The Future Direction of Economic Restructuring

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The financial and economic crisis that emerged in the US in 2007-08, and quickly spread throughout the global economy, is more than just a financial crisis and a severe recession. It appears to be a systemic crisis of the neoliberal form of capitalism that arose around 1980. While neoliberal capitalism has had negative consequences for the majority of people, it was able to promote high profits and a series of long economic expansions for several decades. It did so by producing long-run trends -- increasing inequality, a series of ever larger asset bubbles, rising debt levels, and increasing imbalances in the global economy -- that were bound to eventually bring the neoliberal system crashing down.¹

History shows that capitalism periodically undergoes a systemic crisis. The particular institutional form of capitalism, or "social structure of accumulation," has varied in different periods. However effectively a particular institutional form of capitalism may for a time promote high profits and economic expansion, eventually the contradictions of that form of capitalism undermine its continuing operation, leading to a systemic crisis. For example, in the 1970s the state-regulated form of capitalism that predominated in the post-World War II decades stopped working effectively and entered a period of systemic crisis.²

To refer to a situation as a systemic crisis means that the crisis can be resolved only through a major restructuring of the system. That is, neoliberal capitalism cannot be restored by state interventions such as government bailouts of financial institutions, the imposition of new some regulations on the financial sector, and a large but temporary economic stimulus program. Instead, we should expect to see growing efforts to replace neoliberal capitalism by something else.

Various considerations, both historical and theoretical, suggest that the restructuring that follows a systemic crisis of a liberal form of capitalism will lead to a more state regulated

¹ For a detailed analysis of the crisis of neoliberal capitalism, see Kotz (2009).
² This analysis is based on the social structure of accumulation (SSA) theory (see McDonough, Reich, and Kotz, 2009).
One can identify three possible types of state regulated system that might arise in the coming years. Here we will comment on the prospects for each of these three types of state regulated systems for the U.S., based on its particular history and current situation. These comments may apply, to a greater or lesser extent, to other developed capitalist countries.

The first type of state regulated system is a corporatist form of capitalism. At present the main actors maneuvering effectively to control the direction of economic restructuring in the U.S. are the big banks and nonfinancial corporations. Popular movements are relatively weak at this time, following nearly 30 years of neoliberalism. If popular movements remain weak and are not able to have a significant impact on the process of restructuring, then big business will determine the course of restructuring. It seems likely that, in that case, a corporatist form of capitalism would emerge. By this is meant a form of capitalism in which big business regulates the economy through the state, in ways that will restore the stability and profitability of capitalism and permit accumulation to resume over a long period of time.

A corporatist form of capitalism in the U.S. might have the following main features. First, the financial system would become subject to significant regulation by the state to ensure its stability and the resumption of its necessary functions in support of the real sector -- a role which it failed to play in the neoliberal era. The exact nature of a new financial structure would depend

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3 Polanyi (2001[1944]) was the first to suggest an alternation between liberal and state regulated forms of capitalism.
on the relative strength of financial and real sector capital. Second, the institutions directly affecting the capital-labor relation would remain similar to those of neoliberalism, assuring a high rate of profit. Capital would remain fully dominant over labor, and real wages would continue to stagnate.⁴

In neoliberal capitalism, stagnating real wages tended to create a realization problem -- that is, a shortage of aggregate demand -- which was resolved under that system through growing borrowing, which in turn depended on large asset bubbles and a speculative financial sector (Kotz, 2009). To resolve the aggregate demand problem arising from repressed wage growth in a corporatist form of capitalism, the third feature would be a large, long-lasting program of state investment in areas that would promote profit-making. A more "progressive" version would emphasize civilian infrastructure investment in transportation, communication, power, and technological development. A more "reactionary" version would emphasize military and national security spending.⁵ Some combination of the two would also be possible.

Such a corporatist restructuring could provide the basis of a coherent new social structure of accumulation. Low wages would assure a high profit share. A regulated financial system would assure financial stability and provide credit to the real sector. The state would solve the aggregate demand problem, resulting from rapidly rising profit and stagnating wages, through expanding state spending.⁶

Such a form of restructuring would not be favorable for working people. History suggests that a form of capitalism more favorable to the working class emerges only in the face of a militant and radical popular movement, which forces big business to compromise. Such popular movements played a key role in the U.S. in the creation of the post-World War II state-regulated

⁴ The many calls from conservative commentators to use the government bailout of the auto industry to crush the United Auto Workers Union and drive down wages in that industry is consistent with a corporatist restructuring.
⁵ This may explain the enthusiasm for a big government investment program among some conservative policy analysts. Conservative advocate William Kristol proposed "spending a good chunk of the [expected large government] stimulus on national security" rather than civilian infrastructure (Kristol, 2008).
⁶ A full corporatist social structure of accumulation would involve more institutions than the few discussed here.
capitalism, whose roots were in the New Deal period starting in the mid 1930s. While a new liberal form of capitalism can be built relatively rapidly, constructing a new state regulated form of capitalism takes some time. Even if capital initially dominates the process, it takes many years for the various segments of capital to reach agreement and to design a coherent program for the state to effectively both regulate and stimulate the economy. If the economic crisis turns out to be as severe as many analysts expect, this may lead to the emergence of strong popular movements, which would affect the direction of economic restructuring.

If strong popular movements emerge, that might lead to a second type of state regulated capitalism involving a new social democratic compromise between capital on the one hand and labor and other popular constituencies on the other. This would require changes in the institutions that affect the capital-labor relation so as to enable workers to increase their wages in step with productivity growth. At the minimum, this would require a stronger trade union movement, a willingness on the part of big business to bargain with labor, and a shift in the form of intercapitalist competition to hold off the severe downward pressure on wages that results from the unrestrained competition that prevailed in the neoliberal form of capitalism. Under those conditions, a relatively balanced growth of aggregate demand becomes possible. Expanding state spending would also play a role, involving social spending and environmental spending, as well as infrastructure investment. As in the corporatist version, the financial sector would be closely regulated.

If a new state-regulated form of capitalism emerges in the U.S. and in other developed capitalist countries, this would require restructuring of institutions on the global level to fit in with the new nation-state level institutions. This adds a complication to the restructuring that lies ahead, since building new global institutions is more difficult than doing so at the national level.

The third possibility would be the replacement of capitalism with socialism. This is a big topic, and only brief comments on it are possible here. For nearly 30 years neoliberal capitalism
has worsened conditions for the majority in the US, as well as in the rest of the world. Now the severe financial and economic crisis is showing capitalism at its worst, as the profit motive completely fails to meet people's needs for a decent living standard including both private and public goods and services, meaningful work, economic security, and an economy that is environmentally sustainable. As people struggle against the threatened loss of their homes, unemployment and the associated loss of health insurance, the disappearance of much of their life savings, and the growing threat of global climate change, the arguments for a socialist alternative can potentially ring true for millions of people.

A socialist alternative to capitalism holds the promise of meeting human needs without the socially harmful mechanism of the search for maximum profits and the associated endless drives to accumulate capital, to produce ever more commodities, and to use ever more natural resources. A socialist system based on democratic participatory economic planning would make it possible for all of humanity to live comfortable and secure lives in an environmentally sustainable manner. Several efforts to build a new socialism have already appeared in Latin America. The socialist movement may be reborn in the years ahead in the U.S. and the rest of the world, opening the possibility of finally ending the capitalist era.

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7 For models of democratic participatory planning, see Devine (2002) and Albert and Hahnel (1991).
References


