an incentive to invest, but it provides no assurance. It imposes no penalties on unproductive uses of profits. Hence, lowering the nominal rate of taxation of profits is the program of business. Owners of capital are then free to do whatever they find in their self-interest without any control.

But suppose that the nominal tax-rate on profits is high—*very* high—and the marginal rate of investment tax relief is also high, at least for some chosen types of investment.[11] Unproductive uses of profits are now being punished. People and firms that do not invest do not receive tax breaks. The terms of choice facing the owners of capital are altered, presenting the choice of investing in publicly designated directions or paying taxes. It is now in the interest of firms to invest.

10 "U.S. Economic Performance in a Global Perspective" (New York: New York Stock Exchange, 1981).

11 As Andrew Shonfield put it, referring to Germany, "To make the trick work, tax rates had to be high. They were." *Modern Capitalism* (London: Oxford University Press, 1969), p. 282. And so were tax credits for investments: see Appendix IV.

Consider, again, the example of two societies that add to their capital stock and output at the rate of 6 percent per year: one with the after-tax rate of profit of 20 percent and the rate of investment of 30 percent, the other with the after-tax rate of profit of 10 percent and the rate of investment out of profits of 60 percent. As is illustrated in the table below, the distributional implications of these alternative patterns of growth are quite staggering. When accumulation is financed by a high rate of investment with a low rate of profit, Case B, the share of wages and government spending is much higher and the rate of consumption out of profit incomes much lower than Case A where accumulation is financed with a high rate of profit and a low rate of investment. The choice is brutally clear. The same rate of growth can be obtained in different ways. The question is simply who will pay the cost of accumulation: the wage-earners and unemployed or the owners of capital.

Two Hypothetical Patterns of Capital Accumulation
at Six Percent Per Year

(Net incremental capital-output ratio is 2)

	Case A	Case B
Rate of growth of output and capital stock	6%	6%
Net investment/output	12%	12%
Rate of profit	20%	10%
Rate of saving out of profits	30%	60%
Share of profits in output	40%	20%
Share of wages and government	60%	80%
Share of consumption out of profits	28%	8%

Investment + Wages and government + Consumption out of profits = 100%

Hence, the problem of the supply of capital, that is, of investment and productivity, can be addressed without redistributing incomes upwards and dismantling government services—if the tax system is used to reward investment and discourage consumption of profit incomes. This kind of tax system satisfies three criteria. First, it delivers investment. Second, it does not place the burden of sacrifice on wage-earners and those dependent upon the government for survival. Third, if applied with qualitative criteria, it allows society to choose the directions of investment on the basis of criteria other than private profitability.

None of the above is intended to suggest, however, that democratic control over investment, exercised through the tax system, is a panacea. Decisions over the allocation of investment involve a number of trade-offs that are painful, as trade-offs are. We do not have consensual criteria by which to evaluate the choices presented by considerations of social effects, environment, health and safety, depletion of natural resources, and profitability. And in the absence of such criteria qualitative control over investment could lead to whimsical rule by government bureaucrats responding to political pressures. The exercise of discretion in investment policy makes it possible for firms (private and public) to succeed on the basis of influence within government bureaucracies rather than on the strict merits of their undertakings. And as long as market rationality remains the international criterion of efficiency in the allocation of resources, market criteria tend to ultimately prevail under the pressure of international competition.

Moreover, the goals of economic growth and increased productivity are in conflict with the goal of protecting existing jobs. A policy that encourages labor-saving innovations, that refuses subsidies to inefficient producers or protection to obsolete industries, must be coupled with Swedish-style manpower programs of job-retraining and subsidies for labor mobility. But, as the Swedes discovered, such manpower policies are socially costly and may be politically intolerable.[12] Measures designed to make people move according to the shifting patterns of industry imply that families are uprooted, social ties are fractured, and even entire communities may die deserted by the breadwinners.

Yet a comprehensive, consistent system of public control over investment and income distribution opens the possibility for the realization of the original goal of the socialist movement, the goal that has been abandoned and perverted in its history, namely, reduction of the necessary labor time. It is ironic that, since the 1930s, full employment has been the predominant concern of the left. What in the middle of the nineteenth century used to be called "wage slavery" became the condition to be made universal. The working class has traveled a long road from seeking to abolish the wage relation to attempting to insure that none are excluded from it. As Rosa Luxemburg observed in 1906, workers had become an obstacle to technical change that would make possible their own liberation. Defense of obsolete plants and inefficient industries for the sake of maintaining jobs has been an almost irresistible stance to the left, with inevitable detrimental effects for economic welfare. The maintenance of full employment has turned into a major barrier to investment that would improve productivity, increase output, raise wages, and/or reduce working time.

The priority that the left has given to the creation of jobs is inevitable so long as a decent standard of living is contingent upon being employed. Only

12 For discussions of the problems encountered by the Swedish Social Democrats in the most ambitious attempt to date in a capitalist economy to shape the supply of both labor and privately owned capital through government policies, see Göran Ohlin, "The Changing Role of Private Enterprise in Sweden," in Karl Cerny, ed., *Scandinavia at the Polls* (Washington, D.C.: American Enterprise Institute, 1977), pp. 249–265; Robert Heilbroner, "Swedish Promise," *New York Review of Books* (December 4, 1980), pp. 33–36.

when a sufficient minimum income is guaranteed to all will the maintenance of full employment no longer be a necessary object of economic policy. A substantial degree of equality, then, is a precondition for a working-class-supported macroeconomic policy that would allow jobs to be lost for the sake of productivity growth that would not protect technologically backward plants and industries, that would encourage rather than block labor-saving innovations. But consider the rewards. At an annual rate of productivity growth of less than 3 percent, output per worker doubles in twenty-five years: within one generation we could reduce labor time by one half. Whether people would opt to use productivity gains to increase consumption or free time we do not know. But once the maintenance of full employment ceases to be a fetish, once decent life conditions are assured for everyone, this choice will be open.

In any society some decisions have a public impact while others have a private, or limited, effect. And in any society some decisions are made by the public while others are restricted to the private realm. Investment decisions—decisions to withhold a part of society's resources from current consumption and to allocate them to replace or augment the instruments of production—have an impact that is both general and long-lasting, that is, public. Yet the very institution of private property implies that they are a private prerogative. Control over investment is the central political issue under capitalism precisely because no other privately made decisions have such a profound public impact.

The program of the right is to let the type and quantity of investment be determined by the market. The market, after all, is an institution that coordinates private decisions and aggregates preferences. If the market is undistorted by monopolies, externalities, etc., and consumers are sovereign, the market aggregates private decisions in a way that corresponds to preferences of individuals as consumers. The decisions made by profit-maximizing investors will respond to the preferences of consumers concerning the atemporal and intertemporal allocation of resources. But the preferences to which the market responds are weighted by the amount of resources each individual controls. That an idealized "perfect" market matches aggregated consumer preferences for private goods efficiently is the first lesson of welfare economics. That aggregated consumer preferences reflect the distribution of income and wealth is an often neglected corollary.

A democratic political system constitutes another mechanism by which individual preferences are aggregated. If political competition is free of coercion and if voters are sovereign, then government policies will reflect the aggregated preferences of individuals as citizens. But as citizens individuals are weighted equally. Hence, the same set of individual preferences, for private as well as public goods, will normally yield a demand for a different allocation of resources when they are aggregated by political institutions rather than by the market.

Further, the market provides no guarantee that those whose consumption is most restrained in the present will reap the rewards of investment in the future. In any society some part of the current output must be withheld from consumption if producton is to continue and consumption is to increase. What distinguishes capitalism is that investment is financed mostly out of profits, the part of the product withheld from wage-earners. It is upon profits that the renewal and enlargement of the capital stock depend. Hence, under capitalism, the presence of profits is a necessary condition for the improvement of material conditions of any group within the society. But it is not sufficient. Profits may be hoarded, consumed, exported, or invested badly. Even if capitalists are abstemious, efficient, and prescient, their market relation with workers ends as the cycle of production is completed and the wages are paid, and there is nothing in the structure of the capitalist system of production that would guarantee that wage-earners would be the ones to benefit from the fact that a part of the product is currently withheld from them as profit.

Any class compromise must, therefore, have at least two aspects: one concerning the distribution of income and the second concerning investment. If those who do not own capital are to consent voluntarily to the private property of the instruments of production, they must have a reasonable certainty that their material conditions would improve in the future as the result of current appropriation of profit by capitalists. Until recently, this compromise was rarely stated explicitly, for it is basically institutional: workers consent to the institution of private property of the instruments of production and owners of these instruments consent to political institutions through which other groups can effectively process their demands. Today, as trust in the compromise is eroding, workers are demanding more explicit commitments. As a recent report commissioned by the European Trade Union Confederation declared: "To accept the level of profits required for investments and to give companies a sound financial basis, workers will increasingly demand a say in decisions about investments and a fairer share of the income they generate."[13]

The current period, however, is the first moment since the 1920s in which owners of capital have openly rejected a compromise that involves public influence over investment and the distribution of income. For the first time in several decades, the right has an historical project of its own: to free accumu-

13 Günter Köpke, *Keynes Plus: A Participatory Economy* (Brussels: European Trade Union Institute, 1979), p. iv.

lation from all the fetters imposed upon it by democracy. For the bourgeoisie never completed its revolution.

Just as it freed accumulation from the restraint of the feudal order, the bourgeoisie was forced to subject it to the constraint of popular control exercised through universal suffrage. The combination of private property of the means of production with universal suffrage is a compromise, and this compromise implies that the logic of accumulation is not exclusively the logic of private actors.

What is involved in the current offensive of the right is not simply a question of taxes, government spending, or even the distribution of income. The plans for relaxing taxation of profits, abolishing environmental controls, eliminating welfare programs, removing government control over product safety and conditions of work, and weakening the labor unions add up to more than reorientation of the economic policy. They constitute a project for a new society, a bourgeois revolution.

It is thus necessary to consider the following question: what kind of a society would it be in which accumulation would be free from any form of political control, free from constraints of income distribution, from considerations of employment, environment, health of workers, and safety of consumers? Such hypothetical questions have no ready-made answers, but let us speculate.

It would be a society composed of households and firms, related to each other exclusively through the market. Social relations would become coextensive with market relations and the role of the political authority would be reduced to defending the market from attempts by any group organized as nonmarket actors (i.e., other than households and firms) to alter the rationality of market allocations. Since social and political relations would be depoliticized, demands by nonmarket actors would find no audience. The tension between accumulation and legitimation would be overcome: accumulation would be self-legitimizing for those who benefit from it and no other legitmacy would be sought. As it has been said, "the government does not owe anybody anything."

Household income would depend solely upon the market value of the labor performed. Reproduction of the labor force would be reprivatized and the traditional division of labor within the household—between earners and nurturers—would be restored. Persons excluded from participation in gainful activities would have no institutional guarantee of survival. They might be isolated on "reservations," whether inner cities or depressed regions, where they could be forgotten or ignored.

Workers would be disorganized as a class. If wage bargaining is decentralized by law to the level of the firm (as it is now in Chile) and if the process of internationalization of production continues, the monopoly power of unions would be effectively broken. Workers would be controlled by a combination of decentralized co-optation by some firms, by repression oriented against monopoly power, and—most importantly—by the threat of unemployment.

All of these changes would represent a reversal of trends that we are accustomed to see as irreversible. Indeed, the picture we drew can be easily obtained by combining the trends of contemporary capitalism described by, say, E. H. Carr or Jurgen Habermas, and reversing them.[14] Economic relations would be depoliticized. Government economic planning would be abandoned. Legitimation would be left to the market. The "economic whip" would be reinstated as the central mechanism of political control.

Is such a society feasible? The Chilean experience demonstrates that it is feasible when accompanied by brutal repression, the destruction of democratic institutions, the liquidation of all forms of politics. At least in Chile—most observers agree—such a restructuring of the society could not have succeeded under democratic conditions, without the military dictatorship. But is it feasible without destroying formal democracy, without a "Chileanization" of capitalist democracies?

Where electoral participation has traditionally been high, where working-class parties enjoy electoral support, and where access to the electoral system is relatively open—in most Western European countries—the project of the right seems doomed to failure under democratic conditions. But in the United States, where about 40 percent of adults never vote, where parties of notables have a duopolistic control over the electoral system, and where the barriers to entry are prohibitive, one must be less sanguine about the prospects. For suppose that the project is economically successful, even if for purely fortuitous reasons, and beneficial for a sizeable part of the electorate, that the right captures both parties, and the offensive enjoys the support of the mass media. . . . Such a prospect is not totally farfetched.

14 Edward H. Carr, *The New Society* (London: Oxford University Press, 1961); Jurgen Habermas, *Legitimation Crisis* (Boston: Beacon Press, 1975).