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Power, Accumulation, and Crisis: The Rise and Demise of the Postwar Social Structure of Accumulation

*DAVID M. GORDON, THOMAS E. WEISSKOPF, and SAMUEL BOWLES**

INTRODUCTION

Crisis may occur in capitalist economies because the capitalist class is "too strong" or because it is "too weak."[1]

When the capitalist class is "too strong" it shifts the income distribution in its favor, reducing the ratio of working class consumption to national income and rendering the economy prone to crises of underconsumption or — in more contemporary Keynesian terms — a failure of aggregate demand. When the capitalist class is "too weak," the working class or other claimants on income reduce the rate of exploitation, squeezing the profit rate and reducing the level of investment (perhaps by inducing investors to seek greener pastures elsewhere).

Karl Marx referred to the first as a crisis in the realization of surplus value and the second as a crisis in the production of surplus value. They may also be characterized (respectively) as "demand-side" and "supply-side" crises. The result in each case is ultimately the same — a decline in the rate of profit, a reduction in the level of investment, a stalled accumulation process, and a stagnation or decline in the rate of growth of both demand and output. Thus what begins as a crisis in surplus-value production, for example, sooner or later turns into a crisis in surplus-value realization.

Some United States historians have argued that the Great Depression of the 1930s was a demand-side crisis, brought about in part by the political and economic defeats of the working class in the post-World War I era. The most recent crisis of the United States economy, in contrast, appears to have originated as a supply-side crisis brought about by the erosion of the hegemony of the United States capitalist class in the world economic system and by effective challenges to capitalist prerogatives mounted by workers and citizens during the 1960s and early 1970s. Once and only after these mounting barriers to surplus-value production had initially reduced corporate profitability, both stagnating investment and political efforts to roll back these challenges resulted in demand-side problems as well, further reinforcing the dynamic of crisis (Bowles, Gordon and Weisskopf 1983, 1986).

We elaborate this Marxian "supply-side" interpretation in this essay, arguing that the stagflation of the last nearly two decades in the United States can best be viewed as a general crisis of the legitimacy and stability of the postwar capitalist system, one which

*The authors' names are ordered randomly.

challenged not only the wealth of capital but its power as well. We build upon two complementary perspectives to elaborate this argument.

The first pursues the general approach to economic crisis which we call "challenges to capitalist control" (Weisskopf, Bowles and Gordon 1985). The second erects a bridge between this general approach and more concrete analysis of specific crises: We argue that understanding capitalist crisis requires building on general institutional concepts such as class and the capitalist mode of production to construct more historically-specific institutional concepts encompassed by the concept of a "social structure of accumulation" (SSA).[2] Combining these two perspectives, we believe, provides the most promising foundation for understanding the recent crisis of the United States economy.

We develop our argument here in four principal sections. We first elaborate the two cornerstones of our interpretation and use them for an analysis of the rise and demise of the postwar capitalist system in the United States. We then apply this analysis to a review of the contradictions of conservative economics in the 1980s. We further compare this kind of interpretation with alternative macroeconomic perspectives. We close with a brief review of the political implications of this analysis.

CHALLENGES TO CAPITALIST CONTROL OF THE SOCIAL STRUCTURE OF ACCUMULATION

Our analysis builds on an intrinsic proposition of the Marxian approach to macroeconomic dynamics. The pace of the economy is driven by the rate of capital accumulation while capital accumulation in turn is fundamentally conditioned by the level and stability of capitalist profitability. As profits go, in short, so goes the economy. In order to analyze crisis, therefore, it is essential first to determine the sources of declining profitability and then from there to trace through the connections from profitability to accumulation to economic growth.

Figure 1 expresses part of this connection, graphing the time pattern of the relationship between the rate of corporate profit and the rate of net capital accumulation from 1951 to 1985.[3] Profitability fell first after the mid-1960s and accumulation soon followed, at a lag of roughly two years. While no graph can ever establish causal linkages, the relationship depicted in Figure 1 is certainly consistent with general Marxian expectations.

Power and Profits

We turn then to the corporate rate of profit as a fundamental underlying determinant of accumulation and growth. Profits are not a payment to a scarce productive input.[4] Nor can the capitalist class as a whole make profits from its dealings with itself, for as Marx stressed in the early chapters of *Capital* (1967), the buying and selling of commodities is a zero-sum game for the buyers and sellers as a group: the gains of those who buy cheap and sell dear are necessarily offset by the losses of those who sell cheap and buy dear.

Profits are made possible, rather, by the power of the capitalist class over other economic actors which it confronts. Capitalists can indeed make profits through their economic relations with economic actors outside the capitalist class. When workers sell their labor power cheap and buy their wage goods dear, for example, a profit may be made. The capitalist class of a given economy may make profits, similarly, through its

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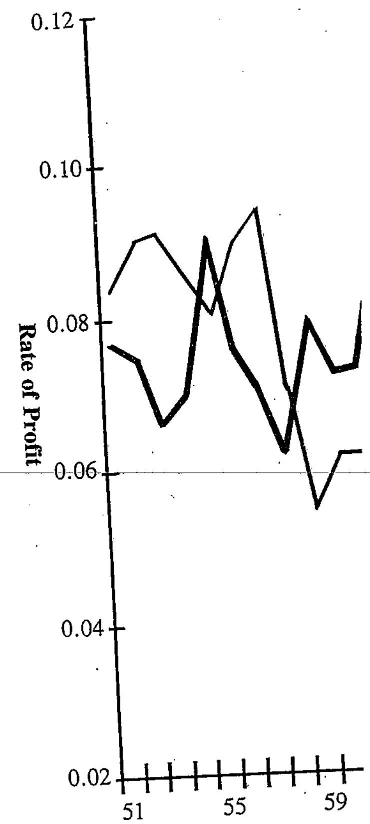

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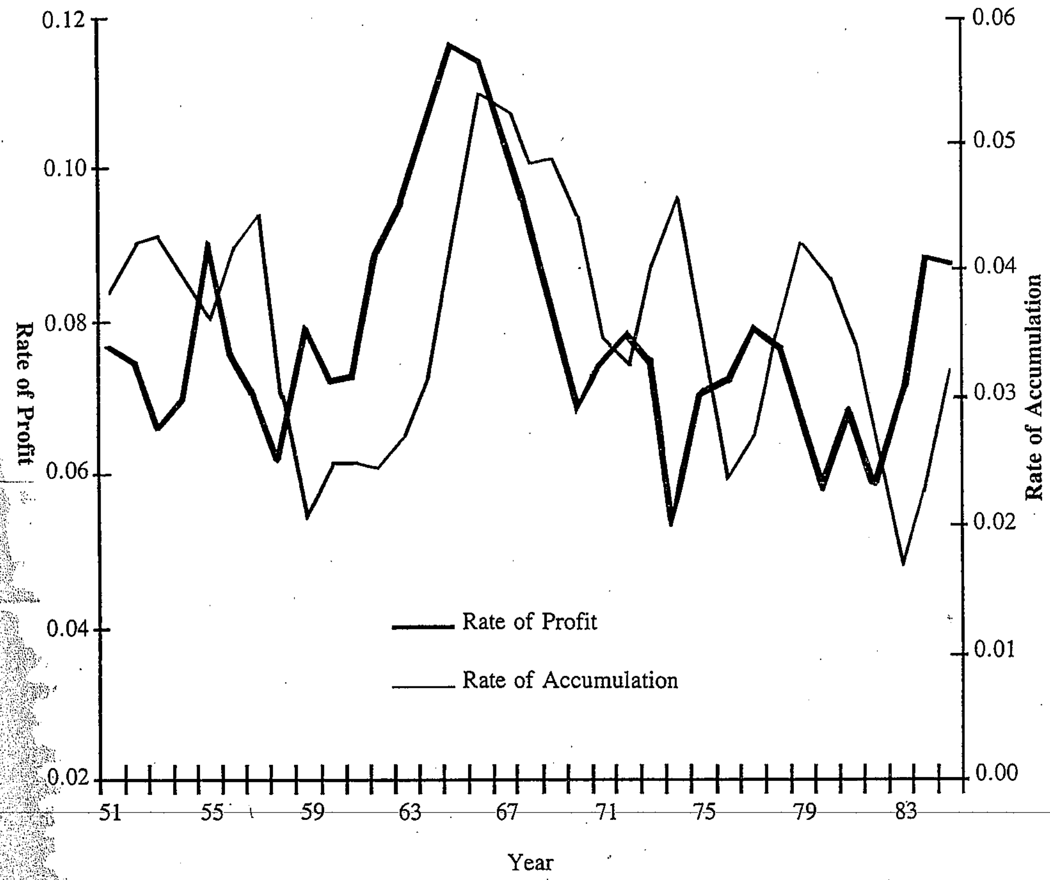

exchange with other buyers and sellers outside that economy, given favorable prices of exports and imports.

While some of the relationships between a national capitalist class and other economic actors are market exchanges, many are not. First of all, the worker who sells labor power cheap and buys wage goods dear will not contribute to profits unless the worker's employer also succeeds in getting the worker to work hard and well enough to produce a net output greater than the wage. And while the extraction of labor from the worker is influenced by wages, prices, and other market phenomena, it is proximately effected through an authority relationship at the workplace itself. Second, and similarly, while the international terms of trade depend on import and export prices, the determination of these prices involves the exercise of diplomatic, military and other pressures quite different in character from marketplace exchange.

A third relationship affecting the profit rate — that between the capitalist class and the state — also reflects the exercise of power: The alignment of forces in the formation of state policy may affect the after-tax profit rate directly through the effective tax rate on profits, and it may affect the profit rate as well through state policies affecting the supply of labor, the rate of capacity utilization, the direction of technical change, and many aspects of capital's relations with workers and with foreign buyers and sellers.

It may be illuminating, then, to consider profits as the spoils of a three-front war fought by capital in its dealings with workers, foreign buyers and sellers, and the state (or indirectly with the citizenry). Capital's ability to fight effectively on these three fronts will further be affected by the intensity of inter-capitalist competition, determining how tightly and cohesively its troops are organized for battle. The military analogies are deliberate; they are intended to stress the essentially political nature of the profit rate and the strategic nature of the social interactions involved in its determination.

The fundamentally political character of the determination of profits does not imply, however, that we cannot analyze the impact of this kind of political struggle with some precision. It is possible to identify quite clearly the channels through which the condition of this three-front war is likely to have direct impact on an aggregate measure of corporate profitability.

These channels can be highlighted with a relatively simple model of a capitalist economy in an open world system (Bowles, Gordon and Weisskopf 1986:137–9 and Appendix A). In such a model, it can be shown that the economy-wide average net after-tax profit rate of capitalists depends on six specific factors:

1. The *real wage rate*, or the cost of hiring an hour of labor power as a productive input: the lower the real wage, the higher the rate of profit.
2. The *intensity of labor,* or the amount of labor services extracted from an hour of labor power purchased for production: the higher the intensity of labor, the higher the profitability.
3. The *terms of trade*, or the relative cost (in domestic products) of acquiring foreign-produced inputs for production: the more favorable the terms of trade, the lower will be the costs of acquiring foreign-produced inputs and the higher will be the rate of profit.
4. The *input-output coefficients of production*, or the amount of output which can be produced with one unit of any given factor input: the larger the amount of output which can be produced with given inputs, the higher will be the rate of profit.
5. The *rate of capacity utilization*, or the ratio of productive capital used in production to the stock of capital actually owned: the higher the utilization rate, the less waste of owned capital will take place and the higher will be the rate of profit.
6. The *profit tax rate*, or the percentage of before-tax profits which are taxed by the government: the higher this tax rate, the lower will be profitability.

It is reasonably obvious, given our introductory remarks, that at least the first three factors and the last in this list clearly and directly reflect power relationships. The greater the power of capital over labor, other things being equal, the lower will be the real wage rate and/or the higher will be the intensity of labor. The more dominating domestic capital is in its relationships with foreign buyers and sellers, similarly, the more favorable will be the terms of trade. And the more effectively capital wages battle with citizens through the state, finally, the lower will be the corporate tax rate.

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It takes only a little more investigation to ascertain the power relationships which might affect the other items in the list. Power relationships between capital and the citizenry, mediated by the state, may profoundly affect the kinds of subsidies and R&D which influence the direction of technical change and therefore the input-output coefficients. State relations will also directly determine the corporate-profit tax rate. And it may be the case, as we have argued for the specific case of the United States after World War II, that power relations between capital and labor are likely to affect the level of utilization in the aggregate economy.

The intensity of inter-capitalist rivalry, influenced by the relative power of capitalist firms, is also likely to affect several of the profit-rate determinants: for example, moderated competition will make it easier for firms to pass on rising costs through higher prices, thus lowering real wages, while the global market power of United States firms will help sustain relatively favorable terms of trade.

If one could adequately chart the course of the power relationships affecting these variables, in short, one could make considerable progress toward understanding the sources of movements in the rate of profit and the pace of capital accumulation. Where to turn in that mapping exercise?[5]

Social Structures of Accumulation

We believe that the perspective afforded by the concept of a social structure of accumulation (SSA) provides an invaluable guide for this kind of analytic project.

The SSA model begins with the basic Marxian proposition outlined above: Profitability conditions the pace of accumulation which in turn substantially regulates the rate of economic growth.

But the accumulation of capital through capitalist production cannot be analyzed as if it takes place either in a vacuum or in chaos. Capitalists cannot and will not invest in production unless they are able to make reasonably determinate calculations about their expected rate of return. And the socioeconomic environment external to the individual firm will profoundly affect those expectations. *Without a stable and favorable external environment*, capitalist investment in production will not proceed.

The specific set of institutions which make up this external environment has been called the "social structure of accumulation." Its specific elements include the institutions whose structure and stability are necessary for capital accumulation to take place, such as the state of labor-management relations and the stability of the financial system. It is at least theoretically plausible that such an SSA will alternatively stimulate and constrain the pace of capital accumulation. If the constituent institutions of the social structure of accumulation are favorable to capital and working smoothly without challenge, capitalists are likely to feel enthusiastic and secure about the prospects for investing in the expansion of productive capacity. But if the social structure of accumulation begins to become shaky, if class conflict or past capital accumulation have pressed the institutions to their limits and they begin to lose their legitimacy, capitalists will be more disposed to put their money to other uses — consumption, financial investments, or assets abroad.

It is not simply a problem, moreover, of achieving a sufficiently high and stable rate of profit. For the profit rate can be *too* high. If wage income is relatively low and capitalists do not spend enough out of their relatively high profits on investment, there may not be enough effective demand to absorb the products of capitalist production. If inventories of unsold goods then pile up, capitalists will eventually cut back on production unless the state can continuously make up the difference.

The functions of the constituent institutions of a given social structure of accumulation, in short, are both daunting and fundamental. Their health and vitality substantially determine *both* whether or not capitalists expect the profit rate to settle stably at a sufficiently attractive level to justify investment over alternative uses *and* whether or not the right balance is achieved between profitability and effective demand.

There is good reason, moreover, for believing that capitalism has experienced successive *stages* in its institutional capacity to achieve these daunting tasks.[6] The history of at least the United States economy over the past 150 years suggests a clear historical rhythm of alternating expansion and contraction over roughly 50-year swings. In each of the two previous instances of crisis — in the 1890s and the 1930s — basic changes in economic and political institutions proved necessary before a return to prosperity was possible. The paths to this economic restructuring were tangled with thickets of competing political interests, and it took years to clear the way for a decisive political resolution. This path-clearing appears to have required, in the more formal language of this section, the construction of a new SSA before accumulation could revive.

The Crisis of the Postwar SSA in the United States

We have elsewhere provided a historical account of the rise and demise of the postwar social structure of accumulation in the United States, describing its initial consolidation and its ultimate erosion under increasingly effective challenges to capitalist control (Bowles, Gordon and Weisskopf 1983: Chap. 4).

Our basic argument is that the postwar SSA rested upon four principal buttresses of United States capitalist power, each of which involved a particular set of institutionalized power relations allowing United States corporations to achieve predominant control over potential challengers in the immediate postwar period. We refer to these four institutional axes as the *capital-labor accord, Pax Americana*, the *capital-citizen accord*, and the *moderation of inter-capitalist rivalry*, respectively.[7] They remained relatively solid into the 1960s, but the success of the SSA in promoting economic growth proved ultimately contradictory. Workers, foreign suppliers of raw materials, and domestic citizens began to question and to resist the previously established structures of power. The growing strength of other capitalist nations, as well as the success of anti-capitalist movements in the Third World, further challenged the power of United States capital. Increased competition both domestically and internationally reduced capitalists' ability to protect their profitability from these incursions. The postwar capitalist system consequently began to erode; corporate capitalists found it increasingly difficult to control the terms of their interaction with the other major actors on the economic scene.

We briefly review each of these four power axes on its own institutional terms.

The Capital-Labor Accord. The first set of institutions governed relations between capital and labor in the United States after the late 1940s. This accord involved an explicit and implicit *quid pro quo*, assuring management control over enterprise decision-making (with union submission and cooperation) in exchange for the promise to workers of real compensation rising along with labor productivity, improved working conditions, and greater job security — in short, a share in capitalist prosperity. The accord also consolidated the relative advantages of the unionized over the non-unionized part of the workforce and contributed to an intensification of labor segmentation along job, gender, and racial lines (Gordon, Edwards and Reich 1982). The accord was administered, on capital's side, by an increasingly bureaucratic and hierarchical system of labor management. This system of bureaucratic control was backed up by an expanding army of management cadres devoted to supervision and discipline.

The capital-labor accord worked for a while. But it appears that the effectiveness of corporate control over labor was beginning to decline after the mid-1960s. Workers were not staging a political revolt against the capitalist system, to be sure, but, from the mid-1960s through at least the mid-1970s, many were becoming increasingly restive with bureaucratic control and many were beginning to experience — and undoubtedly to appreciate — much greater protection from insistent corporate discipline as the cost to workers of losing their jobs began to decline.[8] Corporate profits were bound to suffer.

Pax Americana. The second buttress of United States capitalist power was the postwar structure of international economic institutions and political relations that assured the United States a dominant role in the world capitalist economy. *Pax Americana* provided favorable terms for United States capitalists in their interaction with foreign suppliers of both wage goods and intermediate goods and with foreign buyers of United States produced goods. Equally important, the increasingly open world economy gave United States capital the mobility it needed to make its threats of plant closings credible in bargaining with United States workers and citizens over wages, working conditions and tax rates.

Though the United States-dominated world system conferred significant advantages on United States capital in its relations with United States workers, it affected profitability in the domestic economy most directly through its impact on the terms on which the United States could obtain goods and services from abroad. This is reflected in the United States terms of trade. The better this relative price, the more favorable the terms on which United States firms can obtain imported inputs. As one might have expected from the extent of United States power for the first couple of decades after World War II, the United States terms of trade improved substantially for a time.

But after roughly the mid-1960s, United States corporations faced growing international challenges:

— Challenges from the Third World began to undermine United States international domination in the mid-1960s. The failure of the 1961 Bay of Pigs invasion and especially the long and humiliating failure to stem the revolutionary tide in South Vietnam marked a significant and escalating erosion of the United States government's capacity to "keep the world safe" for private enterprise.

— Another significant challenge in the world economy came from exporters of raw materials, primarily in Third World nations. By the early 1970s, the economic bargaining power of some of the Third World raw-material-exporting nations increased substantially; OPEC, the cartel of oil-exporting nations, was the most visible and important example.

These international challenges combined to diminish United States international power and, with it, the ability of United States corporations to profit from their powerful leverage over foreign buyers and sellers.

The Capital-Citizen Accord. The postwar SSA also included a set of political arrangements which regulated the inherent conflict between capitalists' quest for profits and people's demands for economic security and for the social accountability of business. An expanded role for the state in providing for citizens' needs was suitably circumscribed by the capitalist principle of profitability as the ultimate criterion guiding public policy.

By the mid-1960s, support for business was now being challenged. Beginning with occupational health-and-safety campaigns, a wide variety of movements emerged to challenge the hallowed identity of private greed and public virtue. With striking speed, these movements led to new government regulations affecting traffic safety, occupational health and safety, environmental protection, consumer product safety, and nuclear power generation.

In many cases these challenges arose from a wider appreciation of the importance of values like environmental protection. But in many cases, as well, they resulted much more simply from defensive and protective reactions against the rising and increasingly serious hazards of life in the postwar regime. Faced with these spreading hazards, people had no choice but to react. United States capital was able to reap substantial advantages from the corporate-citizen accord for two decades. But the contradictions of the postwar capitalist system eventually blew up in the collective capitalist face.

The Moderation of Inter-Capitalist Rivalry. For a substantial period after World War II, United States corporations were able to enjoy the fruits of substantially attenuated inter-capitalist competition. Most strikingly, the wartime devastation of the Japanese and the leading European economies left United States capitalists in the enviable position of unrivalled kings of the mountain, able effectively to dominate corporations from other advanced capitalist countries. Perhaps equally important, the rapid pace of accumulation in the domestic economy tended to provide ample room for growth for most large United States corporations within their own industries, reducing the likelihood of inter-industry merger bids or capital entry.

After the mid-1960s, however, this comfortable cushion of moderated competition began to turn into a bed of thorns. In both the international and domestic economies, intensifying competition began substantially to reduce United States capitalists' ability to maintain stability in their own ranks and deal effectively with external challengers.

—One challenge came from the increasingly intensive competition waged by corporations in Europe and Japan. Having recovered from the devastation of World War II, these corporations were able to cut into United States corporate shares of international export markets and to provide increasingly stiff import competition in the United States.

— As growth and accumulation in the United States economy slowed, further, inter-capitalist competition intensified on the domestic terrain as well (Shepherd 1982). From the merger wave of the late 1960s through the junk bond buyouts of the 1980s, firms were forced more and more to protect their rear flanks from takeovers all the while they were fighting forward battles with workers, foreign buyers and sellers, and citizens. As domestic rates of profit plunged in many industries, as well, corporations often chose to switch rather than to fight, lifting their capital out of their home industries and seeking to penetrate others; this exposed many corporations to increased exposure to market rivalry with domestic as well as foreign invaders.

Whatever the source of the challenges, United States corporations were more and more pressed after the mid-1960s by increasingly intense inter-capitalist rivalry. Their ability to organize their own ranks for battle and to pass on through higher prices the costs of their three-front war was substantially undercut.

Basic Foundations

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Phase	Capital-Labor Accord
Boom: 1948–1966	Cost of job loss rises; Workers' resistance down
Erosion: 1966–1973	Cost of job loss plunges; Workers' resistance spreads
Stalemate: 1973–1979	Stagnant economy creates stalemate between capital and labor

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Basic Foundations

We now have in place the essential elements for an interpretation of the stagnation of the United States economy since the mid-1960s. To recapitulate, the basic argument proceeds in four steps:

1. Long-term accumulation in a capitalist economy is fundamentally profit-led. In order to understand the pace of investment and growth, one must apprehend the determinants of capitalist profitability.

2. The rate of profit in a capitalist economy is directly affected by the power relations mediating capitalists' interactions with workers, foreign buyers and sellers, and the citizenry. The battlefield conditions in this three-front war, mediated by the degree of cohesiveness within the capitalist ranks, can potentially influence all of the major factors determining the corporate rate of profit.

3. Capitalist power and the pace of accumulation are shaped in capitalist economies by the constituent institutions of a given social structure of accumulation. When those institutions are in place and stably effecting capitalist domination, capital accumulation can proceed at a vigorous pace. When the viability of those institutions begins to erode, profitability is likely to suffer and stagnation is likely to follow.

Table 1
The Rise and Demise of the Postwar Social Structure of Accumulation

Phase	Capital-Labor Accord	Pax Americana	Capital-Citizen Accord	Inter-Capitalist Rivalry
Boom: 1948–1966	Cost of job loss rises Workers' resistance down	U.S. Military dominance Terms of trade improve	Government support for accumulation; profits main state priority	Corporations insulated from domestic & foreign competition
Erosion: 1966–1973	Cost of job loss plunges Workers' resistance spreads	Military power challenged Terms of trade hold steady	Citizen movements take hold	Foreign competition & domestic mergers begin to affect corporations
Stalemate: 1973–1979	Stagnant economy creates stalemate between capital and labor	OPEC, declining $ result in sharp deterioration in U.S. terms of trade	Citizen movements effect new fetters on business	Pressure of foreign competition & domestic rivalry intensifies

4. This approach appears to apply closely to the case of the postwar capitalist system in the United States. United States corporations achieved considerable power through the construction of a new SSA after World War II, enjoying substantial leverage through their domination of the capital-labor accord, Pax Americana, and the capital-citizen accord as well as through the moderation of intercapitalist rivalry. As challenges to capitalist control developed along all four of those institutional axes in the 1960s, United States corporations watched their power erode and, consequently, their profitability decline. Table 1 provides a brief glimpse of the dynamics of SSA consolidation and erosion in the United States economy from 1948 through 1979.[9] Table 2 then summarizes the linkages flowing from the four institutional power dimensions highlighted by this historical outline to the determinants of the profit rate outlined in the first sub-section on "Power and Profits." These linkages make possible a complete analysis of the connections running from the SSA through the profit rate to accumulation and growth.[10]

Table 2
Linkages Between the Postwar SSA and Components of the Profit Rate

While there is no simple (one-to-one) correspondence between each of the dimensions of capitalist power and the determinants of the profit rate, we list here the four main dimensions of capitalist power in the postwar SSA of the United States, and the primary variables through which these power relations affected the profit rate:

Labor Accord	real wage rate, labor intensity, capacity utilization
Pax Americana	terms of trade, profit tax rate
Citizen Accord	input-output coefficients, profit tax rate, capacity utilization
Capitalist Rivalry	real wage rate, terms of trade, capacity utilization

THE CONTRADICTIONS OF CONSERVATIVE ECONOMICS

That analysis extends through the 1970s. Building on that base, we can interpret the "conservative economics" reigning during the 1980s in large part as a consistent effort to restore corporate profitability by rolling back effective challenges to United States capitalist power: by raising the cost of job loss, improving the terms of trade, more vigorously flexing United States military power, reducing the intensity of government regulation, and dramatically reducing capital's share of the total government tax burden. As any observer could easily report, and as the underlying data for our quantitative indicators of the SSA also clearly confirm, the Reagan Administration made substantial progress on all of these fronts. Did it succeed in reviving the net after-tax rate of profit?

The average net after-tax rate of profit during the business cycle from 1974 to 1979 was 5.5 percent. The average net after-tax rate of profit during the not-quite-completed business cycle from 1980 through 1985 was 5.7 percent.[11] The average rate of profit in the 1960–66 cycle, by contrast, was 8.0 percent. For all of the triumphs of business interests in Washington and throughout the economy in the 1980s, the profit rate did not significantly rebound.

This appears to pose a puzzle. Conservative economics sought to roll back challenges to capital's power and succeeded in obtaining much more favorable values for many of the indicators along our four SSA power dimensions than had earlier prevailed. And yet, actual profitability did not improve.

The basic solution to this puzzle, we believe, lies in the inherent contradictions of conservative macroeconomic policy. Conservative economics relied heavily on the monetarist policies initiated in 1979 by Paul Volcker of the Fed and intensified when the Reagan Administration came to power in 1981. These policies resulted in extremely low rates of capacity utilization during the three-year recession from 1980 to 1982. Another consequence of this policy was a highly inflated value for the dollar; the resultant improvement in the United States terms of trade was similarly contradictory, in that it reduced the competitiveness of United States products on the world market and thus exacerbated the decline in capacity utilization. In sum, conservative economics won the battle for capitalist power but had apparently not yet won the war for corporate profitability, by the mid-1980s, because of the high cost of the battlefield victories imposed by the terms of the postwar SSA.

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ALTERNATIVE EXPLANATIONS OF STAGNATION

Since other contributions to this volume elaborate a variety of alternative accounts of the stagnation of the United States economy over the past nearly two decades, we pause only briefly here to highlight some of the central differences between the account outlined in this essay and other possible explanations of the recent crisis.

Mainstream Accounts

It is common among mainstream economists to attribute the stagnation of the United States economy to a variety of "exogenous" shocks such as the oil-price jolts of 1973 and 1979 or to macroeconomic mismanagement (for presentation and critique of these views, see Bowles, Gordon and Weisskopf 1983: Chap. 3). We find, however, that these analyses are substantially incomplete and miss much of what happened in the United States economy during the rise and demise of the postwar capitalist system. Our empirical explorations suggest three principal shortcomings of conventional mainstream accounts.

— Many mainstream accounts date the crisis from the oil-price shock of 1973, but almost every salient economic indicator suggests that it began much earlier — in the mid-1960s (Bowles, Gordon and Weisskopf 1983: Chap. 2).

— Most mainstream accounts of productivity growth, profitability, and investment ignore the sorts of social determinations of macroeconomic performance which our emphasis on "challenges to capital" highlights. In a series of detailed comparisons, we find that attention to these social determinations uniformly improves our ability to explain movements in productivity growth, profitability and investment (in addition to previously cited work, see also Weisskopf, Bowles and Gordon 1983).

— Far from resulting from "exogenous shocks," the crisis of the United States economy appears to flow from the internal evolution of the postwar capitalist system. In each of our econometric investigations, we find no evidence of "structural change" in the models, suggesting that the same factors which help account for the boom also help account for the subsequent crisis.

An "Over-Investment" Crisis?

Some Marxist economists stress the importance of capitalists' collectively "irrational" decisions to "over-invest," leading to a decline in profitability from a rising organic composition of capital (see the essay in this volume by David Laibman). It is certainly true that the ratio of capital to output increased fairly steadily during the period of crisis and that, in this nominal respect, this focus on capitalist "over-investment" is potentially fruitful.

But our own analyses suggest that this kind of explanation of the postwar crisis is incomplete at best: Once one accounts for the influence of the SSA power dimensions on corporate profitability, there is no further explanatory power to be gained from adding a term to account for movements in the capital intensity of production. It does not appear, in other words, that this "over-investment" perspective offers much additional empirical insight beyond that afforded by the approach outlined here.[12]

An "Underconsumption" Crisis?

Some Marxist and post-Keynesian economists highlight problems of "underconsumption" or "effective demand" as underlying causes of the crisis of the United States economy (see the essays in this volume by John Bellamy Foster and by Edward J. Nell). These interpretations would suggest that the rate of growth of demand turned down before the rate of profit and the pace of investment, not after their inflection points; and, according to at least some accounts, that these problems of underconsumption resulted from a shift in the income distribution toward capital as a result of capital's being "too strong." We find two main problems with the empirical usefulness of this approach (see Weisskopf, Bowles and Gordon 1985:266–272):

— All of the available evidence seems to suggest that the rate of profit declined substantially *before* the downturn in the rate of growth of output or consumption.

— Despite many common assertions about the rising power of monopolies, we find that there was neither an increase in monopolistic competition nor a decisive shift in the income distribution away from labor toward capital just before or during the initial years of the crisis. Indeed, as we noted earlier, available evidence suggests that there was an intensification of inter-capitalist competition during precisely this period.

POLITICAL IMPLICATIONS

Capitalism is a contradictory system of power relationships that evolves in large measure through the continuing but changing forms of class struggle, international conflict and other tensions to which its structure gives rise.

To analyze the latest capitalist economic crisis we have built upon a theoretical approach to the analysis of a capitalist system which focuses on its imbedded power relations and its historically contingent and inherently contradictory social structure of accumulation. We have argued that the initial decline of corporate profitability in the postwar period can be explained by a corresponding decline in the power of the United States capitalist class to deal with growing challenges from the domestic working class, the domestic citizenry, and foreign suppliers and buyers — challenges which themselves arose out of the dynamics of the postwar boom. In the last decade, in a political climate influenced by high levels of unemployment, United States capital has scored major political victories over all those groups whose challenges form the heart of our analysis of the origins of the economic crisis. But the challengers were turned back at a very high cost in economic stagnation associated with the major recessions of 1974–75 and 1980–82. Profitability has remained, on average, at a relatively low level. We attribute this outcome to the inherent contradictions of conservative macroeconomic policy under the prevailing postwar SSA.

To achieve a true victory on behalf of capital, conservative economics would have needed to alter the underlying relationship between the rate of capacity utilization and the SSA power dimensions. If it were possible to enhance capitalist power without having to depress capacity utilization to such a significant extent, this would permit much higher levels of profitability to be attained over an extended period of time and would amount eventually to a genuine alteration of the postwar SSA.

Is there any evidence that this has yet been accomplished? At the time of completion of this article, it is still too early to draw a final conclusion on the consequences of conservative economics. First, because the current business cycle did not reach its peak in 1985, our comparison of 1974–79 with 1980–85 is subject to revision. Second, and ultimately more important, it is possible that a trade-off between capacity utilization and

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some of the SSA variables more favorable to capital will prove to have emerged after another few years. The verdict will become far clearer when we see how heavy a dose of macroeconomic restraint will be required to keep the latest economic recovery from eroding the significant gains that capital had achieved through the monetarist "cold bath" of the early 1980s.

From a broader historical perspective, periods of economic crisis have always been periods of political conflict and institutional innovation. The nature of the political conflicts and the likely outcomes can differ radically, however, depending not only on the political organization of the contending parties and the ideological environment, but also on the nature of the economic crisis itself.

If, for example, the crisis results from the capitalist class being too strong and the demand for goods and services being insufficient as a result, a politically attractive opportunity arises for the left. In this case the short-run and the long-run interests of the working class appear to coincide: a weakening of the capitalist class will help both to end the crisis and also to increase the economic strength with which the working class can carry on the long struggle for a socialist alternative. Thus the Keynesian and social democratic policies which emerged as the dominant programs for the labor movement following the Great Depression promised to redistribute income to labor, farmers, and other non-capitalist groups and thereby stimulate demand for goods and services and end the crisis.

No such happy coincidence of short-term material interests and longer-term radical objectives is associated with the type of supply-side crisis which results initially when the capitalist class is "too weak." The most obvious exit from the crisis is that pointed to by the right: strengthen the capitalist class, restore profits and rekindle the capitalist accumulation process. In the absence of basic institutional change, any success the left may have in obstructing the restoration of unchallenged capitalist hegemony, or in further eroding capitalist power, will merely deepen the crisis. This may perhaps lay the groundwork for a more radical change, but its immediate impact on people will be a worsening of economic distress and insecurity— hardly the kind of promise upon which mass mobilizations can build.

This does not mean, of course, that there are no options for progressive forces in the face of a supply-side crisis. But it does mean that these options must be considerably more radical than those capable of resolving a demand-side crisis. If many during the Great Depression advocated a democratic and egalitarian resolution of the crisis through a redistribution of *purchasing power*, as a means of achieving a higher level of demand, an exit from today's crisis favorable to progressive forces requires the redistribution of *power itself*.

What, then, are the political implications of our analysis? If we are right that profits are central to the vitality of the United States economy as long as it remains capitalist, and that it was rising challenges from non-capitalist forces that caused the initial decline in profitability and the high costs of keeping people down that perpetuated the profitability problem, how can we confront those who contend that economic recovery hinges on capital's ability to control its challengers firmly and efficiently? How can we derive a progressive political strategy — a strategy designed to foster more popular control, more democracy, more socialism — from an analysis that seems to blame progressive political forces for the economic crisis?

Two brief observations may be in order.

First, the fact that successful challenges initiated the crisis in no way assures that beating back the challenges will be an effective way to boost profits and restore the growth process. This point has been well illustrated by the high cost of United States capital's recent efforts to regain the upper hand after their setbacks in the initial stages of the current economic crisis. It is still quite unclear whether capital has yet amassed the political and economic leverage to accomplish what would amount to the construction of a new capitalist social structure of accumulation.

Second, and more important, there is a flaw in the reasoning that would seek to repress challengers as a basis for economic recovery: it presumes that there is no alternative to capitalism, and that the best we can hope for is therefore the restoration of a more efficient system of capitalist exploitation. But we believe that there *is* a socialist democratic alternative — one that offers both an alternative strategy and an alternative vision of the future.

Our analysis points to a political program based on a critique of the legitimacy of capitalist power and to an economic program highlighting the gains to be made from reducing the waste inherent in the imposition and maintenance of capitalist control. By showing that exploitation is fundamentally costly, and that its reduction is compatible with — if not necessary for — a return to economic security and opportunity, we can potentially undermine a major source of capitalist legitimacy and strength. By highlighting the problem of political power, moreover, our analysis points to popular control in both the state and the economy — that is, socialist democracy — as a progressive political alternative. Rather than legitimizing a repressive *status quo*, our theory of the crisis and declining profitability seems to us to dramatize the effectiveness of popular power and therefore to underscore its potential for social transformation.

NOTES

1. We place these terms in quotation marks to suggest their relativity: ''too strong'' and ''too weak'' refer solely to the conditions for the smooth reproduction of the capitalist accumulation process, not to some other standard of political or moral desirability or behavior.
2. The concept of the social structure of accumulation was introduced in David M. Gordon (1978), and further developed and applied in Gordon (1980); and Gordon, Richard Edwards and Michael Reich (1982). This perspective is very closely related to a framework developed more or less independently in France known as the ''regulation approach''; this approach builds upon the concept of a ''regime of accumulation'' or, alternatively, a ''system of regulation.'' See, for example, Michel Aglietta (1979) and Alain Lipietz (1986).
3. The ''rate of accumulation'' is defined for the purposes of this discussion as the rate of change of the net capital stock; this measure is thus equivalent to the ratio of net investment to the lagged (net) capital stock and is highly correlated with the ratio of net investment to GNP.
4. Contrary to the distributional theory of neoclassical economics, neither profits nor wages represents the return to a scarce factor of production; capital is not a productive input (though machines are), while labor is not scarce but rather almost always in excess supply.
5. It may be useful to conclude this section on ''challenges to capitalist control'' by relating it to a more traditional formulation within Marxian economics called ''profit squeeze'' theories of crisis (see the introduction to this section by Jim Devine for a review of this traditional account.) The two explanations share in common the perspective that crisis may occur because capitalists are ''too weak.'' Ours expands upon the traditional formulation in three respects: First, we stress that

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power relationships may affect more components of the rate of profit than the profit share, as the list in this section indicates. Second, we place a greater stress on the centrality of power relationships in the determination of the basic conditions of profitability, an emphasis which has been somewhat more implicit in traditional profit-squeeze accounts. Third, we recognize that attempts to restore capitalist power — for example, through restrictive monetary and fiscal policy — may replenish the reserve army of labor but fail to restore the profit rate as a result of their negative effects on capacity utilization.

6. This involves a more formal argument about the connection between the SSA and long economic swings. See the references in footnote 2 above.

7. In our earlier work we had neglected the dimension here labeled the "moderation of inter-capitalist rivalry"; we introduce it in this essay in order to help overcome some inadequacies in earlier formulations.

We should also stress for the purposes of clarification that we consider these four particular institutional axes to apply concretely *only* to the postwar United States; we do not intend a more general argument that any social structure of accumulation at any time can most usefully be characterized by this specific institutional configuration.

8. This analysis builds heavily on the concept of the cost of job loss. For details on definition and measurement, see the essay by Juliet B. Schor in this volume.

9. This table is based on quantitative indicators defined and presented in Bowles, Gordon and Weisskopf (1986: Section 4) and some subsequent unpublished empirical work.

10. In other work we have traced the last link in this connection — from profitability to accumulation and growth. For that analysis we refer to that component of profitability which reflects the influence of underlying SSA institutional factors as the "underlying rate of profit"; we hypothesize that investment flows are especially sensitive to movements in this component of profitability. See Gordon, Weisskopf and Bowles (1986).

11. At the time of writing we could not compute a precise estimate of the rate of profit for 1986 because of the unavailability of data on the net capital stock. A rough estimate of the rate of profit for 1986 suggests that it declined from its 1985 level (from .073 to roughly .072). As a result, although another year of "recovery" improved the cycle average over that for 1980–85, there was still insufficient improvement to warrant the conclusion that corporate profitability had recovered. Based on our very approximate estimate for 1986, the estimated cycle average for 1980–86 was 6.0 percent; the difference between this value and the mean for 1974–79 was not statistically significant.

12. This exercise is presented in an unpublished appendix to Bowles, Gordon and Weisskopf (1986), available from the authors. The reverse conclusion does not hold: if the variables representing our approach are added to an equation modelling the "over-investment" perspective, the explanatory power of that equation increases substantially.