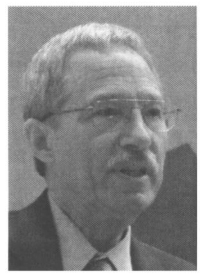
A RECONCEPTUALIZATION OF SOCIAL STRUCTURE OF ACCUMULATION THEORY

Martin H. Wolfson and David M. Kotz

Martin H. Wolfson teaches economics at the University of Notre Dame, where he is also the Director of the Higgins Labor Studies Program. Email: mwolfson@nd.edu

David M. Kotz teaches economics at the University of Massachusetts Amherst. Email: dmkotz@econs.umass.edu



Abstract: This article puts forward a reconceptualization of the theory of a social structure of accumulation (SSA). The thirty years of neoliberalism present a problem for SSA theory. According to current SSA theory, an SSA is an institutional configuration that for a long period of time promotes rapid capital accumulation and economic growth. Although neoliberalism is clearly a new and long-lasting institutional structure that replaced the postwar SSA, growth in the neoliberal economy has been relatively sluggish. This article offers a revised concept of an SSA, which makes it possible to explain neoliberalism as an SSA. It argues that every SSA promotes profit-making but does not necessarily bring accumulation that is rapid by some historical standard. It introduces the concept of liberal and regulated SSAs and examines the features of both types of SSA. It considers the implications of this revised SSA theory for understanding the current capitalist economic crisis.

JEL Codes: E02, E11, B51
Key words: social structure of accumulation; institutions; economic crisis

Introduction

Social structure of accumulation (SSA) theory is one of the most important theoretical innovations in heterodox economics. It makes sense of much of economic history.

This article is a revised version of Martin H. Wolfson and David M. Kotz, "A Reconceptualization of Social Structure of Accumulation Theory," chapter 3 of *Contemporary Capitalism and Its Crises: Social Structure of Accumulation Theory for the 21st Century*, edited by Terrence McDonough, Michael Reich, and David M. Kotz, Cambridge University Press, 2010. Reproduced with permission from Cambridge University Press.

It links theoretical analysis with concrete institutional investigation. It provides a basis for understanding the evolution of capitalism over time, as well as institutional differences among capitalist systems in different countries. Not least, SSA theory provides a basis for explaining the periodic severe economic crises that have arisen in capitalist history.

However, we believe that SSA theory has encountered difficulties in seeking to explain the economic reality of the past several decades. By most accounts, the postwar (post-World War II) SSA in the United States broke up in the late 1960s and early 1970s. After a decade of crisis and struggle, a new institutional structure was created, initially in the US and the UK, which undermined government regulation and promoted capital mobility. This model, which soon became dominant globally, is commonly referred to as neoliberalism. In the US, neoliberalism has meant increased income inequality, deregulation of industrial and financial markets, increased influence of financial markets over corporate decision-making, fiscal policy emphasizing tax cuts for the wealthy and cutbacks in social programs, monetary policy that puts a greater emphasis on reducing inflation than unemployment, and relatively sluggish economic growth.

How can we understand neoliberalism in the context of SSA theory? Did a new SSA emerge in the neoliberal era? Or is this era better understood as a period of crisis of the old SSA?

In our view, it has now become clear that neoliberalism is not a continuation of the crisis of the old postwar SSA, because it constituted a new, coherent institutional structure that has been in existence since at least the early 1980s.[1] On the other hand, there is a problem with regarding neoliberalism as a new SSA because economic growth under neoliberalism has been subpar; central to SSA theory has been the idea that a new SSA promotes strong economic growth.

The growth rate of gross domestic product (GDP) in the US during the period of the postwar SSA, from 1948 through 1973, was 3.96 percent per year, whereas growth during the crisis years of 1973–79 averaged 2.96 percent per year. However, growth during the neoliberal period, which we date from 1979 to 2007, averaged only 2.90 percent per year, which is slightly below that of the crisis period of the postwar SSA.[2] If one were to argue that a new SSA began in 1990, the result is the same. The annual GDP growth rate during 1973–90 was 2.95 percent per year, while during 1990–2007 it was also 2.88 percent per year.[3] (Data are from the US Bureau of Economic Analysis, 2008.)

We are proposing a reconceptualization of SSA theory. The difficulty in using current SSA theory to explain the neoliberal era has led us to reconsider some basic aspects of the theory of an SSA. In the next two sections, we offer a critique of the current theory. We conclude that the assumption linking SSAs with rapid economic growth should be rejected.

In the fourth section, we propose a new basis to understand SSAs, arguing that they can best be understood as institutional structures that (temporarily) stabilize class contradictions. The fifth section asserts that SSAs come in two varieties, "liberal" and "regulated," depending on the relative power of capital and labor.[4] Thus, using this new definition of an SSA, we conclude that neoliberalism is best understood as a liberal SSA.

The sixth section analyzes the different economic problems and crises that occur in the two different kinds of SSAs. We argue that the severe financial and economic meltdown that began in 2008 represents the arrival of the crisis phase of the neoliberal SSA. The seventh section discusses the proposition that economic growth tends to be faster under regulated SSAs than under liberal SSAs. A final section summarizes our conclusions. While our historical examples are drawn from the US, we believe our argument applies generally to SSA theory.

The Current Theory of an SSA

Early formulations of SSA theory emphasized the stability provided by an institutional structure. Gordon, Edwards, and Reich (1982: 23) write that "Without a stable and favorable external environment, capitalist investment in production will not proceed. We refer to this external environment as the social structure of accumulation.... The social structure of accumulation consists of all the institutions that impinge upon the accumulation process." They argue that the stability provided by the institutional structure encourages capitalist investment and economic growth.

Eventually the SSA ceases to contribute to growth: either growth destabilizes the institutions of the SSA or the institutions provide a barrier to further growth. The economy, however, "retains the *same* social structure of accumulation once it has begun to display diminishing returns" (Gordon, Edwards, and Reich 1982: 34; emphasis in original). The prolonged period in which the SSA no longer effectively promotes accumulation is usually referred to as a crisis of the old SSA (although the term "crisis" is also used for the short-run economic recessions that occur in both phases of the life of an SSA). A crisis in the sense of a prolonged period of a poorly-working SSA requires a restructuring of institutions to overcome the crisis: "we can define an economic crisis as a period of economic instability that requires institutional reconstruction for renewed stability and growth" (Gordon, Edwards, and Reich 1982: 30). In all, each SSA constitutes a specific stage of capitalism.

Later formulations of the theory focused more on ways that the institutional structure enhanced capitalist power: "The institutional structure of the postwar social structure of accumulation in the United States was consolidated in such a way as to enhance the political-economic power of the capitalist class" (Bowles, Gordon, and Weisskopf 1990: 167). Capitalist power leads to profits: "profits are made possible...by the power of the capitalist class over other economic actors," while profits, in turn, lead to growth: "capital accumulation...is fundamentally conditioned by the level and stability of capitalist profitability" (Gordon, Weisskopf, and Bowles 1987: 44).

There are difficulties in applying either formulation of SSA theory to the neoliberal regime, although events in the postwar US economy up through the 1970s can readily be explained. In the late 1960s, with a strongly growing economy and a very low unemployment rate, labor became powerful enough to raise wages and thus contribute to reduced corporate profits. From the point of view of the earlier formulation, this eroded the capital-labor institutional relationship and the stability it had provided, and thus the postwar SSA; from the latter point of view, it was a direct challenge to the corporate power that formed the basis of the SSA.

A period of crisis emerged in the 1970s. Corporations and unions fought over the distribution of income, and the wage-price spiral of the 1970s was evidence of the inability of either party to gain the upper hand. The unanticipated inflation negatively affected the profits of financial institutions. By the 1970s, some of the institutions of the postwar SSA had eroded, and those that remained were no longer functioning to promote stability, profitability, or economic growth. The postwar SSA was in crisis, with the year 1973 commonly regarded as marking the transition from well-working SSA to crisis.

However, by the early 1980s capital's power had been restored and it used its influence over the state to put a new institutional structure in place. Restrictive monetary policy increased unemployment, and the rising dollar encouraged the movement of production abroad, thus reducing wages and undermining unions. The new Reagan Administration was able to use "free-market" ideology to promote permanent replacement workers, a general hostility toward unions, market deregulation, tax cuts for the wealthy, and the rollback of protective labor regulations.[5]

In the creation of the "free market" economy in the US, and the beginnings of a neoliberal global economy, a new institutional structure had been created. It rewrote the rules for how economic actors behave in a way that decisively favored capital. For example, corporations now knew that there would be little interference from the government regarding their labor or environmental policies or their location decisions. Banks and other financial institutions knew that regulatory walls would no longer restrain their attempts to integrate financial services. Institutional investors, free of capital controls, knew that they could roam the globe in search of the highest return. The old obligation of large corporations to follow co-respective behavior toward other corporations gave way to unrestrained competition, and the obligation to bargain collectively with unions gave way to antagonistic opposition. The old tradition of promoting top managers from within was replaced by a market in CEOs, which led to skyrocketing pay along with declining company loyalty for CEOs.

From the perspective of the earlier formulation of SSA theory, the new institutional structure should have brought both stability and faster economic growth. From the perspective of the later formulation, greater corporate power should have brought not only higher profitability but also faster economic growth. However, as noted earlier, growth rates of GDP in the neoliberal era have remained significantly lower than those during the postwar SSA and essentially the same as during the crisis years of that SSA. Based on the traditional conception of an SSA, it is difficult to argue that there has been a new SSA in place in the low-growth neoliberal years.

SSAs, Profit, and Growth

Both versions of SSA theory discussed above—the one focused on stability and the other emphasizing the enhancement of capitalist power—share the view of an SSA as an institutional structure that promotes *rapid* capital accumulation. That is, a defining feature of an SSA is supposed to be its effect of accelerating the rate of economic expansion. In our view, there is reason to doubt that successive SSAs necessarily promote accumulation that is rapid by some historical standard.

A persuasive case has not been made for the linkage between SSA and rapid growth. Gordon, Edwards, and Reich (1982: 26) state that "If constituent institutions of the social structure of accumulation are stable...capitalists are likely to feel secure about investing in the expansion of productive capacity." The foregoing cautiously worded statement does not provide a firm basis for the claim that every SSA will accelerate the rate of growth. Neither does the interpretation of an SSA as enhancing capitalist power necessarily imply that each SSA will accelerate economic growth. While enhanced capitalist power should translate into a higher share of profit in total income, it does not follow that growth will be faster.

Gordon, Edwards and Reich 1982 (ch.2) is the most influential early presentation of the SSA theory. The authors begin their analysis in the following way (Gordon, Edwards, and Reich 1982: 23):

> Capitalists, in business to make profits, begin by investing their funds (money capital) in the raw materials, labor power, machinery, buildings, and other commodities needed for production. Next, they organize the labor process... Finally, by selling the products of labor, capitalists reconvert their property back to money capital.

After the above-cited paragraph, Gordon, Edwards and Reich go on to provide a persuasive account of the various ways in which each of the three steps in the process of capitalist profit-making depends on the existence of supportive institutions. They also make a persuasive case that such a set of institutions creates an environment that has a substantial impact on the decision to undertake the productive investments that constitute capital accumulation, and they name the institutional structure a social structure of accumulation. However, they go on to state the following: "We further propose that a social structure of accumulation alternately stimulates and constrains the *pace* of capital accumulation" (Gordon, Edwards, and Reich 1982: 25–26, italics added). That is, after a long qualitative discussion of the ways in which institutions support the process of profit-making, they introduce a quantitative argument that each SSA, during the long period when it works effectively, increases the rate of accumulation.

It is reasonable to argue that institutions play a central role in explaining why capital accumulation is relatively rapid in certain periods. However, the traditional SSA theory has gone further in claiming that each new SSA brings rapid capital accumulation. The reasonable assumption that rapid growth requires an SSA that promotes rapid growth does not by itself imply that each SSA will promote rapid growth. To determine whether each new SSA will promote rapid growth, it is helpful to consider the process through which new SSAs are created.

What can be said about the process that guides SSA creation? We start from the presumption that, in a capitalist system, the capitalist class, as the dominant class in the system—or at least a substantial segment of it—will play a major role in constructing any new SSA. Other classes and groups may, and typically do also play a role in the creation of SSAs, but the process requires the support and active participation of representatives of at least a major segment of the capitalist class.[6] Based on this presumption, consider the conditions that are likely to prompt a major segment of capital to support the creation of a new SSA and what its aims are likely to be in such activity.

It is generally agreed that, in a capitalist system, the individual capitalist is an actor that aims for the maximum possible profit. To obtain profit, each of the three steps discussed above must be supported by appropriate institutions. Hence, one would expect the individual capitalist to favor institutions that support each step in the profit-making process. Furthermore, institutions which support a high rate of profit, or a higher one than has prevailed previously, would gain the support of the individual capitalist.

Institutions are of course not created by the individual capitalist. Institutions, which are social in nature, require common action for their creation and maintenance. The competitive, individualistic aspect of capitalism makes cooperation among capitalists for any purpose difficult and somewhat unstable. However, history shows that capitalists are able, at least at certain times, to cooperate in creating institutions that will protect their core interests. Often they do this in alliance with other groups and classes, since greater social power may be required to create institutions than the capitalists can muster on their own. Particularly if existing institutions have been failing to effectively support profit-making, so that the average rate of profit has fallen, and if this condition has persisted for some time, one would expect the capitalist class, or at least a large part of it, to be able to overcome the centrifugal forces generated by capitalism to work together to create new institutions that will protect their core interests.

No capitalist institutional structure can work effectively forever. Eventually the various conflicts that capitalism produces undermine the effectiveness of an SSA at protecting core capitalist interests. In the resulting crisis, we would expect capitalists to eventually be able to construct, possibly with allies, a new SSA that does protect their core interests.

The institutions of each new SSA form a framework, not only for profit-making, but also for capital accumulation. As the SSA literature has argued, by maintaining stability in certain ways, and by determining the specific capital-labor power relation, each SSA affects the process of capital accumulation. However, promoting *rapid* accumulation in the system as a whole is not a core interest of the individual capitalist, nor is it normally the basis on which capitalists will overcome the difficulties of cooperation to restructure social institutions. Hence, given the predominant role of capital in creating SSAs, there seems to be no reason to expect that each new SSA will increase the rate of accumulation. Rapid accumulation is favorable for the political stability of capitalism, since it provides a rapidly growing level of real output which can serve to ameliorate the condition of the working class and other oppressed groups. However, capitalism is a competitive system which normally does not place such far-sighted goals at the center of capitalists' field of vision. Normally, the prospect of being able to make profits, and to obtain a high rate of profit relative to the capital invested, is what drives capital.

Capitalism does indeed display a powerful accumulation drive. That drive is one of its central features. It is doubtful whether capitalism could survive without the accumulation of capital—it would be torn apart by conflict without an "expanding pie." However, the rate at which accumulation proceeds in the system as a whole, even given the rate of profit, is highly variable. Profits have many uses besides accumulation.

The example of neoliberalism is instructive here. As was noted above, neoliberalism has not promoted rapid capital accumulation, even compared to the crisis period of the previous SSA. However, it has promoted a rising share of profits in total income and, eventually, a rising rate of profit in the US (Wolff 2001: 318; Duménil and Lévy 2004: 24). The share of income going to the richest 1 percent in the US reached 16.78 percent of total income in 2005, nearly double that of 1979 and the highest level since 1929 (Piketty and Saez 2007: table A3). This reflects the effectiveness of neoliberalism at shifting income toward capitalists as individuals. Given such conditions, would anyone expect a major segment of the capitalist class to propose eliminating the neoliberal SSA, and its replacement by a new institutional structure, on the grounds that economic growth has not been impressive?

Thus, we understand an SSA to be a coherent institutional structure that supports capitalist profit-making and also provides a framework for the accumulation of capital, but it does not necessarily promote a "rapid" rate of capital accumulation. The historical link between the SSA theory and the theory of long swings should be severed. Doing so would improve the logic and persuasiveness of the theory. Of no less importance, it would enable us to understand neoliberalism as the basis of the contemporary SSA and apply SSA theory to the institutional structure under which we have lived for more than a quarter-century.

Class Contradictions

Even if rejecting the connection between SSAs and rapid economic growth enables us to understand neoliberalism as an SSA, we are still faced with another difficulty in current SSA theory: what is the basis upon which the institutions that constitute an SSA are built? The institutions of the postwar SSA are said to be specific to the postwar period and thus not necessarily a guide to the institutional structure of neoliberalism. However, by building upon some insights in the literature, and examining them through the lens of class contradictions, we can gain greater understanding.

Gordon, Edwards, and Reich (1982: 31) argue that the emergence of "a successful new social structure...will reflect the alignment of class forces (and other social influences) that produce it." Kotz (1994: 55) points out that "what the social structure of accumulation does is to stabilize class conflict and channel it in directions that are not unduly disruptive of accumulation."

We argue that the institutions that constitute an SSA, including those of neoliberalism, reflect the (temporary) stabilization of the contradictions of capitalism. What are these contradictions? The most important is the fundamental contradiction in capitalist society, that between capital and labor. The others include contradictions within capital and within labor, representing conflicts and the struggle for unity within each group (and may also represent international dimensions of these contradictions). By contradiction we mean a dialectical relationship between two groups, which may or may not be an antagonistic conflict. The two groups in a contradiction are always in struggle with one another, although there can be a temporary equilibrium—that is, a temporary stabilization of the struggle.

What is the relationship between the institutions of an SSA and the temporary stabilization of these contradictions? We argue that the stabilization of the contradiction between capital and labor provides the foundation for the institutional restructuring that produces a new SSA.

This contradiction can be stabilized in one of two ways. Either labor is strong enough to challenge capital and share power, or capital can overwhelm labor and dictate conditions.[7] The results of this struggle are seen most directly in the workplace and labor market. In the 1930s and 1940s, when labor was strong enough to challenge capital, it was able to win union contracts, improve workplace conditions, establish new health and retirement benefits in core industries, and force the sharing of productivity gains during the ensuing post-World War II period. By contrast, in the neoliberal era capital's greater power has meant declining union density, worsening workplace conditions, disappearing benefits, and stagnating wages.

There are also indirect implications of the stabilization of the contradiction between capital and labor, and these are of great importance to the institutional structure of an SSA. We argue that the way that this contradiction is stabilized affects the relative influence of capital and labor over the state, and that this in turn will contribute to the existence of two different types of SSAs.

Liberal and Regulated SSAs

We argue that SSAs come in two varieties. We will refer to one type as a "liberal" SSA and the other as a "regulated" SSA. The reasons for this choice of terms will become apparent as we explain our analysis of the nature of these two different types of SSA. These two types of SSA differ along five dimensions: (1) the manner in which the capital-labor contradiction is temporarily stabilized; (2) the state role in the economy; (3) the contradictions within capital; (4) the contradictions within labor; (5) the character of the dominant ideology.

As was stated above, in our view the underlying difference between the two types of SSA is the different manner in which the capital-labor contradiction is temporarily stabilized. A regulated SSA embodies one form of stabilization of the capital-labor relation, in which labor has significant power which capital is compelled to accept, producing a capital-labor compromise. A liberal SSA embodies a different form of stabilization of the capital-labor relation, in which capital does not accept compromise with labor but instead achieves a high degree of dominance over labor.[8]

In a regulated SSA, labor can affect the market behavior of capital by collective bargaining and other methods. Although market behavior can be regulated by other institutional features of the economy as well, the most striking feature of a regulated SSA is that the state constrains free action by capitalists in the market in various ways. The most noticeable feature of a liberal SSA is that it is built upon the principle of the "free market." That is, the state's regulation of the actions of capital in the market is limited, which is historically associated with the term "liberal." In such an unconstrained market, characterized by competitive pressures on workers, capital mobility, and a "race to the bottom," workers' living standards tend to suffer a marked deterioration.

What is the connection between the limited regulation by the state of capitalist action in markets in a liberal SSA and a high degree of capitalist dominance over labor, and what is the connection between the significant state constraints on capitalist action in markets in a regulated SSA and a relative balance of power between capital and labor? The connections have to do with the role of the state in capitalist society. The state is the most important entity through which a class, or a class segment, can exercise power along various dimensions. After all, the state holds the right to legitimately exercise coercive power, which it does most commonly through making and enforcing laws and regulations.

The basic legal framework of capitalist society grants substantial power to capital over labor. The means of production belong to the capitalist class, and simply the enforcement of the rights of private property owners tends to bring the state's coercive power down on the side of capital's interests. In early capitalism, the state commonly acts to suppress workers' struggles under this rubric. In certain periods the working class has been able to resist the deterioration in its living standards and establish new rights, such as the right to organize, to bargain collectively, and to strike, and in many capitalist countries these rights became embodied in new laws and regulations. This has taken the form of an *extension* of state regulation in the economic sphere.[9] Further worker rights have been established through being embodied in laws and regulations, such as those governing workplace health and safety and maximum hours of work. The economic insecurity that workers face in a capitalist economy have been at least partially reduced through various mandatory state programs.

Thus, although some state regulations benefit capital while others benefit labor, there is a historical association between the expansion of state regulation of capitalist economies and increasing rights and powers for the working class. Periods in which labor's power increased have seen that power embodied, to a significant extent, in expanded state regulation of the economy. Periods in which capital has been able to more fully assert its domination have been marked by the cutback or elimination of state laws and programs which benefit labor and restrict the "freedom" of action of capital. That explains the association between capitalist refusal to compromise with labor and the limited state regulation of capitalist activity in liberal SSAs and the connection between a relative power balance and the active state regulation of capitalist activity in regulated SSAs.[10]

The emphasis on strict enforcement of intellectual property rights in the neoliberal era is sometimes seen as inconsistent with the liberal view of the state role in the economy. In our view, there is no inconsistency here. Liberalism does not abandon the enforcement of the rights of owners of private property. It rejects laws and programs that limit or regulate the exercise of private property rights, while supporting vigorous state action to enforce those rights. Tough enforcement of intellectual property rights fits in with the limited role of the state in the liberal model.

The liberal and regulated SSAs also differ along the dimension of contradictions within capital. One key difference is in the nature of competition among capitalists.[11] In liberal SSAs, competition tends to be unrestrained and cutthroat, while in regulated SSAs competition tends to be co-respective and muted. The co-respective behavior of big capitalists toward one another in a regulated SSA indicates that the concept of a regulated SSA does not refer only to state constraints on market activity. Co-respective behavior is a form of regulation of competition that is carried out by big capital itself, although certain state regulations and policies can also promote it. The difference in the nature of competition reinforces the power difference in the capital-labor relation between the two types of SSA. The more intense competition in a liberal SSA puts pressure on capitalists to take any measures to cut labor costs, while the co-respective form of competition in a regulated SSA facilitates making concessions to labor.

Another difference between the two types of SSA in the contradictions within capital involves the relationship between financial and industrial capital. Financial and industrial capital are more independent of one another in a liberal SSA, in the sense that financial institutions tend to directly pursue financial and speculative gains rather than serving the needs of industrial capital accumulation.[12] The more constrained role of the financial sector in a regulated SSA can be induced by state oversight or capitalist practices, or by a combination of the two.

The fourth dimension of the two types of SSA involves the contradictions within the working class. Workers tend to be more in competition with each other in a liberal SSA than in a regulated SSA, as the institutions of the latter tend to facilitate solidarity among workers. The heightened competition among workers reinforces the power of capital in a liberal SSA, while the restrained competition among workers contributes to workers' power in a regulated SSA.

Fifth, liberal and regulated SSAs are both characterized by a distinct dominant ideology which justifies and reinforces its core institutions. A liberal SSA has a dominant ideology which glorifies individualism, unfettered competition, the "free market," and the danger that state intervention poses for economic progress and individual liberty. By contrast, the dominant ideology of a regulated SSA warns of the dangers of unfettered market activity, upholds the advantages of "civilized" competition, and heralds the contribution that government regulation can make to economic progress and human welfare.

Thus, the stabilization of the contradictions of capitalism has a certain coherence, which is represented either by the liberal or regulated type of SSA. That coherence is shaped in large part by the stabilization of the fundamental contradiction between capital and labor. In other words, if labor is strong enough to constrain capital, it is likely that industrial and financial markets will be constrained as well; if capital can more fully dominate labor, it is likely that it can force workers to compete with each other, and that industrial and financial markets will be subject to heightened competition.

There seems to be a historical tendency for liberal SSAs to alternate with regulated SSAs (Kotz 2003; Kotz and Wolfson 2004; Wolfson 2003). Some insight into this dynamic is provided by Karl Polanyi.

In *The Great Transformation* (Polanyi 2001 [1944]), Karl Polanyi argued that the movement to create a laissez-faire economy was an attempt to separate the market economy from the rest of society. An unconstrained market freed capital from the norms of the broader society, created instability, and tended to worsen conditions of work and increase the poverty and deprivation of the working classes. The laissez-faire "ideal," however, was never completely successful, because it was inevitably opposed by an opposite movement. This opposite movement is an attempt to "embed" the market economy within the broader society and rein in the power of capital. It clearly represents at least a partial victory for labor and its allies.

Although the embedded economy, or regulated SSA, inevitably runs into its own problems and is replaced by (alternates with) a liberal SSA, there has been a long-term trend in capitalism for the state to grow in size relative to the economy and for the state's economic roles to expand. Hence, liberal SSAs that have appeared in later historical periods have involved a greater role for the state than earlier liberal SSAs. While each new liberal SSA has cut back the extent of state regulation of the economy, such cutbacks do not return the state role to what it had been in earlier liberal SSAs.

Finally, our theory can be applied to contemporary neoliberalism, which fits all of the features of a liberal SSA. Capital assumed a much more aggressive stance toward labor, and labor's power greatly declined. The role of state regulation of the economy was significantly reduced, through privatization and deregulation. Competition among capitalists became much more intense compared to the previous SSA. Financial capital became relatively independent of industrial capital, pursuing financial gains in ways that do not contribute to industrial capital accumulation. Competition among workers grew more intense compared to the previous SSA. And free market ideology has been dominant in the neoliberal era.

SSAs and Capitalist Crises

Although economic problems and short-term disruptions, or crises, occur in both liberal and regulated SSAs, the nature of these crises differs according to the type of SSA.[13] In a liberal SSA, capital's ability to restrain the growth of wages and shift the distribution of income in its favor tend to result in inadequate aggregate demand and overcapacity, with companies able to produce more than they can sell. The intensified competitive environment, interacting with sluggish demand, can lead to a situation of "coercive investment" (Crotty 1993), in which companies are compelled to invest in labor-saving technology to cut costs and compete for a limited market share. In addition, liberal SSAs are typically plagued by financial crises (Wolfson 1994a). Unregulated financial markets, in a competitive environment in which wealthy investors are seeking higher and higher returns, bring heightened financial instability.

On the other hand, regulated SSAs are subject to "profit-squeeze" crises. Given an institutional context that brings a high degree of bargaining power for labor, periods of low unemployment can put pressure on corporate profits. Research on economic crises in the postwar SSA has documented this result. Weisskopf (1979) and Kotz (2009a) both found that the main cause of short-run economic crises (recessions) during the postwar regulated SSA was a profit squeeze due to rising real wages in late expansions. By contrast, Kotz (2009a) found that profit squeeze was not the cause of crises in the neoliberal period.[14]

Our analysis also suggests that the particular crisis tendencies that play a role in the decay and collapse of the two types of SSA are different. Near the end of the postwar SSA in the late 1960s, the strongly growing economy further enhanced labor's power. And as Gordon, Weisskopf, and Bowles (1987: 49–50) point out, capital's power and profits were also challenged by international competitors and domestic movements for occupational safety and health, environmental protection, and consumer product safety, among others. A stubbornly long-lasting profit squeeze crisis was the result. After a decade of inconclusive struggle in the 1970s, capital was finally able to get the upper hand in the early 1980s, but only by the replacement of the previous regulated SSA by a new liberal SSA.

Now it appears that this liberal SSA—neoliberalism—may have entered its period of decay, with the onset of a major financial and economic crisis in 2008. Neoliberalism eventually brought a financial and economic crisis so severe that it threatens the survival of the SSA. This can be understood as the result of the tendencies toward inadequate demand, overcapacity, and coerced investment, as well as the growing financial instability produced by neoliberal institutions. Kotz (2009b) presents an interpretation of the crisis that began in 2008 as the beginning of the period of decay of the neoliberal SSA.[15]

Just as capital reacted to labor's enhanced bargaining power in the postwar SSA, we would expect capital to react to the collapse of any regulated SSA by striving to create a new institutional structure that secures its domination of labor. Also, since the long-run crisis phase of a liberal SSA is likely to involve the problem of inadequate aggregate demand due to weak bargaining power of labor, a likely resolution of this crisis may be a reaction through which labor is able to increase its power. Under capitalism, this would mean a new institutional structure involving a sharing of power with capital, which could shift the distribution of income in its favor and address the aggregate demand problem, as happened in the 1930s–40s. Although there is nothing logically necessary about either of these conclusions, and indeed a transition to an institutional structure beyond capitalism remains a possibility, they are consistent with the observed tendency for US history to be characterized by an alternation between liberal and regulated SSAs. Therefore we would expect to see attempts to create a new regulated SSA in the wake of the crisis and dismantling of neoliberalism.

Liberal and Regulated SSAs and the Rate of Growth

The concepts of liberal and regulated SSAs introduce a new way to utilize SSA theory to analyze differences in the long-run rate of economic growth in various periods. There are theoretical reasons to expect that economic growth would be slower in periods of a liberal SSA than in periods of a regulated SSA. First, a liberal SSA tends to give rise to a problem of insufficient aggregate demand over the long run, because it tends to lower both real wages and public spending. Second, a liberal SSA tends to create instability on the macroeconomic level by renouncing state counter-cyclical spending and taxation policies, by reducing the effectiveness of "automatic stabilizers" through shrinking social welfare programs, and by loosening public regulation of the financial sector. This renders the system more vulnerable to major financial crises and depressions. Third, the cutthroat competition of a liberal SSA tends to turn the focus of corporate managers toward short-run strategies, which typically run counter to making the long-run investments that promote a rapid rate of capital accumulation. Fourth, an independent and deregulated financial sector in a liberal SSA tends to divert investable funds from long-run productive investment to speculative activities.

Earlier in this article we presented empirical evidence that the neoliberal SSA in the US brought GDP growth that is not only slower than during the heyday of the previous regulated SSA but no faster than during the period of crisis of the previous regulated SSA. Kotz (2003) found evidence that, during the periods of two liberal and two regulated SSAs in the US since 1900, economic growth was slower in the two liberal SSAs than in either of the two regulated SSAs.[16] However, more empirical work would be required to determine whether this relationship between growth rate and type of SSA holds in general.

Whether an SSA does or does not promote rapid accumulation, both regulated and liberal SSAs facilitate the process of profit-making. Both types tend to promote high profitability during the period when they are working effectively, before the crisis of the SSA begins. The reconceptualization of the SSA theory proposed here will make SSA theory more persuasive and more consistent with the historical evidence. It will also facilitate the use of SSA theory to analyze contemporary neoliberalism.

An interesting question for further investigation is whether either of the two types of SSA, liberal or regulated, tends to last longer than the other, including both the period when the SSA is working effectively and the following period of crisis prior to the creation of a new SSA. A related question is whether either type of SSA tends to enter its crisis phase sooner than is the case for the other. Because of disagreements about the exact starting and ending dates of the various SSAs and the starting and ending dates of the crisis phase, the historical evidence on these points is ambiguous. Also, it is not clear from a theoretical perspective whether we should expect different lifespans for the two types of SSA as a whole, or different durations before the crisis sets in. This is an interesting topic for further research.

Summary and Conclusion

In summary, we conclude that the concept of an SSA should be re-conceptualized in the following ways:

First, the link between an SSA and rapid capital accumulation should be severed. Capitalists' objective in creating the institutions of an SSA is to promote profit-making; the institutions thus created may or may not promote rapid growth. Second, an SSA performs its role by embodying the temporary stabilization of capitalism's class contradictions, in particular the fundamental contradiction between capital and labor. The particular institutional structure that constitutes an SSA will represent the relative balance of power between the classes. Third, the nature of the SSA will depend on the way in which the class contradictions have been temporarily stabilized. Liberal SSAs emphasize a "free-market" approach and indicate a high degree of dominance by capital. On the other hand, regulated SSAs put greater restraints on capital and represent conditions of capital-labor compromise. Fourth, the nature of the economic problems and crises will tend to differ between liberal and regulated SSAs. A regulated SSA tends to exhibit profit-squeeze crises, whereas a liberal SSA is likely to suffer from inadequate aggregate demand, overcapacity, "coercive investment," and financial crises. Finally, the rate of economic growth of a regulated SSA is likely to be higher than that of a liberal SSA.

Notes

1. One of the authors, David Kotz, argued in earlier works that neoliberalism represented a continuing crisis of the previous SSA.
2. We use data through 2007 because it is the most recent business cycle peak year.

3. Nonetheless, there are those who argue that a new SSA was established. The range of possible dates found in the literature for the beginning of a new SSA runs from 1979 to the mid 1990s. In the calculation of growth rates, however, one must be careful to use comparable stages of the business cycle. For instance, 1948, 1973, 1979, 1990, and 2007 are all peak years of the business cycle.
4. Despite the use of the term "regulated SSA" for one of the two types of SSA, the state and other institutions do regulate economic behavior in liberal as well as in regulated SSAs. The differences between the two types of SSA are complex and multidimensional; they are explained in considerable detail below.
5. We put the words "free market" in quotes because, contrary to the conventional wisdom, the "free market" period was not one in which the government withdrew from intervention in economic affairs and left the market "free" to its own devices.
6. The working class can play a significant role in the creation of a new SSA in some cases, but in our view the capitalist class, because of its dominant position in a capitalist system, will play a central role, directly or indirectly, in determining the institutions of an SSA.
7. A situation in which labor dominated capital likely would go beyond capitalism and create a socialist system.
8. Labor always has some ability to resist capital, and full domination by capital is not actually achieved. However, the active pursuit of full domination by capital characterizes liberal SSAs, in contrast to the acceptance by capital of compromise with labor in a regulated SSA.
9. The word "regulation" in the text is used in the narrow sense to refer to specific laws and government mandates that the state uses to influence the economy. It should be distinguished from the broader use of the term in SSA theory (and in Regulation theory), in which capitalism always has a system of regulation embodied in a set of institutions called an SSA.
10. There are historical exceptions to this relationship. The fascist form of capitalism combines strict state regulation of the economy with full capitalist domination of labor.
11. Competition is a relation among individual units of capital, rather than one between classes or sections of classes.
12. For an account of developments within the financial sector in the United States during the post-World War II period, in the context of SSA analysis, see Wolfson (1994b).
13. Here we are using the term "crisis" in a different way from its use in describing the period of breakdown of an SSA.
14. Kotz (2009a) found that a profit-squeeze crisis did not appear even when unemployment fell below 4 percent at the end of the 1990s. Although profits did decline from 1997 to 2000 prior to the 2001 recession, the decline was not due to a profit squeeze; real wages during that time period rose more slowly than productivity. In the context of significantly reduced bargaining power for labor in the liberal SSA, low unemployment did not have the same effect as in the preceding regulated SSA.
15. See also Kotz (2008).
16. In Kotz (2003) the two regulated SSAs covered the periods 1900–16 and 1947–73, while the two liberal SSAs were in 1920–32 and 1980–2001. The intervals between those periods were considered periods of crisis and transition between SSAs.

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