

Neoliberalism and the SSA Theory of Long-Run Capital Accumulation

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Abstract: The social structure of accumulation theory faces a challenge arising from the persistence of neoliberalism, which does not appear to promote rapid capital accumulation. This paper suggests an alternative interpretation of institutional change, in which liberal and "regulationist" institutional structures alternate with one another, with the latter more favorable for capital accumulation. It examines the reasons why these two types of institutional structures arise, concluding that neoliberalism may persist for some time.

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1. Introduction

The social structure of accumulation (SSA) theory offers an explanation for alternating long periods of rapid and slow capital accumulation in a capitalist economy and the world capitalist system. The SSA theory argues that the creation of a coherent set of institutions favorable for capital accumulation – the SSA – sets off a long period of rapid growth, which ends when the SSA collapses, ushering in a long period of relative stagnation. According to Gordon *et. al.* (1982), the US has had three SSA's to date, in the 1840s–70s, the 1890s–1910s (or 1920s), and the 1940s–1970s.

Nearly thirty years have passed since the demise of the third SSA in the US, but there is no agreement among analysts about whether a new SSA has formed. Some argue that we have been living through the construction of a new neoliberal SSA. For the past two decades a process of neoliberal restructuring has been going on, in the US and in the world as a whole. This has given rise to a new, coherent set of institutions that impinge on the process of capital accumulation. However, an SSA is supposed to promote rapid capital accumulation, and the growth performance of the US and world economy has been poor by historical standards during the neoliberal era (see Kotz, 2002, and also table 1 below).

This paper argues that the rise and persistence of a neoliberal economic structure since the late 1970s, in the US and elsewhere, call into question the SSA theory of long swings in capital accumulation.¹ It is suggested here that the historical pattern of long-run capital accumulation can be better understood based on a concept of successive "institutional structures," which may or may not promote rapid capital accumulation. These institutional structures (IS's) are of two types, one of which promotes rapid capital accumulation while the other does not. The paper offers an analysis of why these two types of IS's develop and draws some implications for our understanding of the contemporary stage of capitalism.

2. Liberal and Regulationist Institutional Structures

By the term IS is meant a coherent set of economic, political, and cultural/ideological

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institutions that provides a structure for capitalist economic activity. Capitalist economic activity refers to the circuit of capital – the exchange of money capital for means of production and labor power, the production process, and the sale of the final commodities – as well as the auxiliary economic activities that accompany the circuit of capital (for example, in the sphere of finance). An IS supports the appropriation of surplus value, the pursuit of which drives the circuit of capital. Surplus value has various uses, one of which is the accumulation of capital. While competition among capitals tends to compel accumulation by individual capitalists, the overall rate of accumulation is affected by many factors and varies significantly from one period to another. While each IS fosters the effective appropriation of surplus value during the circuit of capital, an IS need not be effective at promoting accumulation over the long run. Thus, the concept of an IS differs from that of an SSA, where the latter is defined as a set of institutions that promotes rapid accumulation.

IS's have come in two varieties in capitalist history. One type is a liberal institutional structure (LIS) and the other a regulationist institutional structure (RIS). These two different types of IS differ along four dimensions: state-economy relations, capital-labor relations, capital-capital relations, and the character of the dominant ideology. In a LIS, the state plays a limited role in regulating economic activity, capital is on the offensive in its relation with labor and brooks no compromises, inter-capitalist competition is of the cutthroat sort, and the dominant ideology glorifies the free market. By contrast, in a RIS the state actively intervenes in economic activity, capital-labor relations are marked by an element of cooperation and compromise, inter-capitalist rivalry is co-respective and muted, and the dominant ideology warns of the dangers of unregulated market activity and heralds the contribution that government can make to economic progress.

The difference between the interventionist state of a RIS and the Laissez-Faire state of a LIS should not be exaggerated. Capitalist economic activity cannot go on without a supporting state role. After all, property is a creature of the state. However, there is a large scope for variation in the extent to which the state becomes actively involved in economic processes in a

capitalist system.

3. The Alternation in Institutional Structures Since 1900

Since the rise of big business in the US during the last third of the nineteenth century, there have been two periods in which a RIS was in place and two instances of a LIS. The first RIS was in 1900-16, a period called the Progressive Era by historians. During that period, a set of new state economic roles arose, including regulation of certain industries (including food processing, drug manufacturing, and electric power), adoption of anti-monopoly policies, and regulation of the financial sector. A part of big capital sought to cultivate a cooperative relation with the American Federation of Labor, and a workmen's compensation program was established to cover workers injured on the job. The financier J.P. Morgan succeeded in establishing cooperative behavior between rivals in many of the industries he controlled. There also arose a new regulationist ideology. This period came to a close as the US moved toward entering World War I (Weinstein, 1968; Kotz, 1978).

After a few years of transition at the end of the 1910s, a LIS emerged at the start of the 1920s. The state withdrew from regulation of the economy, capital sought to roll back the gains that organized labor had made during World War I, J.P. Morgan's controlled regime of coresponsive behavior largely collapsed, and an extreme individualist ideology became dominant. In 1929 the roaring '20s gave way to the Great Depression, and the start of Franklin D. Roosevelt's Presidency in 1933 marked the beginning of the transition to a new RIS. However, the new RIS was not put in place until the late 1940s, after fifteen years of experimentation and a Second World War had passed.

The institutions of the post-World War II RIS are well known, including a raft of new forms of state intervention in the economy, significant capital-labor cooperation, highly regulated coresponsive behavior in the main oligopolized industries, and a dominant regulationist ideology that was popularly known, confusingly, as "liberalism." The post World War II RIS collapsed around 1973, followed by a transition period lasting until 1979-81. Beginning in the second half of the Carter Presidency in 1979, many neoliberal themes appeared, including

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deregulation of business, cutbacks in social programs, and contractionary monetary policy. The full neoliberal program emerged when Ronald Reagan became President in 1981, which started with an attack on organized labor (the firing of striking air traffic controllers). The contemporary LIS has continued under successive Republican and Democratic Presidents through the present, just as the preceding post World War II RIS had been maintained during presidencies of both parties.

It is claimed here, based both on theoretical considerations and historical evidence, that a RIS is better for capital accumulation than a LIS. There are a number of reasons why one would not expect a LIS to promote rapid accumulation. First, it gives rise to a problem of insufficient aggregate demand over the long run, because it tends to lower both real wages and public spending. Second, a LIS creates instability on the macroeconomic level by renouncing state counter-cyclical spending and taxation policies, by reducing the effectiveness of "automatic stabilizers" through shrinking social welfare programs, and by loosening public regulation of the financial sector. This renders the system more vulnerable to major financial crises and depressions. Third, a LIS tends to intensify class conflict, which can potentially discourage capitalist investment. Fourth, the cutthroat competition of a LIS tends to turn the focus of corporate managers toward short-run strategies, which typically run counter to making the long-run investments that promote a rapid rate of capital accumulation.

Table 1 presents four different assessments of the rate of GDP growth during the four periods. Such estimates can be significantly affected by the starting and ending years chosen, because of the effects of the business cycle. Line 1 shows the annual average GDP growth rate for the two RIS's and two LIS's, choosing beginning and ending years that best fit the institutional timing of those IS's. Lines 2 and 3 show periods that have been adjusted to take account of business cycles. Line 2 measures growth rates from peak to peak and line 3 from trough to trough, while approximating the period of each RIS and LIS as closely as possible. Because the Great Depression significantly affects the comparative data of lines 1-3, a fourth line was included which shows the best decade-long peak-to-peak growth rate achieved during each

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of the four periods.

Lines 1 and 2 show clearly superior growth performance for the two RIS periods compared to the two LIS periods. Line 3, based on trough to trough measures, shows the same pattern, but the growth advantage of the Progressive Era RIS over the current LIS is small. The measure employed in line 4, which excludes the Great Depression, greatly improves the growth performance of the post World War I LIS. By that measure, the post-World War II RIS stands out as an exceptionally strong growth period, while the other three periods are closely bunched together.

There is strong evidence that the RIS periods had greater economic stability, as well as faster growth. The post World War I LIS produced the Great Depression, which was by far the most severe recession/depression since the rise of big business. The economic contraction lasted for 43 months and, at its end in 1932-33, set off a complete collapse of the financial system. The post World War II RIS had periodic recessions, but they were short, the longest lasting only 11 months. The current LIS opened with two back-to-back recessions during 1980-82, covering a period of 34 months. The contemporary LIS has seen a revival of waves of failures of financial institutions and large nonfinancial corporations, both of which were practically non-existent in the post-World War II RIS.²

A LIS has significant benefits for the capitalist class. Under a LIS, wages are driven down and the extent of inequality of income and wealth greatly increases. By contrast, in the post World War II RIS real wages rose steadily and income and wealth inequality decreased slightly by most measures. However, LIS's appear to be inferior for long-run capital accumulation and economic stability. If capitalism's historical mission has been to develop the forces of production, it seems to do so more effectively under a RIS. One can argue that the long-run survival of capitalism would be better assured under a RIS. If this is so, then why do LIS's periodically appear?

4. Explaining the Emergence of Liberal and Regulationist Institutional Structures

Engels (1978) suggested that the trusts and state enterprises which emerged in the late

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nineteenth century reflected a striving to overcome contradictions of capitalism by adopting some institutional features that pointed toward the socialist future. A common view of the stages of capitalist development among some Marxist economists has been an evolution from competitive capitalism to monopoly capitalism and then to state monopoly capitalism. In the SSA literature on the US, the first three SSAs appear to embody an evolution toward an ever more regulated institutional structure.

Other analysts have suggested that capitalism alternates between more and less regulated forms, with the excesses and contradictions of each phase setting the stage for transition to the next, opposite phase (Polanyi, 1968). The view that LIS's and RIS's naturally alternate with one another is consistent with the US historical experience. However, in my view this explanation, while having some validity, misses an important part of the reasons for the development of LIS's and RIS's.

The inherently competitive character of capitalism continually tends to pit individual capitalists against one another. A LIS provides maximum freedom for capitalists to compete. It also weakens the working class and facilitates increasing the rate of exploitation. While a RIS may have long-run advantages for capital accumulation and the stability of the system, it is difficult for the capitalist class, or any powerful segment of it, to cooperate sufficiently to create and maintain the institutions of a RIS. To do so requires that they suppress their tendency to immediately grab whatever they can from each other and from the working class. The historical record suggests that only certain historical conditions make the emergence of a RIS possible, by overcoming capitalist resistance to regulation of their normally competitive, individualistic behavior.³ When the historical developments that had prompted the emergence of a RIS have passed away, a capitalist system will tend to revert to a LIS.

Four kinds of historical developments have, in the past, led to the emergence of a RIS. One involves late capitalist developers. In countries that developed capitalism late, a RIS has served as a means to use state power to hasten capitalist development to the point where it was possible to compete with the established capitalist system(s). This applies to the experience of

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Germany and Japan in the nineteenth century and Turkey and South Korea in the twentieth, as well as China since its transition to capitalism began after 1978.

The second historical factor promoting a RIS has been the emergence of a major political threat to the capitalist class. The Progressive Era RIS in the US stemmed partly from the growing anti-monopoly and socialist movements of that period. The post World War II RIS was partly a response to even more serious political threats, from a rival "state socialist" system after World War II and from growing socialist and communist movements. In each case, a major section of big capital decided that regulated capitalism was preferable to the possibility of no capitalism at all.

The third historical factor promoting a RIS has been a severe economic crisis. The Great Depression of the 1930s was so threatening to the survival of capitalism that it made the capitalist class willing to allow a high degree of state regulation to achieve economic stability.

The fourth historical factor promoting a RIS has been a sharp attenuation of competition at certain historical moments due to political-economic developments. The Great Merger Wave of 1898-1903 in the US, together with the emergence of bank control of large nonfinancial enterprises, suddenly created an oligopolistic market structure with controlling agents oriented toward cooperation. This created a new segment of the capitalist class – the new finance capitalists and their allies in affiliated nonfinancial corporations – that faced only limited competition and recognized the long-run benefits for capital accumulation and economic stability of a RIS. After World War II, the US had a relatively stable oligopolistic structure in parts of the economy which produced a segment of big capital that appreciated the long-run benefits of a RIS.

Despite the advantages for capital accumulation and economic stability of a RIS, it appears that such formations only arise when powerful historical factors promote them. There have been relatively few effective developmental states. In each such case, some group or class in the country concerned was able to overcome the powerful competitive forces in capitalism that resist central regulation. This role has been performed by a segment of a former feudal ruling

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class (Japan), by military officers (Turkey and Korea), and by Communist Party officials (China).

RIS's in mature capitalist countries have been constructed and led by a variety of groups and classes. Typically there is an alliance between a section of big capital and a part of the working class, as in the New Deal coalition in the US. Individual capitalists seem to be ill-fitted for leading such a coalition. In the US, in both RIS periods a member of the extended Roosevelt family (Theodore in the first RIS and Franklin in the second) played a critical political role – a family whose wealth came from landowning and commerce predating the rise of capitalism in the US.

It appears that, once the specific historical factors that originally gave rise to a RIS have ceased to operate, the stage is set for a shift to a LIS. The anti-monopoly and socialist movements that prompted the Progressive Era RIS declined during World War I, and the US shifted to a LIS soon thereafter – despite the continuing presence of a relatively oligopolistic economic structure. It took a Great Depression, the rise of a serious challenge from state socialism, and growing socialist and communist movements around the world before a new RIS was put in place. In the 1980s a LIS emerged again, as increasing global economic integration undercut the previous oligopolistic structure of US industry (Kotz, 2002), the Great Depression receded into the past, the workers' movement rapidly declined in strength, and (at the end of the decade) the threat from the alternative state socialist system disappeared.

5. Concluding Comments

If the analysis suggested in this paper is valid, the current neoliberal system may be around for some time. There is no reason to expect that any automatic shift to a new RIS – or a new SSA -- will occur in the near future, despite the disadvantages of a neoliberal structure for capital accumulation. If the neoliberal system persists for some time, we can expect that accumulation will continue to be sluggish and unstable and that inequality and exploitation will continue to increase. The gap will continue to grow between the possibilities for human development stemming from technological advance and other forms of progress on the one hand

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and the reality of social disparity, degradation, and disintegration on the other hand. The common view that capitalism has outlived its harsh youth and matured into a civilized form may itself have become outmoded. This might soon place the prospect of a socialist alternative to capitalism back on the political agenda.

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Table 1. Annual Compounded Percentage GDP Growth Rates Under Four Institutional Structures in the US

Definition of Period	Growth Rate/Period	Progressive Era Regulated Institutional Structure	Post World War I Liberal Institutional Structure	Post World War II Regulated Institutional Structure	Contemporary Liberal Institutional Structure
(1) Institutional Definition	Growth Rate	3.70	0.31	3.98	3.05
	Period	1900-16	1920-32	1947-73	1980-2001
(2) Peak to Peak	Growth Rate	3.64	1.84	3.96	3.03
	Period	1899-1916	1919-37	1948-73	1979-2000
(3) Trough to Trough	Growth Rate	3.32	0.32	3.65	3.05
	Period	1900-17	1921-33	1947-75	1980-2001
(4) Best Decade (Peak to Peak)	Growth Rate	3.46	3.48	4.41	3.20
	Period	1903-13	1919-29	1959-69	1990-2000

Sources: Maddison, 1995, 150-151; US Bureau of Economic Analysis (2002); National Bureau of Economic Research (2002).

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Notes

¹ The SSA theory also can be used to analyze institutional differences among capitalist countries, as well as institutional changes over time during certain historical periods. The critique offered here does not question the usefulness of the SSA theory for the latter two purposes.

² The longest recession in the Progressive Era RIS lasted 24 months.

³ The state in capitalist society does not inherently tend to serve the long-run interest of the capitalist class. While there are powerful mechanisms that constrain the state to serve capitalist interests, there is no mechanism that automatically directs it toward long-run as opposed to short-run capitalist interests.