Political choice and the multiple "logics" of capital

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It has become an accepted truth on the political left that the conservative economic policies of Ronald Reagan are a necessary response to the needs of the capitalist system.[1] In this argument, cuts in civilian spending and reductions in the living standards of working people and the poor conform to "the logic of capital" in a period of crisis. This position grows directly out of the theory developed in the 1970s that capitalist states are torn between the conflicting imperatives of legitimation and accumulation.[2] According to this theory, when legitimation pressures force the state to go "too far" in granting concessions to subordinate groups, the accumulation process is impaired. Hence, only conservative policies that roll back these excessive concessions can re-establish the conditions for a renewal of sustained growth without high inflation and with adequate levels of profit.

This essay argues that this familiar position is wrong because it is based on incorrect assumptions about the relation between politics and economics. Moreover, I will argue that this theoretical error has been politically consequential because it has diminished the political left's capacity to resist Reaganism and to develop counter-programs of its own.

The nature of the economic

The legitimation versus accumulation argument is very much a mirror image of conservative arguments about interference with free markets.[3] With growing intensity during the 1970s and early 1980s, conservative economists and publicists advanced the argument that problems of high inflation and slowing productivity growth were the inevitable consequence of excessive growth of government – too much regulation, tax

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rates pegged so high as to discourage initiative, and the proliferation of social programs that insulated individuals from the discipline of the labor market. They insisted that deregulation, tax cuts, and the reduction of social spending were necessary to restore the integrity of the free market, so that the conditions for stable economic growth could be restored.[4]

In fact, analysts on the left frequently cited these conservative arguments as evidence for their claim that capitalism and democracy were in conflict.[5] They suggested that if the various forms of state regulation and state social welfare spending that had been won through popular struggles did actually interfere with the "logic of capitalism," then this would constitute proof of the necessity and desirability of a transition to socialism. For adherents of this position, a transition to socialism represented the only way to preserve the gains that had come through democratic struggles within capitalism.

Yet the persuasiveness of both leftist and rightist arguments that posited a conflict between democracy and state action on the one hand and the logic of the economy on the other depended on developments in the world economy. After all, it had been the conventional wisdom for the previous twenty years that the "mixed economy" – a combination of private ownership and state intervention – was the optimal institutional form for achieving economic efficiency and social welfare. It took a series of international economic shocks to undermine this conventional wisdom.

In the 1970s with growing international economic competition, the demise of the Bretton Woods international monetary order, and OPEC's oil price rises, American citizens and politicians were suddenly confronted with the reality of international economic interdependence. The scholarly community reflected this shift by rediscovering the constraints placed on national societies by the discipline of the world economy. During the 1970s, American academics elaborated both "world system theory" and "international political economy," both of which had at their core the analysis of the pressures placed on national societies by the world economy.

The international economy that American academics rediscovered had changed from the self-regulating gold standard of the nineteenth century, but the international currency markets continued to operate as constraints on national-policy makers. If, for example, a particular country were following expansionary policies when those around it were contracting, it would likely face a balance of payments crisis and severe downward pressure on its currency. Moreover, citizens in country after country were told during the 1970s by politicians and business leaders that they could not afford various types of social-policy measures because of their potential damage to the country's international competitive position in a context of increased conflicts over markets. And in periods of economic contraction, such as 1974–1975 and 1980–1983, existing redistributive policies came under attack on the grounds that they prevented the readjustments that were necessary for improved performance in world markets.[6]

These pressures were highlighted by the efforts of the Mitterrand government in France to go against the tide of the world economy in the early 1980s. The French Socialist government pursued redistributive and expansionary policies while the rest of the major economies were still in recession. The results were higher rates of inflation and mounting balance of payments difficulties for France. The currency markets forced a series of devaluations of the franc and ultimately the Mitterrand government was forced to reverse many of its policies and pursue a program of austerity.

These experiences provided persuasive support for the idea of a fundamental conflict between government policies designed to increase legitimation and the logic of capitalist accumulation. The evidence appeared overwhelming that in the context of a highly competitive capitalist world economy, there exist strict limits to the types of governmental policies that are possible in any particular country. Moreover, as competition mounts within that world economy, there are powerful pressures to reduce the level of taxes and social welfare in any particular country toward the lowest international common denominator.

To be sure, leftist and free-market theorists use different concepts to describe the tension between politics and the logic of the economy. Where one would discuss "the logic of accumulation," the other would refer to "the logic of the market." Yet the difference in language conceals an analytic similarity. The two sets of theorists share two central ideas in common. The first is a rejection of optimistic, Keynesian ideas about the mixed economy in favor of the view that there is no "free lunch" – efforts to improve social welfare through government action interfere with either the logic of the market or the imperatives of accumulation.

The second common idea is that there is such a thing as an economy that is autonomous and that has a single logic. This assumption, which can be called the economistic fallacy, was sharply critiqued in a book published more than forty years ago, *The Great Transformation*. In that book, Karl Polanyi challenged the idea that the economy is autonomous and obeys a single logic. While there has been increased interest in Polanyi's work in recent years, this core argument of his is worth elaborating at some length because his position has still not been assimilated by economic analysts of either the right or the left.

Polanyi develops his argument about the autonomy of the economy by directly challenging economic liberalism's account of the evolution of capitalism. Adam Smith and others argued that capitalism evolved out of an innate human desire to truck and barter. While archaic social institutions had placed limits on the market, a process began in the late Middle Ages through which the market gained increasing strength and autonomy, until political institutions finally evolved that maximized market freedom. As one would expect, this history rests on the idea of an autonomous economy that needs only to be given its freedom; the process is one of natural evolution from restrictions on the human desire to trade to a society organized around that desire.

In contrast, Polanyi highlights the unnaturalness and discontinuity in the historical changes that gave rise to capitalism. The traditional account asserts that the growth of both local and international trade in the late Middle Ages resulted naturally in the development of integrated national markets. But Polanyi insists that both local and international trade could flourish indefinitely without the creation of integrated national markets. Under mercantilism, local and international markets were subordinated to political control, so there was no natural dynamic leading to integrated markets.

Polanyi emphasizes instead the importance of political intervention for the rise of modern capitalism. The emergence of national markets was not the result of spontaneous evolution but of the deliberate political interventions of the Crown.[8] Later on, the development of a market economy also depended on action by the state. The particular example that he analyzed most extensively was the role of the English Poor Law Reform in creating a modern labor market. He described in detail the consequences of the Speenhamland Act – a system of welfare relief instituted in 1795 by rural squires to maintain order in the countryside. By providing relief in supplement to wages, the Act had the effect of lowering wages and productivity in the countryside, while also discouraging migration to the urban areas. Hence, Speenhamland became a significant obstacle to the full development of capitalism. Only the imposition of the Poor Law Reform created the mobile and compelled labor force that allowed industrial capitalism to flourish.[9]

In the analysis of Speenhamland, Polanyi rejects the view that welfare policies are external or supplementary to the economy; rather, he sees them as fundamentally constitutive of the market economy. The emphasis on the importance of Crown policies in creating national markets or on the centrality of welfare policies for creating labor markets is aimed at demonstrating that the economy is not an autonomous entity but that it has always been profoundly shaped by state action.

As to the logic of the economy, Polanyi's analysis is more implicit than explicit. Polanyi did insist that the nineteenth-century ideal of a self-regulating market was utopian, in the sense of being unachievable. He argued that if markets were left to themselves, they would quickly destroy human society and the natural environment. In pursuit of short-term gains, entrepreneurs would exploit the labor force so brutally that it would not be able to reproduce itself, they would devastate the environment, and they would destroy the trust necessary for a system of contracts to survive. While longer-term considerations might lead individual capitalists to oppose such actions, the pressures of a competitive market would quickly force even the most enlightened either to engage in such destructive practices or to risk bankruptcy. The only alternative is the imposition of regulations by the state that would place legal limits binding on all entrepreneurs.[10] For Polanyi, the classical example of such regulations were the Factory Acts that were passed very soon after the Poor Law Reform.[11] The Factory Acts were the first step of what Polanyi terms the protective counter-movement – the movement to preserve human society from the devastation caused by the self-regulating market.

The implicit argument is that the behaviors of economic actors do not – by themselves – aggregate into a whole that is either rational or sustainable, and it is, therefore, only state action that assures a reasonable outcome. One might say that the economy has a logic that is shaped by individual pursuit of profits, but it is a semantic error to assume that this logic produces a rational or coherent outcome at the aggregate level. For example, individual employers struggle to expand output while limiting wage increases, but the result is an expansion in output without sufficient demand and the economy slips into severe depression. Only state action can redirect these economic patterns into a coherent whole.

It must be stressed that this type of argument is not the same as classical Marxist formulations. While Marx stresses the irrationality of capitalism and its tendency towards periodic crises, he emphasizes the purifying nature of those crises, reflecting his fundamental respect for the capitalist economy's capacity to regulate itself. Even in the discussion in *Capital*[12] of the importance of the Factory Acts in placing a limit on the working day and forcing employers to shift towards technological innovation, he fails to address this critical state intervention in theoretical terms. In brief, Marx was a product of his time in perceiving economic logic as aggregating into a coherent – albeit irrational – whole without the need for state action.[13]

Recognition that economic logics by themselves do not aggregate into coherent wholes deepens the importance of the insight that the economy is never fully autonomous. It suggests that what we generally call "the economy" is always the product of a combination of state action and the logic of individual or institutional economic actors. It follows, as well, that crises or dysfunctions in "the economy" cannot be traced solely to interference with economic logics, because those economic logics have never – by themselves – produced a coherently functioning whole. Rather, one would expect to find one root of economic crises in the particular fit between economic logics and state action. In brief, instead of assuming, as does the conservative wisdom, that the problem is too much state intervention, this Polanyian view suggests that the issue is the specific structure of state intervention, with the distinct possibility that more intervention might be necessary to overcome crises.

In this view, government policies – including redistributive social policies – are not superstructures built on top of some economic base. Rather, they are constitutive of the capitalist economy – without them, there would be no functioning capitalist society. Hence, it no longer makes sense to speak of a contradiction between government policies and some essential logic of accumulation because the latter is a meaningless abstraction. Some government economic policies are more effective than others, but the explanation for the less effective ones has to be sought at a more concrete level of analysis than interference with the basic logic of the economy.

Analyzing the diversity of capitalist institutional arrangements

The diversity of the conditions under which capitalism has flourished provides considerable support for this line of argument. If the economy were autonomous and had a single logic, one would expect that there would be a very narrow range of difference in governmental policies and institutional arrangements among capitalist countries. But the reality is that capitalism flourishes in such diverse settings as Social Democratic Sweden and authoritarian South Korea. The extent of government regulation, the rates of taxation, and the nature of social policies varies across different capitalist countries far more than can be explained by different levels of development or different positions within the world economy.

The explanation for this diversity is not difficult to see. Individual capitalists tend to be opportunistic and pragmatic. While they might have a tendency to prefer the minimal state of laissez-faire ideology, they also tend to adapt to the political realities that they face. If their efforts to shape the political environment to their liking are unsuccessful, they will generally figure out ways to make profits in the new circumstances. It is precisely this adaptability of capital that makes it understandable how capitalism has flourished despite the enormous growth of the state in the twentieth century.

But while private ownership of capital is consistent with a broad range of different governmental policies, any particular set of policies must have some coherence if stable growth is to be achieved. If, for example, policies that encouraged production of consumer goods were combined with policies that restricted the growth of domestic and international markets, then one would anticipate serious problems and little growth. This idea of the need for some coherence in the institutional environment in which capitalists operate is captured in the concept of "social structures of accumulation."[14]

According to Gordon et al., each long period of capitalist expansion involves a particular set of social arrangements to sustain the dynamic of capitalist accumulation. The "social structure of accumulation" comprises particular configurations of urban growth, particular types of financial and governmental mechanisms for structuring demand, and specific ways of organizing the relations between workers and employers. It is the social structures of accumulation that assure that economic logics aggregate into a coherent and sustainable whole. As long as we remember that there is not one unique social structure of accumulation at a given moment, but multiple possibilities, then this conceptualization reinforces the Polanyian idea that one cannot simply separate out economic development from the political-economic context that makes it possible.

If, for example, we consider the experience of the 1930s Depression in the United States, it becomes clear that a host of government policies laid the basis for a new period of capitalist expansion after World War II. The combination of social insurance programs and the extensive Federal role in subsidizing suburbanization played a key role in supporting aggregate demand. Similarly, social insurance provisions and the recognition of industrial unions created the conditions for a relatively successful period of labor management relations in basic industry.

That the specific social structures of accumulation that were put in place in the 1930s and 1940s ultimately came to grief in the 1960s and 1970s is not evidence that there was too much interference in the free market. Rather, social structures of accumulation are always time-limited in their effectiveness. As with the development of organisms, there is a process of growth and decay shaped by several factors. Particular patterns of social and economic development will face a law of diminishing returns – as, for example, when suburban development becomes increasingly problematic because available empty land is so far from the central city. And, over an extended period of time, people will also become dissatisfied with some of the institutional arrangements that are part of particular social structures of accumulation. Industrial employees might grow restive with particular ways of organizing the workplace or a feminist movement might emerge that challenges the established place of women in the society. Finally, some of the positive synergies that occurred during the phase of expansion can turn negative under changing historical circumstances, as when a structure of accumulation that relied heavily on cheap energy faces systematic oil price rises.[15] Through these dynamics, particular social structures of accumulation become dysfunctional – they produce slower growth and more political-economic difficulties. The combination of vested interests and a general resistance to change makes it unlikely that decaying social structures of accumulation will be effectively reformed. Usually, dramatic political-economic deterioration is necessary before forces are mobilized to establish new social structures of accumulation.

In short, the political-economic difficulties that both leftists and rightists have identified as a product of the conflict between state intervention and the logic of the economy can better be understood as the result of decaying social structures of accumulation. This latter diagnosis leads to very different prescriptions. Whereas the conventional view sees the necessity of a reduction in the government's role in the economy, and particularly a sharp reduction in its efforts to redistribute income, a focus on decaying social structures of accumulation suggests that an expanded role of the state, and particularly an increased role of the state in redistributing income to the less well off, could be part of the new social structures of accumulation. Whereas redistributive social policies were central to the last period of expansion because of the tendency of the society's capacity to produce to outstrip market-generated demand, it seems logical to suggest that they could be even more central to new social structures of accumulation in a period when computerization has the potential to expand output far faster than employment.[16]

The international dimension

However, any argument that stresses the multiplicity of possibilities for organizing particular capitalist societies must deal with the issue of the world economy. As was noted earlier, the rediscovery of the ways in which the international economy constrains national choices played a key role in the revival of the economistic fallacy. These constraints have been seen as part of the fundamental economic structure of capitalism; according to this view, they cannot be altered without significant costs in reduced efficiency. I argue to the contrary that these constraints are actually political and ideological; they have little to do with efficiency and they can be altered without significant efficiency costs.

The pressures of the world economy fall into two categories – the impact of competition in international trade and the impact of international capital movements. While there are obvious interactions between these dimensions, they can be discussed separately.

The standard argument that is made about international trade is simply an extension of the argument that wage levels are critical to international competitiveness. It is argued that a country that has more generous social policies will be forced to have higher tax rates to finance these benefits. If these higher taxes fall on firms that produce products that are internationally traded, the firms will be at a competitive disadvantage in relation to firms from countries with lower taxes and less generous social policies.

One problem with this argument, as with many popular economic ideas, is that it traces out only one side of a causal sequence. The positive effects on economic efficiency of social policies are completely neglected, even though it is well known that higher levels of health, education, and general welfare are associated with higher levels of output per employee in manufacturing.[17] Sweden, for example, was able to "afford" more developed social welfare spending through most of the post-World War II period while maintaining a very strong position in international trade. The reason was that Swedish industry was able to use the high quality "human capital" in the society to produce goods that were internationally competitive by virtue of their technological sophistication and quality.

Furthermore, the experience of the United States in terms of medical care suggests that the failure of the government to take an active role in delivering social services can be even more damaging to international competitiveness. It is well known that health-care costs for employees is one of the largest expense items for American automobile firms.[18] It seems highly likely that had the United States instead created a system of national health insurance, the burden on industries in international competition would be less great than it is now.

The conventional argument also forgets that productivity gains in internationally competitive production are closely linked to overall rates of economic growth.[19] If redistributive social policies contribute to rapid economic growth in a particular country, it is possible that that country's industries will improve their international competitiveness more rapidly than firms in another country that remains bogged down in slow growth.[20]

Above all, this conventional wisdom vastly exaggerates the importance of wage costs – both direct and indirect – in determining international competitiveness. Tyson and Zysman stress the possibility that

> comparative advantage in modern mass-production sectors will hinge not on wage rates but on the operational control of complex systems that reduce per-unit labor costs substantially. In this regard, comparing Japanese labor requirements with U.S. labor requirements for production in a wide range of sectors is quite sobering. Also sobering is the fact that in technology-intensive products, the U.S. trade deficit with Japan increased from $2 billion in 1970 to $13.5 billion by the end of the 1970's.[27]

In short, in advanced economies, the international competitiveness of a country's products are influenced by many factors, including a broad range of government policies. And in the face of adversity, there are strategies to pursue for improved trade performance other than reductions in wages, benefits, and government welfare expenditures.

Arguments about capital movements tend to play a more central role in the conventional wisdom because the impact of capital movements can be much more immediate and dramatic than changes in a country's competitiveness in international trade. For example, a country that institutes generous social policies that require higher taxes on business or that imposes stricter regulations on business than its neighbors will likely experience significant capital flight. Not only will international capital be less likely to invest in such a country, but domestic capital is likely to seek safer and more lucrative opportunities abroad. In its mild form, such net capital outflows can lead to a domestic economic slowdown, a negative balance of payments, and a deterioration in the value of the country's currency. This devalued currency, in turn, means a relative reduction in the citizenry's standard of living. When capital outflows accelerate, the result can be even more serious economic turmoil that usually can force either a change of government or a change of governmental policy.

For adherents of the economistic fallacy, these consequences flow directly from the negative efficiency consequences of the original governmental actions. The increase in taxes or the increase in regulations will impose such burdens on firms that they will not be able to achieve adequate profit levels, so that they have no choice but to shift to foreign investments. It is here, also, that the trade arguments are invoked. Because it is assumed that the government moves will assure a deterioration in the international competitiveness of domestic industry, it would make little sense for a shrewd businessperson to invest there rather than abroad.

But with investments, as with trade, the actual effects of any particular set of governmental initiatives are extremely difficult to predict. Again, redistributive policies might strengthen the domestic market and create all kinds of new investment opportunities. Forms of regulation might spawn new industries, as in pollution control, and even contribute to greater consumer and business confidence. One thinks, for example, of the negative investment climate created by proximity to toxic waste dumps.

The classic example of this unpredictability were Roosevelt's New Deal reforms. While the business community was almost unanimous in its condemnation of Roosevelt's initiatives on the grounds that he was destroying the conditions for an efficient capitalist order, the reality was that the reforms created the conditions for the great post-World War II economic expansion. There was, to say the least, a large gap between what was perceived to be efficient in the short term and what was efficient over the long term.

The point, however, is that the actual effects of more generous social policies on the country's international trade and investment position are basically irrelevant. Usually domestic and international business will not wait to see whether the policies strengthen or weaken the balance of payments, they will proceed immediately as though the impact of the policies will be negative. In most circumstances, they are then able to make the prediction into a self-fulfilling prophecy. If producers have predicted that higher taxes will be inflationary, they can then prove the accuracy of this forecast by accelerating the pace of price rises. If they have warned of negative effects on the trade balance, these too can be produced by "leads and lags" in payments that are justified through the imminence of a devaluation. If business has warned of an outflow of capital and a reduction in international investment, these too can be arranged by signalling that the business climate has turned bad under the new government.

The claim, however, is that each of these prophecies is soundly based in an economic theory that emphasizes the international trade and capital constraints on domestic economic actions. The reality is that both the self-fulfilling prophecies and the economic theory must be understood for what they are – strategems in an ongoing political struggle. The business community tends to oppose redistributive social policies and higher taxes for very simple reasons. Redistributive policies can improve the bargaining power of certain sectors of the labor force with a possible negative effect on profit levels. Similarly, higher taxes appear to threaten profit levels and the income of the wealthy. For any particular firm, the impact on profits is not inevitable – it simply means that greater effort might be necessary to generate the same amount of profit. But an inconvenience for particular capitalists is not the same as impairing the logic of capitalism. The gap between system logic and short-term self-interest emerges when capitalists who are "inconvenienced" by various types of government intervention are forced to be more aggressive and imaginative in finding ways to turn a profit, thus contributing to the efficiency with which the society produces.[22]

But in opposing these types of measures, the business community uses its two complementary weapons – the self-fulfilling prophecy and the claims of economic theory. If business simply warned on the basis of theory that a particular policy would have disastrous consequences without being able to confirm its own predictions, it would not be taken seriously. Alternatively, if the business community fulfilled its own prophecies without the support of a persuasive theory that explained why those outcomes were inevitable, its maneuvers would likely be seen as obvious power plays. And there would be the opportunity to respond to such power plays in the realm of politics. In short, the special potency of economic theory is that it gives business arguments that appear to lie outside of politics and that preclude, in advance, political responses.

To be sure, even if the veil of economic ideology were stripped away, governments would be able to respond effectively to some, but not all, of the self-fulfilling prophecies. If business raises prices to fulfill a prediction of inflation, price controls could be imposed or a tax-incentive scheme could be enacted that rewarded those firms that limited their price increases. Through such measures a government could gain time to demonstrate that the actual economic effects of its policies are positive. However, if capital flight and massive disinvestment are predicted, it is difficult – in most cases – for a single government, acting alone, to respond effectively. Even if capital controls are imposed to slow the flight of domestic capital, it is fairly certain that there will be a net and sizable loss of international capital, which can represent a crippling blow to a government's prospects.

However, much depends at this point on which government is involved. If we are discussing the United States government, it is difficult to foresee conditions under which it would be unable to pursue alternative policy directions because of the pressures of flight capital. Even in a period of significant domestic reforms, the United States would still appear a safer haven for international capital than most other places in the world. In addition, the U.S. has the capacity to mobilize its allies and international institutions such as the IMF to help it resist speculative pressures against the dollar. Moreover, the U.S. has on earlier occasions successfully controlled the outflow of capital by its own international banks and multinational corporations.[23]

The real problem comes with less powerful countries who find their domestic plans foiled by international capital movements. But it is in these cases that most analysts make the mistake of assuming that the free movement of international capital is a fundamental and necessary part of a capitalist world economy. Even without returning to the age of mercantilism, it must be recalled that capitalism flourished at the domestic level through the two World Wars despite substantial controls over international capital movements. Moreover, the early plans of J. M. Keynes and Harry Dexter White for the postwar international monetary order contemplated substantial controls over international capital mobility. White, in particular, feared that the free movement of capital could doom efforts within particular countries to pursue full employment policies, so he proposed international arrangements through which other countries would agree to repatriate flight capital that left a country in violation of its domestic capital controls.[24] While these plans were not implemented, their demise reflected the political balance of forces at the time – particularly, the power of internationally oriented business in the United States – rather than the fundamental logic of the system. Moreover, despite the triumph of those forces favoring the free movement of capital, it was not until 1958 that most European countries restored the convertibility of their currencies. Hence, much of the post-war recovery of European capitalism occurred under a system of controls over the outflow of capital.

In fact, the experience of the past twenty years suggests that too much freedom for international capital movements is irrational even on capitalist terms. The huge quantities of "stateless" capital in the Eurodollar market that quickly shift from one currency to another have created turmoil in the currency markets and have repeatedly interfered with the effectiveness of national economic policies. And on numerous occasions, major countries have found it necessary to peg interest rates at excessively high rates – with the resulting slowdown in growth and increases in unemployment – simply because of the pressures of international capital markets. While it was once hoped that the shift in the 1970s from fixed exchange rates to flexible rates would make possible international monetary stability even with these massive pools of speculative capital, the experience of the past ten years has demonstrated that floating rates have not solved the problem.

Moreover, the free movement of international capital has also created significant problems of instability in international banking. During the 1970s, the international banks fell over each other making excessive loans to Third World countries creating the present debt crisis. And there is continuing fear of a spreading international financial crisis resulting from the failure of a subsidiary or offshore bank that is subject to little or no regulation by national banking authorities.

These problems have created strong pressures for increased regulation of international banking and even some establishment figures have made policy proposals designed to discourage speculative capital flows.[25] The point is that the degree to which the international economic order regulates and restricts international capital flows is itself a matter of political choice, and the efficiency arguments for complete freedom of capital movement are deeply flawed.[26] Hence, it is a political possibility that the international monetary order be reformed to limit speculative capital flows or to establish means to offset such flows.[27] Such reforms would result in a reduction in the political leverage that comes from the threat or reality of massive capital flight. Governments would then have expanded possibilities for pursuing alternative domestic policies.

In sum, the international argument has the same flaws as the domestic one – it mistakes the political preferences of an extremely powerful interest group for the fundamental logic of an economic system. In doing so, it simply reinforces the political strength of business by denying the real political choices that are available for organizing the international economic order and national political economies.

Conclusion

The issue of whether one sees the constraints on domestic freedom of action as economic or political has important practical consequences. If one accepts the position that reforms such as the expansion of social welfare actually interfere with the fundamental logic of a capitalist order, it becomes very difficult to defend those reforms from conservative attack. One can argue that over the long term the only way to protect those reforms is through a break with the capitalist system, but this does not provide much strategic guidance in the short term. On the contrary, since the left is agreeing that these reforms contribute to the problems of the economy – inflation, slow growth, unemployment – it follows that the citizenry is acting rationally when it supports the right-wing attacks on the reforms. In a context in which the immediate transition to socialism is not possible, it follows that the best way to enhance the collective welfare is by trading off the reforms for the promise of faster economic growth.

This is, I would argue, what has happened in the past decade in the United States. While one can easily exaggerate the influence of leftist ideas, the wide dissemination of the accumulation versus legitimation perspective within academia and activist circles has had the effect of persuading key groups of the futility of resisting the Reaganite attacks on the all-too-limited American welfare state. The very notion that Reagan's policies were necessary for American capitalism had the effect of disempowering those who were in a position to resist those policies.

If, on the contrary, the left had stressed that the constraints are political and that there are multiple ways to make a capitalist economy work, the possibilities for effective resistance would have been greater. Rather than perceiving Reaganite policies as reflecting some economic necessity, it would have been possible to formulate alternative policies for responding to the economic problems. With such alternative frameworks, it might then be possible to build broader political alliances while also empowering the victims of the cutbacks to fight both to protect earlier gains and to win new concessions.

Because the struggle to protect the remnants of the welfare state continues, it is not too late to break the chains of the economistic fallacy. The costs are slight and the benefits could be enormous.

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Notes

1. For an important exception, see Teresa Amott and Joel Krieger, "Thatcher and Reagan: State Theory and the 'Hyper-Capitalist' Regime," *New Political Science* 8 (Spring 1982): 9–37.
2. Key works include Jürgen Habermas, *Legitimation Crisis* (Boston: Beacon, 1975); James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's, 1973); Alan Wolfe, *The Limits of Legitimacy* (New York: Free Press, 1978); Samuel Bowles and Herbert Gintis, "The Crisis of Liberal Democratic Capitalism," *Politics & Society* 11:1 (1982): 51–93; and some of the essays included in Claus Offe, *Contradictions of the Welfare State* (Cambridge, Mass.: MIT, 1984.)
3. This convergence has also been noted by Michael Piore and Charles Sabel, *The Second Industrial Divide* (New York: Basic, 1984), and by Robert Kuttner, *The Economic Il-*

lusion: False Choices Between Prosperity and Social Justice (Boston: Houghton Mifflin, 1984).

4. See R. Bacon and W. Eltis, *Britain's Economic Problems: Too Few Producers* (London: Macmillan, 1978); Organization for Economic Cooperation and Development, *Towards Full Employment and Price Stability* (Paris: OECD, 1977); George Gilder, *Wealth and Poverty* (New York: Basic, 1981).
5. See, particularly, Wolfe, *Limits of Legitimacy,* chapter 10.
6. For an influential statement of these arguments, see Barry Bluestone and Bennett Harrison, *The Deindustrialization of America* (New York: Basic, 1982), especially, chapter 6.
7. The original publication was in 1944, but references are to the Beacon Press edition, Boston, 1957. For an extended discussion of Polanyi's thought, see Fred Block and Margaret Somers, "Beyond the Economistic Fallacy: The Holistic Social Science of Karl Polanyi," in *Vision and Method in Historical Sociology,* edited by Theda Skocpol, (New York: Cambridge University Press, 1984).
8. Polanyi, *The Great Transformation,* 63 – 67.
9. Polanyi, *Transformation,* 77 – 85.
10. Polanyi, *Transformation,* 73.
11. Polanyi, *Transformation,* 165 – 166.
12. Volume 1, chapters 8, 15
13. See Adam Przeworski, "The Ethical Materialism of John Roemer," *Politics & Society* 11:3 (1982):289 – 313, for a critique of the Marxist tendency to see the economy as a self-operating automaton.
14. See David Gordon, Richard Edwards, and Michael Reich, *Segmented Work, Divided Workers* (New York: Cambridge University Press, 1982). While I make use of their concept, there is much in their argument with which I disagree.
15. This list of factors is far from complete; it is meant only to be illustrative.
16. The argument is that if computerization reduces the demand for labor while output rises, there could be a significant shortfall in demand. While such an outcome is not inevitable, a weakening of the labor market from technological displacement can reduce employee bargaining power so that wage gains fail to keep pace with the growth of output. On problems of employment generation in advanced capitalism, see Fred Block, "The Myth of Reindustrialization," *Socialist Review,* (January-February, 1984), and "Technological Change and Employment: New Perspectives on an Old Controversy," *Economia & Lavoro,* (August-September, 1984).
17. See Denison's classic work in growth accounting, Edward F. Denison, *Accounting for United States Economic Growth, 1929 – 1969* (Washington: Brookings, 1974).
18. In 1984, Chrysler Corporation budgeted $460 million for health-insurance premiums. This amounts to $5,000 per employee or $275 per vehicle. "Chrysler Program Saves Millions in Health Costs," *New York Times,* April 29, 1985.
19. "In general, there is a logical correlation between increases in production and in productivity, with productivity speeding up as production accelerates and slowing down as production is retarded." Harry Magdoff and Paul Sweezy, "Productivity Slowdown: A False Alarm," *Monthly Review* 31:2 (June 1979):11.
20. The actual outcome depends, of course, on other variables such as the rate of inflation, exchange rates, and the propensity to import. But my point is that the impact of social policies on international competitiveness is indeterminate and depends on other variables some of which can be effectively manipulated by governments.
21. Laura Tyson and John Zysman, "American Industry in International Competition," in *American Industry in International Competition: Government Policies and Cor-*

porate Strategies, edited by Zysman and Tyson. (Ithaca: Cornell University Press, 1983) 33.

22. This now neglected line of argument has a distinguished lineage in the economics literature. For example, in his classic study of manufacturing employment, Fabricant argues that reductions in the length of the working day imposed by government or unions can have the effect of inducing greater entrepreneurial effort by the employer. Solomon Fabricant, *Employment in Manufacturing, 1899 – 1939* (New York: NBER, 1942), 13.
23. The system of capital controls imposed during the Vietnam War is described briefly in Fred Block, *The Origins of International Economic Disorder* (Berkeley: University of California Press, 1977), 182 – 184.
24. Block, *Origins,* 42 – 46.
25. While the Reagan Administration's obstinate commitment to free markets and deregulation has discouraged initiatives in this direction, steps were being taken in the late 1970s towards greater international cooperation to regulate banking. See Hugo Colje, "Bank Supervision on a Consolidated Basis," *The Banker* June 1980, 29 – 34. Robert Dunn writes that, "Prohibitions or limitations on capital flows have been widely discussed as a possible route to a less volatile exchange market...," and he reports a proposal by James Tobin to discourage speculative capital flows by taxing exchange market transactions. Robert M. Dunn Jr., *The Many Disappointments of Flexible Exchange Rates,* Princeton Essays in International Finance, no. 154, December, 1983, 24 – 26.
26. The argument that the new technologies of capital transfer make controls impossible is clearly specious. The reality is that such electronic transfers leave more traces than traditional currency transactions.
27. The natural coalition for such reforms would bring together progressive social forces in Western Europe and the United States with Third World nations that are currently suffering from their indebtedness to international banks.