

This article was downloaded by: [Wolff, Richard D.]

On: 29 June 2009

Access details: Access Details: [subscription number 912789715]

Publisher Routledge

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Socialism and Democracy

Publication details, including instructions for authors and subscription information:

<http://www.informaworld.com/smpp/title-content=t713727607>

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Online Publication Date: 01 July 2009

To cite this Article Wolff, Rick(2009)'Economic Crisis from a Socialist Perspective',Socialism and Democracy,23:2,3 — 20

To link to this Article: DOI: 10.1080/08854300902904667

URL: <http://dx.doi.org/10.1080/08854300902904667>

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Economic Crisis from a Socialist Perspective

Rick Wolff

The crisis in capitalism today is not, or not yet, a crisis of capitalism. Whether it evolves into a crisis of capitalism – when the system itself is in question for significant numbers of people – depends on three factors. The first is the extent of the economic meltdown now underway, and the mass suffering, resentment, and opposition it provokes. The second factor comprises the policies undertaken to contain and reverse the crisis, their effects, and their public perception. Finally, how socialists assess the crisis in capitalism and intervene in it will also help determine whether it becomes a crisis of capitalism.

Appreciating the difference between crises in and of capitalism is, we shall argue here, crucial for socialist strategy. Crises within capitalism are mostly endured; sometimes they are also managed by changing capitalism's form. For example, in the US today, a serious crisis in a "private" sort of capitalism (relatively less state intervention and control of productive property and markets) provokes a change to a "state" form (relatively more state intervention). Similarly, when crises overtake relatively state-interventionist forms of capitalism (as happened in the US, the UK, and many less developed economies in the 1970s), "solutions" often entail change to more private forms of capitalism. Socialists thus need to distinguish their critique of capitalism, *per se*, from the repeated critiques of each form of capitalism (especially during their crises) by partisans of the other. Otherwise they risk being absorbed – usually by partisans of state interventionist capitalism, but sometimes by the partisans of the private form of capitalism. Then their distinctive contribution, a critique of capitalism that rejects both its forms, is lost and the prospects for a socialist transformation reduced.

The oscillations of capitalism

Capitalism has always and everywhere oscillated between two phases. One phase is characterized by relatively little state intervention;

Socialism and Democracy, Vol.23, No.2, July 2009, pp.3–20

ISSN 0885-4300 print/ISSN 1745-2635 online

DOI: 10.1080/08854300902904667

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laissez-faire, neo-liberal, private capitalist, and conservative have been names for this phase. We will here use the term *private*. Examples of the private phase have varied from moderate – when considerable state intervention was retained, as in much of continental Europe today – to more extreme, when the state was sharply reduced in economic importance via extensive privatization, large tax cuts, deregulation, etc., as in the Anglo-American version of the last 20 years.

The other phase exhibits the state intervening relatively more via taxation, regulations, controls and more or less outright ownership and operation of enterprises. Keynesian, welfare-state, state-capitalist, and social democratic have been the adjectives commonly applied to examples of this phase. We will here use the term *state*. Moderate examples of the state phase include the New Deal in the US and social democracies in Western Europe from 1945 to 1990. Extreme examples of the state phase include state ownership and operation of significant portions of the society's productive enterprises.¹

In the history of capitalism, each phase has typically lasted for one or a few decades. It survives several business cycles and various other problems by more or less marginal adjustments. Eventually, however, these cycles and problems converge to reach levels that exceed the capacity of marginal adjustments to overcome. A crisis in that phase has arrived sufficient to prompt social movement for a transition to the other phase. Sooner or later, such a transition succeeds. Then, after one or a few decades, the entire process is repeated in the reverse direction.

Transitions in both directions are usually marked by very similar criticisms and demands. Thus, for example, in the US depression after 1929, many critics accused the then crisis-ridden private capitalism of economic waste and inefficiency, deepening social inequalities, and undermining democracy by causing falling employment, production, and income. These critics demanded, in effect, a transition

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1. The state can co-own enterprises with private owners or own enterprises itself. The reason we refer to such systems as *state-capitalist* is because the structure of production – the *system* in which workers produce surpluses appropriated and distributed by others (non-workers) – has not changed. The property arrangement can shift from private to state without the organization of the surplus in production changing. That is, the appropriators of the workers' surplus can shift from private individuals elected by shareholders to state officials chosen by a party or state administration. In that case, we consider the shift as one from private to state capitalism, notwithstanding the twentieth century habit of referring to such shifts as “socialism” or “communism.” This argument can be found in exhaustive detail with special reference to the history of the USSR in Resnick and Wolff (2002).

to state capitalism on the grounds that it could and would improve economic performance, reduce inequalities and enhance democracy. They succeeded in accomplishing that transition.

Similarly, in the 1970s when severe stagflation aggravated state capitalism's mounting problems and brought on a crisis in the US, its critics demanded nothing less than a transition to a private capitalism. They denounced the waste and inefficiency of state capitalism, blamed it for workers' decreasing real incomes, and attacked its "statism" as anti-democratic. They too succeeded in making the transition they sought.

Private and state are different forms of capitalism because in both of them the organization of production inside enterprises retains a common feature. A mass of workers generates a surplus appropriated and distributed socially by other people. In the private form, those other people are typically boards of directors chosen by and accountable to shareholders. In the state form, those other people may be accountable to both shareholders and state officials or, in extreme state forms, just to state officials – or they get absorbed into the state apparatus such that state officials become directors and shareholders disappear. Oscillations between private and state forms of capitalism do not end the exclusion of workers from appropriating and distributing the surpluses they produce; those functions remain in the hands of others.

Today's crisis of a private capitalism

By 2005, private capitalism in the US had survived three decades of business cycles and economic problems by making marginal adjustments to its regime of tax cuts, deregulation of business, and privatization of enterprises. From Reagan through George W. Bush, private capitalism thrived. It did this in part by ending the long US tradition (1820–1970) of rising real wages.² Deregulation of markets, subsidies to business, and pro-business political and cultural policies (especially promoting the kind of globalization that broadened profit opportunities for US businesses) also helped to raise labor productivity across those decades. *In effect, what capitalists paid US wage laborers per*

2. From 1820 to 1970, average real wages in the US rose *every decade*. The US working class came to deeply expect and presume that each generation would live better than the previous one. Individuals and groups (such as waves of immigrants) increasingly measured their self-worth and their achievements in terms of the rising standards of consumption they enjoyed. Starting in the mid-1970s, this long history of rising real wages ended; real wage stagnation has been the reality ever since.

hour remained roughly constant, while the value of their output per labor hour rose. This meant that profits rose sharply relative to wages. The inequalities of wealth and income in the US grew accordingly.³

Labor and capital reacted very differently to the private phase of US capitalism after 1975. Workers were “in shock” as they tried to cope with the historic end of the rising real wages they had come to expect and presume. Deeply committed psychologically to rising levels of consumption, they found two major ways to pay for rising consumption even though their wages no longer rose. First, they did more labor. More members of families worked more hours to bring in more income despite the stagnation of real wages. By 2004, average annual hours per worker in the US were 1,817 whereas in Germany they were 1,446, a socially consequential difference of over 25 per cent.⁴

Since their additional hours of labor did not yield sufficient extra net income, workers found a second way to raise household consumption. They borrowed more money (via mortgages and credit cards) than any national working class had ever done before. In 1984, according to the Federal Reserve, US household debt was 60 per cent of annual disposable income; by 2007 it had grown to 120 per cent of annual disposable income.⁵ By contrast, in 1929, at the peak of the bubble that burst into the Great Depression, household debt was 30 per cent of disposable income.

In effect, since the mid-1970s, employers provided workers with increasing loans instead of increasing wages. This substitution had obvious benefits for employers in generating an unprecedented boom for them and for the stock market in the 1980s and 1990s. The substitution of loans for wage increases had equally obvious costs for employees.

Today, the US working class suffers both physical exhaustion from labor and psychological anxiety from unsustainable debt burdens. Likewise, over recent decades, it became clear that labor unions and the Democratic Party could not or would not prevent the loss of

3. A particularly effective statistical study that documents the remarkable profit boom and how it increased income and wealth inequalities is available in Willis and Wroblewski (2007).

4. Even in the UK, the 2004 average annual hours per worker was 1,619. The hours worked data are compiled by the OECD and the Conference Board: see analyses of the Groningen Growth and Development Center (www.ggdc.net) and also Baker (2007: 24–25).

5. The statistics of and comments on the debt conditions of US workers are usefully summarized in the *New York Times* of July 20, 2008, and can also be found at nytimes.com/debt.

worker protections and benefits instituted during the previous state phase of US capitalism (the New Deal social programs of Roosevelt, Kennedy-Johnson additions, etc.). Feeling abandoned or betrayed, millions of workers turned away from participation or even interest in unions, the Democratic Party, and politics or community generally (Putnam 2000). They refocused on work, income, consumption and the immediate connections of family. Some replaced the union and political activism of their parents and grandparents by fundamentalist religious zeal.

On the most profound level, the US working class has not yet come to terms with the basic change in its economic position inside US capitalism.⁶ For a while, the Bush administration successfully diverted working class anger at its changed position onto “terrorists.” However, as the war on terrorism did nothing to slow, let alone reverse, working-class decline, it lost its effectiveness as a diversion. So began the Bush administration’s descent into deep unpopularity and Obama’s promotion as an agent of “change and hope.” Meanwhile, the malaise of the US working class worsens. Stagnant wages, rising unemployment, unsustainable debt, and volatile energy and food prices all combine to administer “shock therapy” to the US working class. There is no end in sight to its falling standard of living.

For capital, the private phase of US capitalism begun in the 1970s was the realization of a dream. The collapse of the last private phase in the Great Depression of the 1930s had required and enabled a transition to a state capitalism (the New Deal) that had imposed all sorts of regulations, taxes, and limits on capitalist enterprises’ boards of directors. From the day each such regulation, tax, and limit was imposed, business sought to evade its impacts. Over the longer run, the goal of business was to roll back the New Deal as soon as it was politic to do so (as soon as the US working class would be unwilling or unable to stop it). From the 1930s to the 1970s, the business strategy was to evade business-constraining state interventions as much as possible while building the political strength and ideological support to end those interventions. The 1970s crisis of a state capitalism allowed business to shift from evading to abolishing them. That was the content of the “Reagan revolution” begun in 1980. Together with wage stagnation and globalization, profitability then commenced an historic upward surge.

6. However, slowly but steadily, academic and even journalistic commentators increasingly recognize at least the surface dimensions of the changed position of the working class: see, for example, Leicht and Fitzgerald (2007).

Common stocks, as claims upon rapidly growing business profits, took off and enjoyed a 20-year stock market rise to 2000. As always, the soaring stock market enabled and promoted increasingly frenzied speculation (the “dot.com bubble”), and growing corruption (Enron, Tyco, etc.) followed. And once again, a capitalist boom drove the prices of common stocks far beyond what even high and rising profits warranted. The stock market boom became a bubble that burst. Suddenly, those who had bought stocks expecting them to rise yet again became more interested in selling them before they fell further. The ride up precipitated the ride down. In the early months of 2000, the long US stock market boom collapsed, and it has never yet recovered.

The 2000 stock market crash brought huge losses to investors in US stock markets. Those losses began to spread, via the usual market linkages of a capitalist system, to produce recession in the economy. The big business community turned to the state for help. No transition to state capitalism was wanted, but big business demanded that the Republican administration prevent a serious recession. The Federal Reserve responded with the largest interest rate reduction in US history and flooded the economy with more money. The goal was to enable US businesses and households to borrow (and hopefully spend) vast sums to keep the stock-market crash from generating a bad recession. In short, a serious downturn in a private phase of US capitalism provoked an adjustment designed to avoid an economic crisis and especially a transition to state capitalism.

For a few years, roughly 2001 to 2006, this marginal adjustment worked to keep the recession short and shallow. Vast borrowing occurred but flowed mostly into real estate to finance residential and commercial expansion. Real estate prices consequently rose and all the industries servicing or supplying real estate (finance, construction, furniture production, appliances, housing infrastructure, property insurance, and so on) boomed. The major US banks and brokerages gained huge new profits from packaging all kinds of loans (mortgages, auto loans, business loans, student loans, and credit card debt especially) into new “asset backed securities” or ABS. They very profitably marketed these ABS, often with inaccurately low risk assessments, around the world. As usual, this capitalist boom prompted speculators who bought real estate and resold it in a few months at higher prices; it also brought in corruption (providing false risk assessments to ABS, fraudulently promoting loans to borrowers who could not grasp or satisfy their actual terms, etc.). Rising real estate prices increased the value of real estate as collateral for more loans in a dizzy upward spiral of debt: the real estate boom became the real estate bubble.

The real estate boom and bubble of 2001–2006 temporarily offset the bursting of the stock market bubble in 2000. It postponed the crisis feared in 2001 for a few more years. Once the real-estate bubble burst in 2007, a full crisis of private capitalism arrived. The revelations that ABS included billions that borrowers could never repay changed real estate expansion into contraction; prices stopped rising and began a decline still underway. Immense losses at the big banks and brokerages undermined their ability and willingness to lend even to creditworthy customers. The end of the real estate boom led to the collapse of the industries that had depended on it and, by reducing credit generally, threatened the entire global economy.

No new boom in yet another sector of US capitalism is available now to offset the bursting of the real estate bubble. The long-developing economic contradictions of the private phase of US capitalism since the 1970s – exhausted workers with unsustainable debts, banks and brokerages with unrecoverable loans, a government without marginal adjustments (conventional “policy tools”) adequate to unprecedented magnitudes of economic problems – yielded crisis. Domestic economic suffering is now rising fast; all indices of foreclosures, bankruptcies, unemployment, etc. are increasing as of mid-2009. Foreign businesses, individuals and governments are reacting self-protectively to the evident weakness and decline of private capitalism in the US.

The question now is which of three basic economic scenarios will actually happen. The first possibility is that the current private phase of capitalism will find yet another way to postpone oscillation to a state phase. The second possibility is that Obama will be forced to arrange a new New Deal, to make a transition to a state capitalism.⁷ The third possibility is that the US working class accepts neither the first scenario nor the second, and moves instead against both forms of capitalism and for an alternative.

One strategy: Avoid transition to a state capitalism

As before in crisis moments, when oscillations between forms of capitalism become possible, devotees of the existing form do their utmost to prevent a transition to the other form. Helping today's supporters of private capitalism in the US will be 30 years of social indoctrination in the superiority of private over state forms

7. Such a state form of capitalism could take rightist or even fascist forms as well as the more leftist forms associated with Roosevelt's New Deal or European social democracy. Since the latter are more likely in this conjuncture, the paper concentrates on that.

of capitalism. Politicians, journalists, academics, and many others moved sharply to the right politically over the last quarter-century. They often lost touch with the basic ideas and vocabularies to think and articulate effective criticisms of private capitalism (McCarty, Poole, and Rosenthal 2008). Most business organizations and the political forces they fund, Democrat as well as Republican, will battle the re-imposition of regulations, taxes, and other limits on their activities. Finally, because the small left wing of the Democratic Party, the trade unions and most of the broader US left are now all organizationally weaker than at any time in the last century, they have correspondingly less social influence.

Moreover, in the US today, the largest banks, brokerages, and much of the rest of the financial industry are leading and shaping the massive state intervention to “solve” the latest and gravest crisis of contemporary private capitalism. Treasury Secretary Paulson, formerly of Goldman Sachs Investment Bank, and Federal Reserve Chairman Ben Bernanke, formerly an academic economist celebrating private capitalism, directed the Bush administration program with help from New York Federal Reserve President Geithner. As Obama’s choice to replace Paulson, Geithner continues the common project with Bernanke: to manage a carefully constrained state intervention that, they hope, will be just enough to overcome the crisis without needing a transition to welfare state capitalism.

The Federal Reserve organized interventions to liquidate the giant Bear Stearns while allowing banks and now also other corporations to borrow vast sums of money against the collateral of dubious ABS. The US Treasury first designed a tax rebate to stimulate spending and then a costly rescue plan for the two major semi-governmental mortgage lenders in the US (Fannie Mae and Freddie Mac) whose stocks had lost most of their value during the summer of 2008. Worsening economic conditions across the second half of 2008 exceeded even the most pessimistic analysts’ forecasts. This forced further state interventions hastily organized by top neoliberal financial leaders with leading politicians from both parties. The crisis in US private capitalism in 2009 is already so serious that a transition to some form of state capitalism seems more likely with each passing day.

Another major factor pushing in that direction is the risk that US workers will not much longer tolerate the rising social costs imposed on them by the crisis. Further declines in standards of living, further widening of income and wealth inequality, and further erosion of political and civil rights may be blamed on private capitalism. A transition to a state capitalism could then become a political tsunami.

Another strategy: Make a transition to state capitalism

The small left wing of the Democratic party, the trade union leadership, and loose collections of left-of-center academics and professionals are the organized supports for a strategy of transition to state capitalism as the solution for the economic crisis. They aim, on the one hand, to mobilize the mass of working people to support such a transition. They also seek to ally with those business leaders who defect from the ranks of those seeking to preserve the private form of capitalism. Historically, business leaders increasingly accommodate transitions to state forms of capitalism when they are persuaded that a crisis of private capitalism might otherwise provoke a transition out of capitalism altogether.⁸

Remarkably, the supporters of a transition to state capitalism include many who call themselves socialists and communists of various kinds. After a private capitalism displaced state capitalism in the 1970s, US politics and culture shifted rightward. The former anti-capitalism of those socialists and communists often changed into anti-private capitalism. Explicitly or implicitly, their interests and theoretical commitments shifted from Marx to Keynes.⁹ Their opposition to private capitalism favors instead state interventions to manage capitalism. They echo earlier left advocates of state capitalism with their support for state-provided welfare and demand for the state to be democratically accountable. Given this group's current political weakness, their success depends more on the deepening crisis – which cannot be contained by a centrist transition to state capitalism – than on their own efforts.

The biggest general problem for all strategies of transition to a state form of capitalism is widespread skepticism in the working class generally and among its militants in particular. The skeptics react to the prospect of fighting for a return to state capitalism dismissively: “we’ve been there and done that.” Their reasoning is worth elaborating here. During private capitalism’s last great crisis in the US, the Great

8. John Manley is engaged in a detailed historical study of why what he terms “welfare state” phases have emerged from crises of neoliberal phases of capitalism and how that emergence varies across countries. For the US, see Manley (2003) and (2008).

9. This shift is evident in many papers presented at conferences or published in journals, in books published, and so on (the Political Economy Research Institute at the University of Massachusetts provides many examples and especially in the work of its director, Robert Pollin). The critical focus is redirected onto *private* capitalism (often designated as *neoliberalism*). The discourse shifts so that, in the words of Richard Westra’s 2004 survey of such literature devoted to one major debate, “there has been a failure of all camps to adequately problematize *capitalism*.”

Depression, mass opposition took two forms: one movement for transition to state capitalism and another movement to abolish capitalism altogether. Inside trade unions, left Democratic Party circles, socialist and communist parties, some professional associations, and many households, classic debates between reformists and revolutionaries were renewed and became intense.

The struggle between reformism and revolution in the 1930s yielded total victory for reformism. Most labor unions, the large mass base of the Democratic party, most professional associations, and majorities in the socialist and communist parties agreed, albeit for varying reasons, that transition to a state form of capitalism was the necessary and/or achievable goal. Epic mass struggles and a decade-long depression persuaded a sizeable segment of US business to support Franklin D. Roosevelt's (FDR) reluctant adoption of a state-capitalist strategy (after his earlier strategy, seeking to preserve a private capitalism, had failed).

Thus social security, unemployment insurance, mass state employment of workers, significant regulations of business practices, and so on, were institutionalized. Many previous freedoms of business enterprise were constricted. The New Deal imposed serious costs on business and established or strengthened many supports for workers and labor unions. The business community made clear its distaste for these developments even as it split over the need to support FDR. That split enabled FDR to make the transition to a state capitalism, but only by also accommodating business distaste.

The key accommodation was to preserve and protect the commanding position of the board of directors in private corporations. Largely self-selecting and self-perpetuating, these boards had previously consigned the owners of shares to a usually secondary role receiving dividends (legally at the board's discretion), playing the stock markets, and voting for the boards in annual formalities effectively controlled by the boards.¹⁰ Nearly all key corporate decisions were made by the board of directors (or initiated by them and ratified by usually passive shareowners). Corporate boards of directors were thus the capitalists whose functions, freedoms, and business performances were most immediately constrained by the New Deal transition to a state phase of capitalism.

10. In the mainstream business literature of the US and beyond, the separation of real decision-making control (boards of directors) from ownership (shareholders) had been popularized since the work of Berle and Means (1932). For the left, Marx's discussion of "joint stock" corporations in Volume 3 of *Capital* had made many of the same observations but had drawn different conclusions.

Yet they retained their positions atop the corporate pyramid. Boards of directors appropriated and distributed the surplus value produced by workers (or, in business parlance, the profits that remain after subtracting the total costs for labor and materials from the total revenues received when products are sold). To succeed, boards also had the greatest incentive to evade state constraints when and where they could. They likewise had the greatest incentive to reduce or remove those constraints as soon as it seemed safe, politically, to do so. State capitalism also left the boards of directors in the position of first receivers of the surplus/profits and thus with great influence over how that surplus/profit was distributed: to whom and for what purposes. *State capitalism thus left in place boards of directors with the resources as well as the incentives to evade and undo the constraints imposed upon them. Indeed, those boards could and eventually did end US state capitalism in a transition back to private capitalism.*

Before but especially after the state-capitalist reforms were established in the 1930s, corporate boards of directors struggled against them. Evasion was the goal until the 1970s, although evasion was punctuated by important moments when reforms were reduced or removed (as in the 1947 Taft-Hartley Act). During those years, the more conservative boards of directors also undertook many projects to undermine the social hegemony of state capitalism. Think tanks, right-wing publications and politicians, ideologues in academia, etc. were lavishly funded to attack state in favor of private capitalism (Burch 1997). When US state capitalism hit a serious crisis in the early 1970s, its weakened hold on the public's loyalty and the reduced strength and cohesion of its organized supporters enabled transition back to a private phase. Then, instead of evading the reforms, the dominant motif of business demands became their removal. The Republicans (Reagan, Bush and Bush) met those demands more quickly and the Democrats (Clinton) did it less quickly.

Reformism, it turned out, had a fatal flaw. The New Deal had positioned and provisioned its own worst enemies: corporate capitalist boards of directors. The reforms of the 1930s thus failed to secure even their own survival. Moreover, parallel reforms enacted in many other state capitalist economies across the twentieth century proved similarly incapable of securing theirs. For example, European social democracies experienced erosions of their state capitalisms and transitions to private capitalisms as well, albeit more slowly than in the US.

Given this recent history of state capitalist failures to survive, responding to the current crisis of a private phase of capitalism with another transition to state capitalism provokes skepticism.

The question is: can an alternative program emerge? Can we respond to the current crisis of private capitalism with a strategy that neither preserves by marginally adjusting a private capitalism nor pursues a transition to a fundamentally insecure state capitalism?

A new strategy of "reform plus"

Repeated left debates over reform vs revolution have badly polarized the issue. Instead of reform "or" revolution, let us consider "reform plus," given the history of past state capitalisms. To become secure, state capitalist reforms must be supplemented by something more, an additional reform that dislodges capitalist boards of directors from a position they have everywhere used against those reforms.

As the savviest reformers and revolutionaries always understood, posing the issue as reform or revolution is a mistake. Revolution should rather be grasped as that supplement to reform which is indispensable to securing such reforms as can be won. A new left strategy would enlarge its pursuit of classic state capitalist reforms to include transforming enterprises' internal organizations of production. The strategic goal would be for workers inside enterprises to displace their boards of directors and become their own collective boards of directors.

The anti-democratic split between a tiny minority inside the enterprise that receives and distributes the surplus/profits that are produced by the vast majority of workers is the problem to be addressed. By democratizing enterprises, this new strategy means to transform their internal structures such that the producers of the surplus/profits become identical to the persons who receive and socially distribute the surplus/profits. For that to happen, each worker's job description must be supplemented to include participation in a collective board of directors comprised exclusively of such workers. The skills involved in receiving and distributing surpluses/profits can be learned by workers as they were by the former non-worker directors. As people once dethroned kings in favor of universal suffrage, workers can abolish boards of directors in favor of receiving and distributing the surpluses/profits themselves.

The oscillations between private and state phases of capitalism occurred because workers enabled or at least tolerated them. In so doing, they implicitly accepted what remained constant across both phases, namely the internal organization of enterprises into the mass of workers and the minority of appropriators/distributors of the surplus/profits. Yet that constancy helped to provoke the crises in

each phase and the oscillations between them. That constancy has always cemented the subordination of workers, politically and culturally as well as economically. By ending that constancy, the democratization of enterprises would enhance the prospects for democracy across society.

Historically, efforts to make enterprises socially and democratically responsible to the communities and societies in which they function failed for the same reason that state capitalist reforms failed. Those groups functioning as enterprises' boards of directors, always small minorities within their societies, had the incentives and the resources to "shape public opinion" or buy the politicians or both. Capitalism thus kept political democracy more formal than substantial, because it was not integrated socially with a counterpart in economic democracy. The skills, attitudes, self-esteem, and habits of mind and feeling that workers would acquire if they comprised their enterprises' boards of directors would greatly enhance their participation in a democratic politics socially.

Many economic advantages would also accrue from such a transformation of enterprises. Workers who were also their own surplus/profit appropriators would be more personally invested in the quality of their work than workers alienated from appropriating and distributing the fruits of their labor. Workers, as the vast majority in every enterprise and in the surrounding communities, will share common interests with those communities more than capitalist directors (who often use their wealth to escape those communities). Thus, for example, air, water, ground and other pollution by the enterprise will become less likely and day-care provision in enterprises for workers' children will become more likely. After all, workers – being also local residents – have to live with these consequences. Workers who are also collective directors of their enterprises will very differently count and evaluate the costs and benefits of all enterprise activities, changes, and services to their surrounding communities than did capitalist boards of directors. Their different calculations of "efficiency" will yield correspondingly different decisions shaping workers' jobs and communities.

Of course, democratized enterprises would still have contradictions and conflicts with one another and with the political institutions (local, regional, national, and international) of residential communities. The complex relationships among democratized enterprises and between them and community-based organizations would still have to be negotiated. The claims of work and the rest of life would still have to be accommodated and adjusted with struggle and

compromise. But those relationships, claims, struggles, and compromises would be negotiated differently. Instead of small corporate boards of directors wielding the immense social power of the surplus/profits gathered into their hands to serve their interests, the workers collectively would wield it to serve theirs. The narrow economic concerns of a small social minority would give way to the concerns of the large mass of workers who are, of course, intimately integrated with and part of the social majority. No longer would the capitalist boards of directors have the incentives and the disproportionate means to shape political processes (local, regional, national and international) to secure their situations. No longer would the absence of economic democracy inside enterprises systemically undermine political democracy outside them.

Beginnings for the “reform plus” strategy

The contradictions of capitalism offer us partial yet useful examples of the democratization of enterprise advocated by this “reform plus” agenda. One of these, recurring in California for decades, can illustrate our argument.¹¹ In the Silicon Valley on the peninsula below San Francisco, groups of computer software engineers in large capitalist corporations (IBM, Cisco, Oracle, and so on) quit their jobs. They leave well-paid positions as hired workers. They explain that they detest being told what to work on and how to work by supervisors and executives. They reject work in suits and ties, in arid corporate buildings, etc. They insist that such conditions stifle their creativity, their work productivity, and their physical and mental well-being.

After quitting, small groups often gather with their laptop computers in someone’s garage. They form a new enterprise with rules of strict equality. All decisions about what to work on and how to work are made collectively. All proceeds from the sale of software they create are received and distributed collectively (partly to themselves as individual incomes). The net revenues that remain after individual incomes and all other costs are subtracted – the surplus/profits – are distributed by means of collective decisions with each engineer having an equal voice. Each engineer’s job description in such

11. From the immense literature on Silicon Valley enterprises, the following have proved especially useful in constructing this portion of the text: Edwards (1999); Freiburger and Swaine (1984); and Saxenian (1994); for an example outside the US, see Ackroyd (1995).

enterprises has two parts: (1) Monday through Thursday work on software in ways collectively determined, and (2) on Friday participate in collective decision-making regarding what to produce, how to produce, and how to distribute the enterprise's revenues.

In such enterprises, workers have become their own collective board of directors and have abolished the exploitative worker-capitalist relation. In Marxian terms, they have replaced their enterprise's capitalist class structure with a communitarian (or communist) structure. Because Marxian ideas are largely excluded from circulating and being taught in the US, these engineers and the journalists and academics who describe them cannot use Marxian class terms. Instead, they refer to "innovative entrepreneurship" to explain the many breakthroughs in software and computer technology achieved by such non-capitalist (in Marxian terms) enterprises. The working conditions of software engineers are no doubt unique, as are the concrete conditions of all other kinds of work, but many share the capitalist division between workers and boards of directors that this new socialist strategy would target for change.

Thus, this new socialist strategy might recognize and celebrate such basic transitions out of capitalist enterprises as germs of the broader social change it seeks.¹² On that basis, it could demand and pursue the political, cultural, and economic conditions – including state assistance – needed for such non-capitalist enterprises to function successfully.¹³ Such a new socialist strategy could show that achievement of its goals would provide all workers with a new freedom to choose between working in capitalist or in such non-capitalist enterprises. Achievement of such socialist goals would likewise provide all consumers with new choices between commodities made by traditional capitalist enterprises and those emerging from democratized ones. State assistance (financing, subsidies, etc.) would be justified to

12. For example, it would show why computer technology breakthroughs, regularly misattributed to a dynamic capitalism, actually came from workers who had rejected the capitalist organization of enterprises and established something radically different.

13. The model here would be the various programs currently operated by the US government to provide such conditions of existence for "small businesses," "minority-owned businesses," and so on. That is, the socialist strategy would be to focus especially on providing the conditions for non-capitalist, collectively run businesses. In a word, the network of supports and subsidies provided to regular capitalist enterprises throughout US history would be changed to also and specifically accommodate non-capitalist enterprises for reasons developed in the text. This would make it much easier for non-capitalist firms to avoid transitions back into capitalist firms when they grow or encounter other problems in their evolution.

enable non-capitalist enterprises to grow and compete with capitalist enterprises to see what mix of them a democratic society would choose.

Conclusion

Socialists now confront an historic opportunity. Repeated oscillations between private and state capitalism have exposed the latter's fatal vulnerability. As the current crisis deepens, many workers and militants are ready and inclined to support changes that go beyond another swing to a state form of capitalism, changes that would overcome the latter's proven vulnerability. They may thus respond to the argument that the internal structures of enterprises must be transformed in the ways discussed above. They may be unresponsive to a movement that restricts itself to work for transition to another state form of capitalism.

Over the last 150 years, socialism as a movement was successful in two basic ways. First, it taught everyone that capitalism could be made more supportive of people's needs, more humane, and more socially progressive than the devotees of private capitalism had thought possible, let alone desirable. In the process it produced powerful and enduring criticisms of private forms of capitalism. Second, struggles for socialism helped to generate valuable, concrete experiments in what could not advance beyond state forms of capitalism: the New Deal in the US, the USSR, western European social democracies, and many countries in Asia, Latin American, and Africa especially after World War 2.¹⁴ Many socialists, then and to this day, have believed that some of what we here call state forms of capitalism were socialisms.

The argument here disagrees in its focus on what was similar across both private and state forms: the enduring division between workers and those who functioned as boards of directors. This

14. My co-author, Stephen A. Resnick, and I devoted a book to demonstrating in detail why Soviet industry never moved beyond "state capitalism" – Lenin's term (2002). The USSR's extremely difficult concrete conditions after 1917 and the conceptual legacy of socialist thought and practice informing Soviet economic development combined to prevent movement beyond state capitalism. The book also shows how and why economic change arrested at the state capitalist stage worked eventually to undermine many of the other progressive social changes achieved across Soviet history. To avoid that happening again in present and future socialist movements motivates the argument here. Of course, every concrete socialist movement will have to determine, according to its conditions and assessments, when and how to incorporate the lesson that socialist change must include radical democratic transformation inside enterprises.

argument entails no disrespect for socialist struggles and achievements in the USSR after 1917, China after 1949 and through the heroic struggles later in Cuba, Venezuela, Bolivia and elsewhere. They all made historic breakthroughs in challenging capitalism as a system, in bringing all sorts of social progress to their people, and in teaching all socialists crucial lessons drawn from their successes and failures. They could not know what those lessons were before their practice taught them. The particular lesson analyzed and extended here identifies another urgently needed breakthrough, a profoundly democratic transformation inside enterprises. The point is to overcome the division between workers and directors not only in private forms of capitalism but also in state forms. The purpose in doing so is, first, to secure progressive state capitalist reforms and, second, to advance beyond them toward socialism's classical goals of equality, democracy, and social justice.

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