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KAPITALISTATE

6/77

KAPITALISTATE

WORKING PAPERS ON THE CAPITALIST STATE

NUMBER 6—Fall, 1977

資本主義国家の作業テキスト

Papers de treball sobre l'estat capitalista

Arbetstexter omden kapitalistiska staten

Arbeitspapiere über den kapitalistischen Staat

Materiali sullo stato capitalistico

Materiaux sur l'etat capitaliste

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ERIK WRIGHT

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INTRODUCTION

Kapitalistate is the main publication of the collective and individual work of members of six Kapitalistate groups in the United States, and individuals who have associated themselves with the journal in other countries. Besides putting out this journal, the Kapitalistate network also publishes a Newsletter consisting of brief excerpts of works-in-progress of group members and also regularly sponsors panels and workshops on different aspects of the capitalist state at national and regional meetings of various professional and radical organizations (e.g. The Union of Marxist Social Scientists and the Union for Radical Political Economics). The Kapitalistate network is open to competing theoretical tendencies and ways of organizing practical work. Each group is autonomous and represents a diversity of non-sectarian political views and opinions, and has developed its own modus operandi for accepting new members and its own internal procedure.

An informal Kapitalistate network has flourished during the past couple of years in part due to our regular presence at both establishment and radical conferences together with our rigorous adherence to non-sectarian principles of unity and the emphasis we place on the collective self-organization of theoretical work. This network exists independently of the formal relationships between our various groups, and functions importantly to advance our common theoretical project based on the idea that collective working class power requires collective theory, i.e., the development of the theory of the capitalist state and its contradictions and weak links in the advanced capitalist countries.

The oldest group is based in the San Francisco Bay Area and is responsible for most of the practical work involved in publishing this journal which include coordinating the circulation of manuscripts among the various groups for comments; handling subscriptions and bookstore sales; and organizing the production of the journal itself. The Bay Area collective has also been active on the theoretical front. This issue contains two articles written by the Bay Area group as a whole and two by individuals in the group. These are the collective's studies of the development of political parties in advanced capitalist democracies and the Brookings Institution's recent evaluation of American economy and society; Pat O'Donnell's article on industrialization and the development of cities in the United States and David Gold's analysis of the rise and fall of Keynesian economic

policy in this country since World War II. In addition, the long article on the origins and early development of the state in the United States was written by a Bay Area member who is presently working in Europe and a German historian associated with our network in that country. In the past year or so the Bay Area collective has also organized meetings around the work of individuals who are engaged in studies of the capitalist state and who have wanted our collective opinion on their work.

A second group based in Washington, D.C. (the Capitol group) contributed the critique of government research studies published in this issue and also a commentary on an article by Andersen, Friedland, and Wright on "Modes of Class Struggle and the Capitalist State" (*Kapitalistate* No. 4/5, 1976). The Capitol group was organized last year and from the start shared the assumption that investigations of the Carter Administration's responses to the fiscal crisis of the national government would help locate critical elements of the contradictions of the capitalist state in the U.S. which the left might be able to exploit. The group's first sessions were focused on New York's fiscal crisis and more generally the issue of "failing cities." Discussions were also held on the problem of whether or not American capital actually faces a capital shortage. Eventually the group narrowed its focus to the study of bureaucracy and class analysis. The group read Nathan's *The Plot That Failed*, Mansfield's *Federal Executive Reorganization*, and Wright's *To Control or Smash the Bureaucracy*; subsequently the group became convinced that it would be more rewarding to draw upon its own rich experience in government bureaucracies for the information on which to base political analysis. Phil Brenner then presented his research examining the ways which Congressional members perceive their roles as agents of the state. His case study on the 1972 Higher Education Act showed that Congressional members understood the act as possibly functioning to reproduce capitalist social relations of production and examined the ways in which they tried to justify their behavior in these terms. Paul Goldman presented his paper (written with Donald van Houten) on managerial strategies and the worker: an analysis of bureaucracy that attempts to show the differing weights of capital accumulation and social control. Paul Goldman (with Ellen Hall) also advanced a proposal to study the perceptions of middle level bureaucrats, including their own views of conflicts and contradictions within the state. As the groups' analysis began to emerge, it became clear that most of its professional work involved varieties of research. The case studies discussed began to fall into a pattern which revealed certain features of the American state. From this work developed "The Study of Studies" which appears in the present issue. Although future work plans are indefinite the group decided to

"continue to participate in the Kapitalistate network, reviewing the work of other groups and circulating our own, provided a truly collective process is maintained."

Summary reports from the other groups indicate a similar emphasis on group support and comments of individual work and attempts to move in a collective direction. The Binghamton group's work is focused on the state in the Third World, the state and labor process, and the issues surrounding the question of world economy and international relations. The Binghamton group has accepted responsibility for putting out the Newsletter. The New York group has written a collective critical review of the first two issues of a comrade journal (*Zerowork*) whose approach to the theory of capitalism and class struggle resembles in some ways that of *Kapitalistate*. The Madison group has taken responsibility for mailing out issues to subscribers. It met regularly throughout the year and discussed its own work and papers circulated by other groups. Other pressing commitments facing group members prevented the development of any collective projects, but "the group will continue to meet this year and hopefully will begin to engage in collective work around *Kapitalistate* itself." Meanwhile Madison members participated in a Sociology Department Seminar on "Current Controversies in Marxist Social Science" which produced a series of collectively written working papers on debates within Marxist theories of the state, imperialism, ideology and culture, racism, sexism, and other subjects ($10 per copy, c/o Erik Wright, Department of Sociology, University of Wisconsin, Madison WI 53706).

The East Lansing group has had similar problems organizing a group project "because our energies have been continually split off in other directions and we have been unable to surmount the organizational problems emerging from continuous work on a single topic." Three members of the group are working on the subject of "non-reformist reforms" with the aim of providing a framework for left-wing policy analysis and alternatives in the areas of finance, food, health, housing, energy, and the underlying labor process. Other group and individual work includes a study of the history of black workers' struggles in the auto industry; historical analysis of revenue sharing functions, including class interests served and political alignments around the issue; the role of organized labor in the evolution of employment policy in the U.S. since World War II; and an historical investigation of simple commodity production and capitalism in the United States.

Kapitalistate in Britain

Sales of *Kapitalistate* in Britain have been reasonably good, given problems of supply, but there are no organized Kapitalistate groups nor is there a regular Kapitalistate network. This is because the kind of work that centers on *Kapitalistate* in the U.S. is now firmly located within the Conference of Socialist Economists in this country. The CSE has broadened its base considerably in the past three years to become an important forum for non-sectarian Marxist debate. The CSE Conference this year was attended by 400 people, of whom about 80 were foreign comrades, some from Kapitalistate groups in the U.S. and some former Kapitalistate activists from the FRGermany. Over 80 papers were presented at the Conference by comrades from Norway, Denmark, the Netherlands, FRG, Austria, Italy, France, Japan, and the U.S. as well as from Britain. The CSE has also started to publish a journal, *Capital and Class*, that replaces the old Bulletin, and that is supplemented by the regular Newsletter to all members. It is hoped very much that the CSE will be able to develop the internationalism that has been a growing feature of its work. Thus it is to be hoped that contacts between CSE and Kapitalistate groups can grow on the basis of the framework we have already established for exchange of materials, etc. Problems are bound to arise both because of bureaucratic incompetence and because British comrades' primary commitment tends to be to the CSE, but it is to be hoped that these can be resolved over the next year or so. Next year's CSE Conference will be held over the first weekend in July. The theme will center on the impact of the capitalist crisis in Britain, but this is not intended to give the conference a parochial or chauvinistic flavor and contributions outside the theme will be welcome. Any comrades who would like to offer papers for the conference, and who would perhaps welcome official invitations to the conference, should write with details to Simon Clarke, Department of Sociology, University of Warwick, Coventry CV4 7AL, England.

In this current issue we focus primarily on the United States. The articles appearing have been produced from the U.S. network and cover a range of issues dealing with U.S. political economic history. The Kapitalistate network is continually expanding, however, and future issues will hopefully contain the works of a larger selection of Kapitalistate groups.

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Political Parties and Capitalist Development

*San Francisco Bay Area Kapitalistate Group**

Introduction

Historically, the role of political parties under capitalism has been as agents of political mobilization and transformation. Political parties, however, have also played a role as agents of political *de*-mobilization. During the past few years these issues have emerged on the left as important political topics, but so far there has been little attempt to analyze the political party system from a theoretical-historical perspective. This paper hopes to set the stage for such an examination.

In the United States, recent discussions of party building on the left have been characterized by a need for new and thorough insights into the problem. Two views of party activity in general and of left party work in particular have emerged. One view is that progressive political change requires organized Marxist-Leninist or mass socialist party activity; consequently party building is the essential task at the present time. A second view (not mutually exclusive with the first) is that mainstream political parties in advanced capitalism are merely legitimating mechanisms of the capitalist system and that their activities can never lead to fundamental social change; consequently, the main task for critics of the capitalist system is workplace, community, and related organizing activity. Neither of these general views are based on thorough theoretical and historical analyses of the role of political parties in the development of capitalism in the advanced countries in general or in the United States in particular. The level of analysis of political parties and the role of the left in Europe suffers from the same deficiency, but here the subject has great practical importance because of the likelihood that communist parties will enter coalition governments in Italy and France within

* Members of the group are Jens Christiansen, Margaret Fay, David Gold, James Hawley, Michael Kimmel, Clarence Lo, John Mollenkopf, Patricia Morgan, James O'Connor, Patrick O'Donnell, Kay Trimberger, and Alan Wolfe. We would like to thank our former members, Sue Bessmer, Roger Friedland, Madeline Landau, and Erik Wright, who contributed to earlier stages of the project. An earlier version of this paper was circulated among all active *Kapitalistate* groups. We received many helpful comments and suggestions and we would like to thank the *Kapitalistate* groups in Madison, Wisconsin, Washington, D.C., and Binghamton, N.Y., all in the United States, and the group at the University of Warwick, Coventry, England.

the next few years and because of the increasingly problematic nature of the traditional labor and social democratic parties.

Our analysis of political parties begins with an overview of their origins and development in capitalist societies, so that the contradictory nature of their activities in modern capitalism can be better understood. The present paper offers an outline for further theoretical and historical analysis and political debate, by suggesting certain patterns and parallels among the political developments of different advanced capitalist countries. Its focus will be the apparently drastic change in the role of political parties in these countries: from parties as important agents of political change to parties as mechanisms of depoliticization.

In its early and middle development, the capitalist class in many countries made use of political parties in order to transform the diverse and often conflicting interests of its individual members into cohesive political demands of the class as a whole and to establish its political domination over other classes. Perhaps most strongly so in the United States today, advanced capitalist political parties serve to divert political energy into ineffective channels, trivialize politics and breed cynicism and opportunism. Today, mainstream political parties, rather than producing political change, seem to be preventing such change.

This drastic change in the role of political parties is a result primarily of the two-fold ideological role that the present parties play. First, parties legitimate the capitalist system by providing the illusion of democratic participation by individual citizens, and thus conceal the class structure in which the interests of capital dominate the important decisions of economic and social development. Second, parties perform the ideological function of providing individual scapegoats for the inherent structural contradictions of the capitalist system. These contradictions manifest themselves as economic crises, environmental pollution, inflation, poverty, etc., and are blamed on politicians and political parties and their supposedly inadequate political programs. The systemic flaws and contradictions of capitalism are thus disguised as the delinquencies of ignorant or ill-meaning politicians. In order to understand and advance the struggle of revolutionizing capitalism and imperialism, it is essential to understand the ways in which bourgeois ideologies and institutions mystify and legitimate the system as a whole.

The present paper starts by tracing the origins of political parties at the beginning of the capitalist mode of production and the rise of the bourgeoisie. Part I attempts to show how the bourgeoisie used political parties as instruments for political change in order to establish its own class domination. However, by the end of the last century, when the system of modern political parties was fully

developed, it became threatened by the growing strength of the working class and its own newly established parties. Yet as working class parties became more involved in the mechanics of parliamentary democracy they also became structurally integrated into a political system which functioned to legitimate the rule of the capitalist class. The spread of democratic participation went hand in hand with the emptying of parliamentary mechanisms of any real political power. This theme is developed in Part II, which attempts to trace the development of political parties under advanced capitalism, including their tendencies to internalize the capital-labor conflict rather than to continue their role as partisan or instrumental parties. In this way, political parties have come to contain rather than to promote social change. The third part of this paper examines current trends in the party system and argues that recent economic and social developments have led to a crisis in that system. Political parties as one of the mechanisms of the capitalist state are fulfilling neither of the two functions, accumulation and legitimation, essential to the maintenance and development of capitalism. It is no accident that contemporary political scientists are developing the argument that the present party-system be replaced by more authoritarian solutions to political-economic crisis tendencies of contemporary advanced capitalism.

It would be impossible in this paper to fully analyze the particular structure of working-class and capitalist parties in each advanced capitalist country. It is understood that mainstream parties in these countries have different histories (i.e. workplace vs. "local issue" origins of working class parties), are influenced more or less by different institutions (i.e. education, the media), and are characterized by different class compositions (i.e., the working-class composition of the communist parties in France and Italy vs. the working-class, petty bourgeois and bourgeois elements of the Democratic Party in the United States). What we suggest, however, is that comparisons of mainstream political parties can be made in advanced capitalist countries based on the historical and contemporary functional similarities of their role in the development and legitimation of capitalist accumulation.

Moreover, there are many important issues which we cannot adequately deal with here. For instance, the composition, definition, and general make-up of working-class parties requires long and thorough investigation and analysis. The same can be said for the role of the petty bourgeoisie in the history of mainstream political parties under capitalism, which has not been fully explored or understood. This paper, therefore, rather than providing an explicit theory of political party structure, chronicles the historical transition of parties and their role as instrumental and later integrative mechanisms of capitalist accumulation.

Part I: Parties and the Mode of Production

The historical development of political parties in Europe and the U.S. is not precisely chronological. There are instead different nations going through somewhat similar (allowing for internal variation and changing international conditions) and therefore comparable processes at different times. This paper attempts, therefore, to examine the characteristics of political parties as they functioned under particular political and economic conditions through different historical periods, and thus addresses the similarities in their development.

The rise of political parties and the rise of the bourgeoisie went hand in hand everywhere in Europe. The feudal aristocrats relied largely on extra-economic and extra-political means for the maintenance of their power. They used ideological coercion; they appealed to religious injunctions; and when such means failed they employed armed force. Thus the aristocratic landlords of the fifteenth and sixteenth centuries protected their interests by using armed private servants to terrorize and intimidate their opposition. In the Lombardy of Manzoni's great novel *I Promessi Sposi*, nobles constantly warred with one another while banding together when necessary to suppress peasant rebellions. Early Tudor England was racked by a violence on the part of the nobility so excessive that bringing it under control was a major task of the monarchy during the Elizabethan administration. Lawrence Stone writes that "the success of the Tudors in weaning the landed classes from their ancient habits of violence and subjecting them to the discipline of the law involved a social revolution of far-reaching consequences." Consequently, by the end of the sixteenth century, "as a method of conducting party politics, armed rebellion was. . .a thing of the past."[1]

Absolutist states emerged out of the European experience of feudal disorder. While absolutism appeared to be the product of the landed classes, there is substantial evidence that the nascent mercantile and craft bourgeoisies also played a role in sustaining the absolute state. According to Perry Anderson's account, absolutism was "overdetermined" by the growth of the incipient bourgeois class, hence it "fundamentally represented an apparatus for the protection of aristocratic property and privileges, yet at the same time the means whereby this protection was promoted could simultaneously insure the basic interests of the nascent mercantile and manufacturing classes."[2] In sum, the bourgeoisie supported the creation of states as an alternative to the chaos of pre-absolutist feudalism. There existed a close correspondence between bourgeois political and economic activity.

Raison d'etat and capitalism are after all closely allied sociologically. What else is capitalism than modern *raison d'economie? Raison d'etat* and *raison d'economie* stem from the same root. The increase in activity of the economic and political entrepreneurs (as one may refer to the founders of modern states), the heightened intensity and rationality of economic operations and state administration and policy, the subordination and the individual arbitrariness of leaders in politics and in economics to the interests of the 'firm' or the 'state' in its new character: all these fit together.[3]

The role of the bourgeoisie in the creation of the absolutist state, particularly in response to modernizing influences elsewhere in world capitalism, made the economic core of the absolutist state contradictory. Formal positions of state power were in the hands of the pre-capitalist nobility, yet the absolutist state had in part a "capitalist character" (to use Poulantzas' expression) because of its promotion and support of mercantilist policies.[4] As a compromise between landed wealth and merchant capitalists, absolutism represented what Wallerstein has called a "lesser evil" for both classes.[5] This contradictory economic basis meant that contradictory attitudes existed toward the party factions which emerged in the course of the development of the nation state which was to replace the absolutist state. On the one hand, the very definition of absolutism precluded party formations because total loyalty to the monarch could not be sustained if lesser loyalty ties were admitted. At the same time, the emerging capitalists could not protect their own interests in the compromise unless they organized themselves as a faction to do so. The emerging capitalists found themselves engaged in the subversive activity of creating the first recognizable party factions. The English gentry, which was forced into the decisive act of regicide during the Civil War, had begun to recognize its common interests through collective conspiracy at an early date.[6] In the Venetian Republic the *giovanni*—a faction of younger nobles with ties to the merchant class—emerged to give direction to their commercial ideas.[7] In France during the revolutionary assaults on the *ancien regime*, a similar development in party formation was crucial; bourgeois lawyers and their allies formed themselves into a faction in the Chamber of Deputies when the old regime crumbled. The Jacobin revolutionary consciousness found similar expressions in an organized party-system. In the United States both the Declaration of Independence and the Federalist Party arose from similar revolutionary circumstances.[8] In contrast to both the violence of high feudalism and the arbitrariness of absolutism, bourgeois thinkers in 17th century Europe such as Paola Sarpi and James Harrington emphasized the notion of *civitas*; they insisted that public affairs could and must be based on rational deliberation and conducted through common action.

The creation of political parties was a history of political struggles among various pre-party formations united by common economic interests during the transition to capitalism. The rising bourgeoisie was compelled to deal not only with the old landed ruling classes but also with the artisanry, peasantry, and other subordinate classes. In fact, the first concerted action that the new bourgeois parties undertook was precisely the dismantling of the pre-party formations of other classes--organizations which opposed bourgeois hegemony. For example, during the English Revolution, the Levellers, composed of disparate elements of the urban lower classes, followed up their success in organizing the Army by agitation in the Parliament. Whether or not the Levellers were actually a political party (as their best-known historian, Brailsford, claims),[9] they represented a significant political movement, an alternate vision of social reconstruction opposed to that of both the Royalists and Parliamentarians. Their humiliation at the famous Putney debates was one step in their delegitimation by the contending factions of the ruling class. Both Royalist leaders and Cromwell, despite their many other differences were allied in the face of this political challenge from below. In sum, the course of the English Revolution, was characterized by struggles among different pre-party formations representing different social strata and different political philosophies. The factions of the ruling classes united in response to the threat from below, and it is in this unification that the origins of the two party system, each representing factions of the ruling class, is to be found. However short-lived this ruling class cohesion, it was decisive in the development of the composition of the leading bourgeois political parties. Therefore, one outcome of the English Revolution was the first two legitimate political parties, Whigs and Tories.

In France, the revolution also involved political potentialities and conflicts that ultimately resulted in the exclusive emergence of bourgeois parties. The French bourgeoisie had a greater struggle to achieve this outcome (which was by no means inevitable), for in contrast to the English Levellers, the *sans-culottes* did succeed in achieving a degree of political power. For a brief period during the Year II, the artisans, tradespeople, shopkeepers, and women who made up the *sans-culottes* found themselves drawn into the Robespierrist Committee for Public Safety. During their two years of power they became the main instrument of Jacobin policy enforcement. Unlike the Levellers, the *sans-culottes* were given to collective action generally and to urban violence and terror specifically. It was the fear of the "mob mentality" of the *sans-culottes* which eventually united the warring factions of the bourgeoisie with the purpose of eliminating this popular movement and forestalling the organization of a political party from below.[10] While alliances between the

bourgeoisie and popular movements were essential in the attack on the *ancien regime*, the closer the bourgeoisie came to victory, the more it distrusted the instruments which were vital to its success. They believed that once they had gained power those parties might well become seditious, despite their earlier indispensable role.

In the United States, the attacks by George Washington and James Madison on the evils of "factions" were made by men who themselves had been instrumental in promoting the victory of one faction over another. It was precisely because the late 18th century bourgeoisie was simultaneously both a revolutionary class and an emerging ruling class that it developed contradictory attitudes and practices towards the political parties which it had itself created.

The full-scale development of modern political parties in Europe and the United States occurred relatively late in the 19th century under the impact of dramatically changing social class compositions, especially the changing composition of the working class and the bourgeoisie. Before the mid-19th century the governments of most developing capitalist states remained in the hands of cliques, clubs, and groups of "leading citizens." These antecedents of modern parties were often composed of bourgeois elements; except in the United States these groups were not transformed into or replaced by modern parties until mid-century. Around that time a number of factors precipitated the formation of unabashedly capitalist parties. First was the rise of the modern industrial bourgeoisie as the dominant economic faction and the concomitant creation and growth of an industrial working class. New challenges from the young but rapidly growing working class as well as traditional challenges from the peasants and artisanry in new forms had to be met. The bourgeoisie also faced challenges from the right (i.e. the landed interests and old aristocracy of finance) which still controlled parts of the state apparatus. Lastly, it faced demands for greater political representation of the entrepreneurial and middle classes from which the industrial bourgeoisie itself came.

In response to serious challenges such as the Chartist movement in England and the 1848 Revolution in Europe the bourgeoisie in many countries began to turn older organizations into modern political parties (or create the latter from scratch) in order to strengthen their own positions, to gain undisputed control over the state, and in this way to realize their economic and class objectives. Where the bourgeoisie was strong (e.g. England) it slowly expanded the franchise to strengthen its base of support among the middle classes. Where they were weaker (e.g. Germany) they entered into alliances with other classes.[11] In both cases, as a result of political measures which were usually initiated, formulated, and pushed through by bourgeois parliamentary leaders, modern capitalist parties came into being.

These parties, benefitting from the restricted franchise in most countries, experienced their heyday during the period when liberalism prevailed from the 1860s to the 1880s. Politics ceased being the leisurely affair of independently wealthy amateurs and became the province of professionals who, as Weber noted,[12] bore distinct resemblance to the capitalist entrepreneurs who supported them. Also, politics ceased to be the exclusive domain of small decision-making elites and required instead the building of governing coalitions and the mobilization of support through modern forms of party building.

The need for new political structures was the result of new social class formations created by the process of capital accumulation. In the early 19th century the social class structure in most capitalist countries consisted, on the one hand, of a small and progressive bourgeoisie which increasingly monopolized society's wealth and a small but privileged and politically powerful landed class (with its traditional financier and merchant allies), and on the other hand, the majority class of peasantry and small producers and a small but growing class of wage workers outside of agriculture. The political structure consisted of the party or pre-party governing clique of the infant industrial bourgeoisie, which often included elements of the old wealth and some independent producers. The latter tended to ally themselves with the bourgeoisie because both classes sought to abolish lingering features of the old regime, e.g. restrictions on the freedom of private property, high taxes, wasteful state expenditures, etc. Later in the 19th century, more and more conflicts developed between the small producers, over such issues as competition, national markets, and the centralization of political power. Wage laborers at this time did not have any formal parties of their own, and typically they attached themselves to the organizations of the small producers and semi-independent craft workers. Consequently, the party structure consisted of a liberal party of the bourgeoisie, a conservative party of the old wealth, and a democratic or early socialist party of small producers and craft workers. At times and in some places, a peasant or farmers' party coexisted with the democratic or socialist party.

The general patterns of social and political relations which emerged in the course of 19th century capitalist development takes into account the historical conditions experienced in each country. In different countries capitalist development took on somewhat different forms, created different class structures, and resulted in different political outcomes. For example, the United States never had a traditional landed aristocracy nor a European-type peasantry. The newly-independent American nation-state in 1776 was characterized by a planter class, a large class of small independent farmers, a dominant class of merchants, and an emerging class of manufacturers.[13] By 1860, the alliance of small farmers with the growing class of the industrial bourgeoisie in the Republican Party, against the planters and their allies (including portions of the working class) in the Democratic Party, had sharpened class antagonisms in United States society to the point of civil war. The outcome of the American Civil War was the triumph of a liberal capitalist order.[14]

Germany, however, in the mid-19th century still had a powerful landed ruling class, a weak industrial bourgeoisie, an even weaker progressive middle class, and a class of small independent producers threatened by the development of capitalist production's need for wage-labor. The so-called marriage of iron and rye was a working agreement between the National Liberals (industrial capitalists) and the Junkers (the old landed ruling class). The demand for a parliament was advanced by the extremely weak Progressive Party, which found its parliamentary democratic ideal unrealizable. The class of small independent producers, fearful of being overwhelmed by big capital on the one hand and later in the century by the rising socialist movement on the other hand, allied itself with pre-capitalist elements. The result of this political configuration was that the German bourgeois state developed under conservative rather than liberal auspices.

In England the old landed class yielded power to the new capitalist class through a succession of gradual reforms. Although there were splits between these two ruling classes which gave rise to electoral clashes and programmatic differences between the Conservative and Liberal Parties, the British generally made a relatively smooth transition to a liberal form of capitalism. The political developments associated with capitalist economic development, while exhibiting certain common features, varied widely in important respects. For example Barrington Moore suggests that the coalitions among various classes at the level of production, differing markedly in each case, had a crucial determining impact on the resulting form of the state.[15]

The basic feature of the 19th century capitalist party system was the *instrumental* design and function of most parties. Parties were formed to organize classes, coalitions among classes, or alliances between segments of classes, with the aim of gaining and using political power. Each of the classes participating in the party system in the 19th century was a property-owning class interested in using the party organization to advance its own material, social and political interests. Thus, parties served as instruments for the diverse and often conflicting interests of particular classes and fractions within classes. Although they vied with one another for power, they never challenged the system of private property per se. Property remained the basis for representation. Moreover, it was the parties of the bourgeoisie that ultimately dominated the evolving party system. The

bourgeoisie controlled the expanding productive forces, while other classes depended on declining forms of wealth, such as land or the instruments of petty commodity production. Hence whatever the complicated political compromises, involuted twists and turns, and temporary dictatorships which in fact characterized the history of parties and politics during this period, the parties of the bourgeoisie usually came out on top. Particularly in the leading imperialist countries, at first England, then the United States, the bourgeoisie dominated politically because no other classes could contend seriously for power. Old landed wealth was declining or being transformed into capitalist wealth. The older independent producers were being proletarianized and the new wage laboring class was too small, divided, and weak to challenge the power of the bourgeoisie. Such was the general political situation in most developing capitalist countries in the middle of the nineteenth century.

Several features of bourgeois political dominance and the state deserve special attention. First, once the bourgeoisie gained control over the state apparatus and shaped it to serve its own purposes, it sought to mystify its real political power. To be sure, the capitalists usually did not deny that they had a hegemonic position in political affairs; nor did they completely dismiss the criticism that they used the state for their own interests. But they claimed that their class interests represented the interests of the "society as a whole" and accordingly justified their own privileged position on the grounds that the use of the state for the benefit of capitalist interests also served the interests of other classes and the "nation." Second, the bourgeois revolution introduced a clear-cut distinction between economic power and political rule. This distinction served to protect the autonomy and independence of the economic sphere based on private enterprise from public surveillance, control or intervention through the political apparatus of the state. At the same time the formal separation of economic from political power generated the illusion that the manifest economic inequalities and the hierarchical class structure, based on the relationship of each class to the means of production, played no role in the formal government of a nation under the democratic control of "free and equal" citizens.

The price that the bourgeoisie paid for its freedom to control and organize economic life through private enterprise was the surrender of any possibility of overt political rule. The economic power of the bourgeoisie depended on (and created) a predominant and ever-growing numerical majority of wage-laborers, who, in a one-man, one-vote political system, would be assured of permanent control of the government if they were to organize themselves politically to pursue their class interests. One obstacle that emerged to prevent the working class from realizing its political potential was the immediate

result of the bourgeois revolution against the absolutist state: the institutionalized distinction between policy and administration, i.e. between the process of creating and formulating policies—carried out by elected representatives of the citizen body—and the process of executing, implementing and enforcing these policies, which was handed over to the "neutral" apparatus of state agencies, a hierarchical network staffed by professional administrators and civil servants. These government officials, with a few exceptions (such as Presidential appointees in the U.S. and Parliamentary Secretaries in Britain), were guaranteed a permanent position in the government bureaucracy, irrespective of the changes in the government itself. The determination of national policy, therefore, was the task of the party or coalition in power, checked by open debate with the opposition and subject to the threat that unpopular policy decisions would be exploited by the opposition parties. By taking over the powerful apparatus of the absolutist state and transforming it into the neutral executive instrument of the government in power (in the U.S., by creating its own state apparatus based on the division between policy-making and policy-execution), the emergent national bourgeoisie created the need for a party system, an arena in which policies could be formulated and support for them mobilized. At this early stage of the development of the capitalist state, the bourgeoisie formed and used political parties and political coalitions to articulate and promote their own interests under the guise of the "national interest," thus acquiring control of the government and the state apparatus. They were thus in a position to influence and transform the character of the state and state policies to serve their needs. Hence the governmental apparatus developed a permanent structure determined by the requirements of capital accumulation and resistant to challenges from the non-capitalist classes. Having molded the policy-executing apparatus of the state in its own image, the capitalist class became less dependent on the party system to formulate and promote its interests. Once the state was transformed into a fully-developed capitalist state, a tendency developed in the capitalist class to allow, or even encourage political parties to wither away. The permanent infrastructure of the state bureaucracy became an important conservative force in determining what policies could be realizable in practice. The reluctance of government officials and civil servants to implement or enforce any radical departures from previous policy acted as an effective brake on any major transformations. Consequently, gradual reform, and not radical reform, characterized the response of the capitalist political system to the newly enfranchised working-class majority.

The process of capital accumulation in the latter half of the nineteenth century was responsible for the following changes in

political parties. The collapse of the old wealth of landed property into the new wealth of industrial capital tended to result in the waning of the old conservative party or its merger with the bourgeois party and the emergence of a single ruling-class party. In the English House of Commons, the proportion of Members of Parliament from the commercial and industrial classes rose from 24 percent in 1874 to 38 percent in 1885 while the proportion of landlord and rentier MPs fell from 32 percent to 16 percent.[16] From 1868 to 1874 and again from 1880 to 1885, the Liberal Party of Gladstone, representing progressive capitalist interests, was dominant; and, when it was out of power, it was able, as a large and influential "loyal opposition" to prevent any reactionary measures. In France, the monopoly of power held by the aristocracy and the bankers since 1830 was completely broken by the bourgeoisie by 1870.[17] Although France had hardly any organized modern parties and was still run by coteries of political groups clustering around individual politicians, the emergent republican regime was made up of professional politicians who had close ties with capitalist industry and who were recruited from the professions of law and journalism.[18] The development of Italy and Germany was somewhat slow and retarded: as late as the 1860s, Italian Senators were by law aristocrats and landowners,[19] and in Germany, the bourgeoisie never had an effective monopoly of political power although it was the recipient of favors and dispensations in return for its support of Junker political rule.[20] In general, the latter part of the nineteenth century witnessed the flowering of liberal political parties throughout Europe—parties which vigorously supported capitalist programs for free trade, economic growth, education of a skilled labor force, secularization, and the like.

The old democratic and socialist parties struggled in vain to defend independent producers and craft workers, and in the end they either became insignificant minorities, or merged in a politically active (and often temporary) coalition with the new white collar stratum of wage-laborers, who were differentiated from the traditional manual working-class by the "salary" structure (including a graded level of career steps, sick leave, and pension and retirement schemes) of their wages and emerging in the late 19th and early 20th centuries. The process of capital accumulation presupposes that owners and accumulators of capital have at their disposal a workforce that is free in the double sense: free to sell their labor-power, like any other commodity, and free from the possession of their own means of production. Consequently, as the process of capital accumulation continued, most of the working population was reduced to this proletarian status, and with the loss of their means of production, the formerly independent (self-employed) workers were progressively stripped of their production knowledge and transformed into detail laborers or mass workers.

Occasionally the declining craft workers and their sympathizers formed or renewed parties to protect themselves from capitalist rationalization and modernization, and were able to recruit some support from the mass workers. But by the late 19th century, the working class had grown strong enough to form its own parties, though admittedly these parties were still infused with ideological elements from the petty-bourgeoisie, craft labor or in certain cases peasant traditions. In Germany, modern working-class parties had begun to emerge by the 1860s. The Liebknecht-Bebel International Workers' Association and Lasalle's General Association of German Workers were both formed in the 1860s, and merged into the German Social Democratic Party in 1875. In England, partly as a result of the widening of the franchise, there arose such political organizations as Hyndman's Social Democratic Federation (1881) and Hardie's Independent Labor Party (1893). Soon after, the British Labor Party was formed on the initiative of these trade union movements and socialist clubs.

Most working class parties in Europe, in contrast to the typical development of capitalist parties, originated as extra-Parliamentary organizations, centered on the workplace, and moved into Parliamentary politics in order to acquire legal power. In the U.S., the Democratic Party grew out of grass-roots local issues rather than the workplace. Capitalist parties, however, usually followed the opposite development: they originated within the parliamentary bodies and spread outwards in an attempt to widen their base by mobilizing popular support. With the expansion and the enfranchisement of the working class, the workers' parties in all developed capitalist countries grew to become either the sole majority party, or the majority party in coalition with other popular parties.

In sum, the process of political party development which began as three parties representing bourgeois wealth, landed property, and self-earned small property provided a de facto two-party system: one party representing the bourgeoisie and another representing proletarian wealth. The remnants of landed classes and industrialists, managers, capitalist farmers, and so on, tended to coagulate around the party which was bourgeois pure and simple. In the U.S., the Republicans became the party of big capital in the late nineteenth century. In England, the Liberals, although faced with a challenge from aristocrats-turned-reformers in the Conservative Party, became the essential rulers.[21] In Germany, the National Liberals, representing industrial capital and the old landed classes, dominated the state. But the pressures of capitalist development expanded and strengthened the working class, who organized their own parties to challenge the interests of capital at the level of parliamentary government. By the time of the First World War, capitalist parties were still in power; but

the challenges to bourgeois rule from below had already surfaced and were to become the most important political issue in the post-war era.

Part II: Parties and Advanced Capitalism

1. Advanced Capitalism and the State in the 20th Century.

Advanced capitalism is characterized by two processes: the completion of industrialization and the rise of the working class to the status of a permanent political majority. As Mandel asserts:

> Late Capitalism, far from representing a "post-industrial society," thus appears as the period in which all branches of the economy are fully industrialized for the first time.[22]

All branches of privately organized economic life are based for the first time on the capitalist employment of wage labor and most are rationalized to maximize the economics of large scale production. However, to the extent that the process of capital accumulation and the rationalization of industrial production intensifies the capital-to-labor ratio and output per worker, the growth of large-scale private industry tends to generate surplus industrial capacity, over-production and surplus labor and to give a new lease on life for small-scale capital. The small capitalists are able to hire workers rendered redundant by the monopoly sector at a low enough wage to make small-scale labor-intensive production and delivery of services profitable, especially in branches of the economy where the element of personal service to consumers resists the uniformity and impersonality imposed by the process of large-scale rationalization.[23] Whether employed by large-scale or small-scale capital, workers are wage-earners, whose separation from the means of production makes them members of the industrial proletariat, and whose work-activity is increasingly reduced to the mechanical routines of the mass detail laborer. With the completion of the industrialization process and the rise of the working class to a permanent numerical and political majority of the citizenry of capitalist society, the political party system in the developed capitalist countries underwent fundamental transformations.

The coming of age of the working class posed a grave danger for the capitalist social order. As Schumpeter, Strachey and other social theorists have written, an enormous contradiction appears in advanced capitalist countries. Economic power is concentrated in the hands of a few large-scale capitalists and their institutions, but the political power of democratic institutions is potentially concentrated in the hands of the propertyless working class. Hence political freedom and democratic institutions in late capitalism—where the majority citizenry has no property beyond its labor power—presents a potential threat to capitalism as such.

The majority status of the working class has severe effects on the party system. In general a large working-class party comes into existence or, in multiparty systems, a grouping of working class parties. A working class party can be defined as a political force or combination of forces which originates and receives its sustenance from institutions tied in some way to the process of proletarianization. The classic example is the British Labor Party, which was structured by the trade union movement. German Social Democracy had a similar origin, located as much in cultural and social organization as in workplace institutions. The French and Italian Communist and (to some extent) Socialist Parties would also be included in this definition. Even the Democratic Party in the United States, after its transformation in the 1930s, approximates the definition, despite its domination by petty-bourgeois elements, because of the local ties of the party with labor unions and working class-based political machines. In short, by working class party we do not mean a party that necessarily represents the objective interests of the working class but one whose historical roots are a political response to proletarianization, however indirect. Similarly, a capitalist party is one that originated as a political attempt on the part of the bourgeoisie to gain and maintain state power against pre-capitalist ruling classes. The Republican Party in America is a clear example, as are the Christian Democrats in Europe. In England the Liberal Party fits the definition better than the Tories, but the latter assumed the mantle of the former, making it a capitalist party in intent, if not in origin.

In the period of advanced capitalism a principal contradiction emerges which affects the organization of the state. Two parties—or in continental Europe, two dominant political groupings—exist: one supported by the capitalist class to represent its interest directly and another of working class origins but containing progressive and reformist capitalist elements as well. The working class party is highly electable; indeed, in advanced capitalism it becomes the "natural" ruling party in the way that capitalist parties were in the late nineteenth century. But if it promotes authentic working class interests—by pursuing policies such as full employment, expansion of the welfare state, legislating taxes and expenditures geared to expanding consumption, price controls, etc.—it undermines the logic of capitalist accumulation. It thus weakens the nation's position in the world capitalist system, with all the dangers of loss of economic and even political independence.

The differences between the capitalist class and working class parties or political groupings (Tories and Labour, Christian Demo-

crats and Social Democrats, Christian Democrats and Communists, Republicans and Democrats, etc. each in their own way embodying contradictions between labor and capital) as well as differences which reproduce themselves between factions within parties, including the various petty bourgeois factions, normally revolve around the problem of the correct accumulation policies. But the need to accumulate capital is itself never called into question. Despite all the reforms initiated by the working class, the precondition for the economic survival and viability of these societies still remains the accumulation of capital.

The capitalist state must not only maintain, and if possible strengthen, the economic position of national capital vis-a-vis that of other nations and secure economic prosperity at home, it must also secure political and social stability and maintain law and order. In other words, it must fulfill its stated function of representing and governing the people. This requires that the activities and policies of the governing party be justifiable as promoting the common interest, or at least the interests of the majority, as well as the interests of their own party constituency. No governing party can afford to neglect accumulation needs, but because of the working class majority every party strives to disguise or mystify anti-working class effects inevitably resulting from any successful process of accumulation. The capitalist party suffers the permanent disadvantage of a much smaller electoral base, but if it is able to gain power, by mobilizing popular discontent or putting together a winning coalition, it is the only party that can govern effectively, by ruthlessly promoting the national process of capital accumulation and ensuring economic viability and political independence vis-a-vis other nations.

In sum, there are two contradictory preconditions for the continued survival of advanced capitalist societies and for the viability of their system of government: the process of capital accumulation (the continued functioning of the capitalist economy) and the maintenance of legitimacy (the continued support of, or at least voluntary compliance with, the political institutions of society). In the past the formal separation between the political and the economic spheres of bourgeois society and the organizational weakness of the working class served to prevent the inevitable conflict between these two functions from surfacing. Now, however, in advanced capitalism, the state has been forced to intervene more and more in the economy to correct its inadequacies and inequities, subjecting economic processes to public debate and conscious control. These inadequacies include not only the destitution of the unemployed, along with the poverty of certain sectors of the working class, and insecurity of the working class as a whole, but also crises and interruptions in the accumulation process, resulting in bankruptcies among the capitalist class. Consequently, not only has the establishment of the welfare state forced the political system and governmental apparatus to take on responsibility for the economic well-being and social security of the working class, but, in addition, the role of the state as the guarantor of the national process of capital accumulation has been strengthened and more explicitly articulated as a result of pressures from the capitalist class. With the state's accretion of economic functions and the loss of confidence by both the working class and the capitalist class in the market mechanism of the capitalist economy, the formal separation between the economy and the polity has all but evaporated. All major economic decisions are now potentially subject to political intervention and democratic control, and the capitalist state has become a major arena of class struggle. This is what we mean by a fully developed capitalist state. Ironically, this is a state in which the majority of its members or citizens have bourgeois political rights yet no property in the means of production beyond their own labor power—a state in which the propertyless workers live with the political rights of the propertied.

These developments have not gone unnoticed. The Trilateral Commission, a collection of leading politicians, financiers, industrialists, and academics from North America, Japan, and Western Europe, and including, at its inception in the early 1970s, most of the high officials of the U.S. government that took office in 1977, has been commenting on these issues for several years.[24] The publications of the Commission have drawn extensively on recent Marxist writings.[25] In commenting on the current situation, the Commission writes: "The heart of the problem lies in the inherent contradictions involved in the very phrase 'governability of democracy.'[26] The solution that the Commission hints at is that the separation between the political and economic spheres of capitalist societies be reinstated, but not only through strengthening the market and limiting state intervention in the economy. Also, democracy should be "modified" to reduce popular pressure on the state and strengthen the role of expertise and seniority in the state management of the economy.

2. The Rise of the Welfare State and the Transformation of Class Struggle

The relationship between the producing class and that state changed profoundly when the wage proletariat became the majority class. The older democratic and socialist parties of self-earned property and craft labor had immobilized resistance against the centralizing tendencies of the bourgeois state—a state which historically promoted the interests of the capitalist class against the struggle of

small producers and craft workers to maintain the old way of life against the onslaughts of capital. These struggles ranged from utopian socialism to anarchism through craft unionism, guild socialism, and a bewildering array of frequently militant resistance movements and struggles. The general thrust of most of the movements and struggles was anti-state, i.e. struggles against developing centralized power, and for local autonomy in work, community, and culture. The modern working class of proletarianized wage-earners, however, were able to exploit their numerical majority in the electorate to form political parties and coalitions capable of taking over and strengthening the state in order to promote its own interests. Meanwhile the capitalist class continued to use its economic power—and the identification of the national interest with the accumulation of capital—to influence the state for its own ends. As a result the state increasingly became the main battleground between capital and the working class.

An important feature in all fully-developed capitalist states is the proliferation of social legislation that guarantees a minimum standard of living to every citizen, whether permanently or temporarily excluded from "gainful employment."[27] This level is consciously determined by open political debate and the calculations of "social scientific" expertise, and not left to the blind forces of market competition, as was the level of wages during the earlier period of competitive capitalism. This consciously-determined minimum level of citizen welfare means that the earlier concept of labor power as a marketable commodity sold by individual workers to private employers is being modified by the principle that the labor power of all citizens, whether marketable or not, should be reproduced at more or less the conventional standard and supported by public funds. The development of the welfare state thus marks the political triumph of the working class over the inherent laws of the capitalist economy. Direct agitation by mass movements, labor unions and community organizations no doubt have been at least as important as traditional party activity in forcing through welfare reforms. The welfare state enters history in different ways, including especially top-down, Tory or Rooseveltian corporate liberal reforms; underneath these reforms, however, lies the power of the mass working class. They demanded that the state underwrite the surplus population, which is generated through the accumulation process, in order to prevent it from functioning effectively as a reserve army of the unemployed. (However, capital's response in recent decades has been to increase utilization of international labor reserves in the Third World through importation of foreign workers on the one side and internationalization of production on the other.)[28] Because the surplus population may threaten the political workings of the system, capital frequently did not oppose and at times supported the development of social legislation and welfarism.

Working class struggle, combined with top-down reforms, replaced the concept of labor power as a commodity with the principle that every citizen, irrespective of his/her contribution to the production process and to capital accumulation, was morally and legally entitled to an income, without the sale of her/his labor power. At this time, the old idea of the workers' party as revolutionary party was replaced by the new idea of the workers' party as the party of reform. State support and underwriting of the reproduction of labor power and the nationalization of reproduction activities inhibited revolutionary movements and the development of insurrectionary parties. The welfare state, redistributive policies, and nationalized reproduction activities thus became important stabilizers of the capitalist system. By contrast, in Tsarist Russia and other countries in which the absolutist state had not been reformed or dismantled, the state did not permit the working class to establish political rights, although the capitalist class supported cautious steps towards political democracy, and the capitalist class did not permit the working class to advance economically, even though the state was not unwilling at times to support the workers' economic demands. In Russia, capital and the absolutist state were unable to agree on a program of reform and hence in 1917, when the conjunctural conditions were overripe, a system where acceptable reform was blocked exploded into revolution.

Alongside the working class struggle to use its political power to establish the welfare state broadly defined, there developed a capitalist struggle to prevent the political system from being used by the working class to challenge its economic power. The very structure of the governing apparatus of the bourgeois state, as an instrument for furthering the interests of the then dominant bourgeois class, serves as a built-in mechanism to exclude or render ineffective state policies unfavorable to the capitalist class and to the process of capital accumulation. The undemocratic organization of the state bureaucracy is obviously one such structural restraint on the challenge of the working class. Not surprisingly, the capitalist struggle has taken the form of strengthening and expanding the bureaucratic apparatus that executes and implements state policies which the governing party formulates; this struggle has been well-documented in studies of the increased bureaucratization of public life, including the representative branch where the potential power of the working class resides, the development of technocratism and other forms of depoliticization of public decision making, the growth of special state authorities not responsible to the elected branch, and so on. Moreover, the economic power of the capitalist class has enabled it to control key political positions so that the top leadership and decision making personnel of the governing apparatus are recruited from pro-capital

ranks to ensure that the "neutral" state apparatus serves as an instrument of the capitalist class. One such instrumental constraint on the political influence of the working class is the decisive role of money in the electoral campaigns and pressure-group politics of bourgeois society.

Two simultaneous struggles have occurred: the first aimed at developing a standard of living for the mass of workers in whole or in part independent of their role in the production process, and yielding one variety or another of economic and social reform, and the second motivated by the aim to divide and fragment the working class in order to prevent it from using its potential political power to end capitalism as such. As a result working class political activity has been transformed. For the time being, workers have given up revolution for reform and the capitalists adapted to reform to escape revolution. The working-class party finally became the ruling or national party, or at least a key in national coalitions. This is true of the European labor and social democratic parties and no doubt it would be true of the communist parties in Italy and France (which in any case actively exercise formal government power at local levels) in the event that they are not forced to follow the Soviet example of a one-party state.

The survival of capitalism and continuation of capital accumulation requires that governing parties accept responsibility for the social order as a whole and that the working-class party in particular adapt itself to the role of governing party or coalition party in the national government. This has been acceptable to the working class until now because it has satisfied immediate needs for economic security and welfare, resulting from its experience of abuse and deprivation in the historical development of the capitalist economy. It has been acceptable to the capitalist class because it has shaped the working class into its own economistic and growth-minded (and individualistic and privatized) image which is insurance against revolution with positive advantages of expanding and securing the mass market and the consumptionist way of life generally. Working-class parties governing capitalist democracies continue to represent and at the same time ignore or play down the interests of the workers as propertyless producers in the capitalist factory and office.

In this way, a kind of truce has been created in the class struggle between the imperatives of accumulation and legitimation—a truce which provides some temporary stability. But from capital's standpoint, the temporary, and at times uneasy, truce between the two classes in the form of reformist governments and reformist policies is still fraught with danger. While the welfare state holds back insurrection and revolution in the Leninist sense, it undermines capitalism by weakening or abolishing the classic role of the reserve army of the

unemployed in the accumulation process. The welfare state also subverts capitalist principles by substituting social use values as the criterion of production and by generating new contradictions in circulation processes. Reformism and welfarism also interfere with the accumulation mechanism in the sense that the working class establishes abstract and generalized political claims and rights which in the last analysis are inconsistent with a wage-labor system.

3. Class Struggle and Modern Two-Party Systems

The party system of advanced capitalism tends toward two parties, one of which is "effective" but unelectable and the other which is electable but "ineffective." This same contradiction also exists in various forms between factions within the major parties. The class struggle in its political form is fought out within the parameters of this contradiction. The capitalist class confines its politics to accumulation problems and related problems of law and order or social control. The political representatives of the capitalist class favor the old-fashioned policy of recession as the solution to working class indiscipline, high wages and inflation, together with tax and expenditure policies and legislation generally favoring investment and profits. A governing capitalist party may well lose its legitimacy among the electorate, if it pursues its policies of accumulation, but it won't lose the support of the capitalist class, whose moneyed power can often be utilized to offset its numerical minority. A governing working class party, on the other hand, if it succeeds in satisfying accumulation needs, runs the danger of losing its legitimacy both as the government of the people and the party of the working class. A working class party which forms a government of national rule cannot pursue pure accumulation policies and still expect to retain its political support; it can never put capitalist systemic needs completely ahead of working class needs (excepting, of course, in foreign policy and Third World exploitation where there may be a limited compatibility of interests).

In summary, given the logic of accumulation priorities, only the capitalist party can govern effectively. Only the capitalist party can put into effect those measures which will enable capital to maximize its influence over the accumulation process. However, capitalist parties which stress this side of their nature are not electable precisely because the working class constitutes the political majority. Any government must not only cope with the accumulation needs of the capitalist system, but also satisfy the proletarian or human needs of the majority of the population which exist independently of, and often in contradiction to, accumulation needs.

The necessity for national governing parties to deal with the contradiction inherent in the fully developed capitalist state between

accumulation and legitimation and to attempt to smooth over or conceal the differences between capital and labor means that the parties can no longer be effective instruments of particular classes (in effect, each party represents all commodity owners, including owners of labor power, i.e. everyone). This necessity also means that the parties are unable to meet either systemic accumulation needs or human needs effectively. For example, national governments formed by the major parties alone or in coalition normally intensify the material contradictions of capitalist society by tax policies which are ineffective compromises between systemic accumulation needs and proletarian needs and expenditure policies which neither discipline the working masses effectively nor meet the basic material needs of the working class beyond the simple reproduction of labor power at more or less the conventional standard.

Consequently, modern political parties in bourgeois democracies reproduce the contradictions between labor and capital in their structures and policies. Both parties need money and votes to win elections and national power. The capitalist party is assured of money and the workers' party is assured of votes and typically both parties compete with one another for votes and money, respectively, and also over the question, which party best represents everyone. Successful parties of the "right," "center," or "left" must have multi-class constituencies and appeal. Bourgeois ideology has always insisted that the state is above class conflict, that it is dedicated to the promotion of the common interest, the welfare of all its citizens, and that it is not the instrument of any particular interest group or economic stratum. This ideology is now actively promoted by all parties, despite their historical roots as representing particular class interests and despite their past active role in the class struggle, in an effort to secure this winning combination of money and votes.[29] Moreover, all parties in and out of government, increasingly resort to the allegedly neutral authority of scientific experts recruited from the non-partisan academic institutions of capitalist society—and, if we are to believe Karl Mannheim's theory of the free-floating intellectuals, unattached to either class—to formulate and justify (or challenge) state policies and activities. In mobilizing popular support for a multi-constituency and consensus-building ruling coalition, a political rhetoric develops, devoid of class analysis and class issues. The class struggle now transferred to the political arena is emptied of any class content or at least neutralized.

The basic systemic contradictions between accumulation and legitimation as well as the often masked and hidden conflict between the capitalist class and the working class of advanced capitalist society, cannot be eliminated nor even contained (except temporarily) by any one governing party or coalition. What is important to

note is that the alternation of governing parties accomplishes the task that no single party can achieve, namely the perpetuation of the capitalist state.

The never-ending competition for money and votes compels politicians to fix responsibility on one another for what are systemic social and economic contradictions and failings of capitalism itself. Thus, systemic problems, such as unemployment, inflation, poverty, commodity shortages, fiscal crises, and social malaise, as well as contradictions originating in or intensified by party competition, are transformed by the rhetoric of bourgeois politics into failures of leadership and personal or political limitations of governing politicians. This is analogous to the way that systemic contradictions hidden in capitalist production used to be blamed on malfunction of circulation processes or the market where these contradictions manifest themselves. Systemic contradictions and crisis tendencies are personalized and individualized and hence at once concealed and trivialized. Thus the modern bourgeois political party system as such performs an essential ideological function in the developed capitalist societies.

The change in political parties and politicians in power becomes the institutionalized means by which the tyranny of capital and the state bureaucracy is permitted to continue unchanged. A smooth functioning political party system legitimates the state directly and capital indirectly by creating the illusion that the system's contradictions and crises can be remedied by a change in government or by the conscious designs of a new state policy. Even though there is no guarantee that the party system will continue to function in this way indefinitely (and when parties revert to organizational weapons for class struggle they cease to be effective sources of this kind of legitimation), the success of the party system, especially in the United States, in converting systemic contradictions into the failings of politicians and parties is evidenced by the vast survey literature on voting which shows that voters respond most strongly to political personalities and symbols.[30] The personalization, and hence trivialization, of electoral politics which is the basic campaign rule in bourgeois democracies is the empirical manifestation of the ideological role of politicians and parties, i.e. to be the fall guys for systemic crisis tendencies. Normal campaigning, elections, and party rule insure that the capitalist system remains unquestioned and unchallenged while individual politicians and parties increasingly make each other appear to be responsible for the malfunctions of society. It is not merely that professional politicians dodge the real issues for election purposes, but that the political system as such necessarily avoids the real issues. The more that politics is based on personality and symbol, and the fewer the issues that appear to be in contention

on the surface, the more issues there really are imminently underneath the surface of bourgeois political life.

This development in the political system of bourgeois democracies and in the character of the individual parties has transformed the careers of the politicians themselves. Political parties have developed into organizations of professional politicians who specialize in attempting to balance capital and labor. In theory, professionalism has always meant allegiance to universal norms above partisan loyalties. In practice this has often meant, and it is especially true in the case of professional politicians, the sale of one's professional services to the highest bidder. The professional side of the professional-politician insures that national politicians who rise to the top are trustworthy from capital's standpoint. The politician side of the professional-politician insures that the political leadership has the popular constituency necessary for the fulfillment of its legitimation function. Professional politicians and their parties cannot be instruments of any particular class precisely because they must be opportunistic. They must put together a winning combination of money and votes without caring, or politically being able to afford to care, whose money and votes they use to ride to power. Their basic interests lie in electoral victories. Hence, politicians attach great public significance to election campaigns and results, even when they have little or no meaning for anyone else. Excepting differences in rhetoric and marginal differences in the ways that issues are formulated and discussed, the main ideas that politicians communicate during election campaigns is that important differences do in fact exist between themselves and their rival politicians and parties, and that the election will have significant material consequences for society. In effect, all politicians run on the issue that changes in party rule and/or politicians in office will result in important changes in society or preserve cherished values.

Political parties, the professional associations of professional politicians, have been transformed into the mouthpiece of many diverse interest groups. Successful interest group politics accommodates capital and labor and at the same time insures that the party system based on interest groups will continue to function as mystifying buffers for the state bureaucracy and capitalism generally. Instead of open and public class leadership, we have hidden and private interest group leadership. Instead of the war between capital and labor in which proletarian political power ends capitalist domination of economic life, we have economic and political competition within and between parties and particular industries and regions organized as interest groups.

Politicians, the party system and the democratic institutions of advanced capitalist societies have thus all adapted in ways that serve

to institutionalize the truce between capital and labor and neutralize the class struggle. However, despite these institutionalized mechanisms, political and economic crises have not been averted and the future stability of capitalist society can by no means be taken for granted.

In the past, economic and political crises in United States and European history have coincided and fed into one another to produce a newly recomposed political party system. In the 1890s and 1930s, for instance, the party system was reconstituted, largely prompted by serious economic contradictions and contradictions between the economy and political system. As these party systems emerged, periods of relative stability were ensured domestically. Today, however, the system of political parties as such shows clear signs of decomposing. As long as a truce between capitalist and workers' parties (and factions within both) exists and defines the party system as a whole, political parties can operate only in the way we have described them: as compromisers, trivializers, and mystifiers, or as "catch-all parties" in Kirchheimer's phrase.[31] But this kind of truce cannot last. Although they obscure and mystify systemic contradictions, parties eventually contribute to their exacerbation because they tend to undermine both accumulation and legitimation requirements, so that it becomes more difficult for parties to govern. Capitalists begin to question the viability of party government itself, and wonder whether the costs of formal democracy should include restrictions on profits and accumulation.[32] Accumulation crisis tendencies produce among ruling elites the sense that the democratizing features of the party system must be curbed. At the same time, the fact that the parties compromise the legitimation function by sponsoring accumulation, leads more and more members of the working class to question whether in fact parties are or can be really responsible to their own interests. Between dissatisfaction from both above and below, the party system increasingly appears as problematic and as no longer capable of carrying out its historic tasks of insuring democratic government.

The continued fall-off in support for the parties is clearly manifested in some recent survey research undertaken in the United States. In 1964, 68 percent of the U.S. citizens surveyed believed that party names should be retained on the ballot, but by 1974, only 39 percent thought so. When asked whether they voted for the man or for the party, 22 percent opted for the latter in 1956, but this fell to 12 percent in 1968. In 1964, 41 percent felt that parties help government pay attention to the people, contrasted with 27 percent in 1972.[33] Similarly, a large and growing number now consider themselves independents.[34] Yet a third aspect is the phenomenon of split-ticket voting; straight party ballot decreased from 80 percent in

1950 to 50 percent in 1970.[35] A fourth indication is the 8 percent drop in voter turnout over the past ten years,[36] which echoes a longer term decline. A fifth index is the decisions of various capitalist states, including the U.S., Germany, and Italy, to finance political party campaigns, because the parties are having difficulties financing themselves. Finally, the current political popularity of running "against politics," of proclaiming independence from the seat of decision making, and informing the electorate that politicians run for office for reasons other than the pursuit of power also suggest a decline of the parties. In short, a wide variety of trends have come together to support the notion that capitalist party systems, like capitalist economies, have entered a period of serious difficulty.[37]

Bourgeois political scientists have not ignored these trends. His survey data convinced Jack Dennis that "the American party system has undergone a marked erosion of its legitimacy among members of the mass public in the past ten to fifteen years. . .In several respects such support has moved to dangerously low levels. . .the evidence for recent party system delegitimation in America is therefore overwhelming."[38] Commenting on the mediating role of parties, Walter Dean Burnham pointed out in 1969 a tendency "for our political parties gradually to evaporate as broad and active intermediaries between the people and their rulers. . ."[39] By the mid-1970s Burnham was sounding even more dramatic, calling this decline in the parties as mediating mechanisms ". . .the end of two-party politics in the traditional understanding."[40] The 1975 Trilateral Commission Report strongly recommended "Reinvigoration of Political Parties," having noted:

> Party loyalties, like loyalties to church, state, and class, have tended to weaken throughout much of the Trilateral areas. . .Yet partisan allegiances, along with party conflicts, have historically been the bedrock of democracy. Even today political parties remain indispensable to insure open debate over meaningful issues, to help aggregate interests, and to develop political leaders. But to continue to perform these functions they will have to adapt themselves to the changed needs and interests of the electorate. They will have to recognize that a primary need for the citizen. . .today is help in perceiving the world, interpreting events, selecting and filtering out information, and simplifying choice.[41]

Two-party systems throughout most of this century appeared as the "natural" way to organize a capitalist polity; but by 1976 this affinity was being undermined, commencing a new cycle in the relationship between the mode of production and ways of organizing the state.

Part III: Parties and the 1970s

Beginning in the mid-1960s, the economic situation in the advanced capitalist countries began to deteriorate. A series of business

cycle downturns became a world-wide recession and memories of the Great Depression became more vivid. An increase in prices of raw materials and minerals, most of which are supplied by the less developed countries, indicated a possible long-term shift of strength toward the Third World. By the mid-1970s, it was clear that the forces that had propelled advanced capitalist economies in the period after World War II were being altered in fundamental and perhaps irreversible ways. The main forces which contributed to capitalist expansion in the post-war years were the growth of consumption industries, the integration and exploitation of new sources of labor power, the expansion of trade in commodities and raw materials, the growth of credit and financial claims, the internationalization of capital, and state investments, loans, and other state programs and policies. Most if not all of these forces have now lost their expansionary impact. By the 1970s the dominant problems appeared to be cost pressures, inflation and state fiscal stresses and strains, particularly at lower levels of government.

In the recent period of capitalist development, since World War II, two interrelated long-run changes appear to be important. One is the consolidation of working-class presence within the governing apparatus of advanced countries, specifically within the political party system. The second is the growth of the economic role of the state in the private economy.

The integration of the working class into the institutions of government occurred in some countries earlier than others. In general, however, in all the advanced capitalist countries, recent economic growth has depended upon the expansion of the consumption of large portions of the working class, together with the growing salaried stratum, which in turn facilitated the integration of the working class into the system of political parties and government.

State spending played an important role in the post-war expansion. In the forms of social capital (social investments and social consumption) and social expenses (broadly speaking, warfare and welfare), state spending was a crucial leading sector on the demand side in the post-war years. Social capital projects were also an important factor on the supply side during this period. In all advanced capitalist countries, some version of Keynesianism with its emphasis on demand maintenance and some version of state capitalism with its emphasis on socializing the costs and expenses of production were the order of the day. And the coalitions represented in the "natural" governing parties, most clearly the Democratic Party in the United States, the Social Democrats in West Germany, and the Labour Party in England, all with their collection of liberal capitalists, labor leaders, professionals such as teachers and health workers, and other liberals and social democrats, best embodied these theories of state policy.

Today, the main economic problem is the control of costs. This implies that the political problem for capital domestically is the problem of disciplining labor. But the political party most capable of governing is precisely the party with greatest working class representation. The contradiction which has now surfaced is that on the one hand the economic strategy that appears to be most effective for capital is one which emphasizes an attack on wages and employment and a reconstitution of the reserve army, but on the other hand the governing parties include labor representation and draw heavily on working-class constituencies. In relation to economic policy specifically and social policy generally, therefore, the majority parties are being forced to attempt to enact policies directly in opposition to those policies which originally helped to create their governing coalitions. In short, the ineffectiveness of the older economic policies and the obviously conservative nature of the new policies have together contributed to a legitimacy crisis of both the state and the political party system.

The question then arises, what consequences does the increasing failure of the party system to represent class interests and to govern the capitalist state pose for advanced capitalist countries? One consequence is the instability of governing coalitions. In the United States, the coalition which had formed in the 1930s and 1940s around a program of "cold war liberalism" is now in disrepute. Both the election of Nixon and the 1976 victory of a Democrat who rose to power largely outside of traditional party channels are indications of the search for new forms which a ruling coalition can take. In West Germany, small voting margins separate the two major parties, which is also the case in Britain. Both countries face firm political stalemates owing to the failure of either of the major parties to establish unquestioned hegemony. In Italy, the Christian Democrats today are able to rule only so long as the Communist Party permits them to. The Scandinavian party systems are turning flip-flops; recently the Conservatives in Sweden upset the Social Democratic Party, which had long considered itself the natural ruling party of that country. Right-wing, quasi-populist parties are emerging with renewed strength in both Norway and Denmark. The "inevitable" rule of the Labor Party in Israel is no longer the case. In Canada there has been the emergence of a brand new ruling party in Quebec and a pronounced inability of the Trudeau government to be responsive to class, regional, and cultural tensions. Japan has been wracked by scandal, leading to sharp power shifts within its dominant party in a near desperate attempt to assemble a new governing coalition. From one end of the advanced capitalist world to the other there has occurred in recent years a crisis of the party system, manifested in the difficulties these countries face in achieving political stability.

A second consequence of the failure of the capitalist party systems is a resurgence of authoritarian sentiment on the part of the dominant classes and elites. Suspicious of democracy from the moment that they themselves established their control of the nation state, the capitalist class has become increasingly impatient with the party system which now seems to be inefficient and less responsive to their needs. Capitalists have come to distrust a political device much of their own making. The result is an even greater attraction to managerial, technocratic, and other forms of seemingly apolitical theories and practices of political rule. Legislatures are bypassed even more often, executives strengthened, administration encouraged, participation denigrated, elections undermined, and public opinion downplayed. The political parties continue to function, but the spheres in which they organize state functions narrow and lessen.

Moreover, the dominant elites can always use their influence over the state apparatus to resort to coercive measures in an effort to contain the potential political power of the working class. Fascism may appear superficially to be a resolution to the importance of the governing systems of capitalist countries but it is a solution which creates new contradictions. Historically, fascism was specific to the have-not industrial powers without colonies or large territories in the 1920s and 1930s; it was defeated and replaced by bourgeois democracies. Theoretically speaking, recourse to fascism as the solution to the contradictions between capital and labor or between accumulation and legitimation is a temporary cop-out. Nevertheless, it would be foolish to believe that there is *no* possibility of the return of fascism as it appeared in the 1920s and 1930s. Already, overt repression and violence has increased. More and more aspects of policy are promoted as bipartisan, which means they cease to be subject to serious debate in the public realm. A neo-Federalist distrust of the evils of "faction" comes to dominate public discourse on one front; increased militarization and use of police power is important on another.

But the tendencies toward depoliticization and repression are matched by a third consequence of the impotence of the party system—and one which partly offsets them. The legitimacy crisis of the bourgeois party systems creates new opportunities for anti-capitalist movements everywhere in the advanced capitalist world.

To some extent, anti-capitalist struggles are a source of the legitimacy crisis of the party systems. Political activity over the last decade, from antiwar struggles to guest worker struggles to student and Third World struggles, have occurred outside of the context created by the political party system and have shown the inability of the system to deal with the substantive issues. For example, in the United States, political parties attempted to defuse antiwar protest

and, via Nixon, tried to use the language of the movement to mystify an expansion of the war. The fact that they failed is a tribute to the weakness of the mystification mechanism, the strength of the opposition, and the continuing struggle in Southeast Asia.

The present situation is one of new openings. But it is also one with many questions. Should the left take advantage of the weakness of the party system by joining it because control would now be easier? Or should the left interpret the impotence of the party system to mean that bourgeois politics are hopeless and to be ignored? These are hardly new questions but the situation in which they are now being asked is somewhat unique. The purpose of this paper has been to contribute to the analysis of the contradictions of capitalism in the present period, in order that these and related questions can be approached with a firmer grasp of the realities and the possibilities.

Footnotes

1. Lawrence Stone, *The Crisis of the Aristocracy* (Oxford: Clarendon Press, 1965), 250, 255.
2. Perry Anderson, *Lineages of the Absolutist State* (London: New Left Books, 1974), 39, 40. See also, Theda Scocpol, "A Structural Theory of Social Revolution," (unpublished dissertation, Harvard University, Department of Sociology, 1975).
3. Felix Gilbert, ed., *The Historical Essays of Otto Hintze* (New York: Oxford University Press, 1975), 92.
4. Nicos Poulantzas, *Political Power and Social Classes* (London: New Left Books, 1973).
5. Immanuel Wallerstein, *The Modern World System* (New York: Academic Press, 1974), 309.
6. See Christopher Hill's numerous works on the English Revolution for discussions of this point.
7. William J. Bousma, *Venice and the Defense of Republican Liberty* (Berkeley and Los Angeles: University of California Press, 1968), 268-291.
8. See Margit Mayer and Margaret Fay, "The Formation of the American Nation State" in this issue of *Kapitalistate*.
9. H. N. Braisford, *The Levellers and the English Revolution* (Stanford, California: Stanford University Press, 1961), 309-319 et passim.
10. Albert Soboul, *History of the French Revolution* (New York: Vintage, 1976).
11. Theodore Hamerow, *Restoration, Revolution, Reaction* (Princeton: Princeton University Press, 1968).
12. Max Weber, "Politics as a Vocation," in Hans Gerth and C. Wright Mills (eds), *From Max Weber* (New York: Oxford University Press, 1958), 77-128.
13. Mayer and Fay, *op. cit.*
14. Eric Foner, *Free Soil, Free Labor, Free Men* (New York: Oxford University Press, 1970).
15. Barrington Moore, *The Social Origins of Dictatorship and Democracy* (Boston: Beacon Press, 1966).
16. W. L. Guttsman, *The British Political Elite* (New York: 1963), 80, 82.
17. Daniel Halevy, *La Fin des Notables* (Paris: Grasset, 1930); Jean L'homme, *La Grande Bourgeoisie au Pouvoir, 1830-1880* (Paris: Universitaire de France, 1960), 275-279; Theodore Zeldin, *France, 1848-1945* (Oxford: Clarendon Press, 1973), 570-604.

18. Carlton J. H. Hayes, *A Generation of Materialism, 1871-1900* (New York and London, 1941), 71.
19. Margot Hentze, *Pre-Fascist Italy* (New York: Octogon Books, 1972).
20. Arthur Rosenberg, *Imperial Germany* (Boston: Beacon Press, 1964), 19; John R. Gillis, "Aristocracy and Bureaucracy in Nineteenth Century Prussia," *Past and Present*, 41 (December, 1968), 105-129.
21. According to the meticulous research of James Conford, the British Conservative Party was still pre-capitalist in its organization as late as 1867. Particularly in the countryside, party affairs were almost the same as they had been 100 years earlier, i.e. paternally organized around estates and simply unprepared to cope with the demands of bourgeois politics (James Conford, "The Transformation of Conservatism in the Late Nineteenth Century," *Victorian Studies*, 7 (September, 1963), 41.
22. Ernest Mandel, *Late Capitalism* (London: New Left Books, 1975), 191.
23. James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), 25-29.
24. See especially, Michel Crozier *et al.*, *The Crisis of Democracy* (New York: New York University Press, 1976).
25. Alan Wolfe, "Capitalism Shows its Face," *The Nation* (November 29, 1975).
26. Michel Crozier *et al, op. cit.*
27. Harold L. Wilensky, *The Welfare State and Equality* (Berkeley and Los Angeles: University of California Press, 1975).
28. Various studies of utilization of foreign workers and internationalization of production are summarized in: University of California Study Group on Worker Migration, "Capital Accumulation, Class Struggle, and Labor Migration," mssx, (1977).
29. This point is well made in Otto Kirchheimer, "The Transformation of the Western European Party System," in Joseph La Palombars and Myron Weiner, eds., *Political Parties and Political Development* (Princeton: Princeton University Press, 1966).
30. Read critically, these voting studies offer a stunning critique of the nature of bourgeois politics. See, for example, Angus Campbell *et al.*, *Elections and the Political Order* (New York: John Wiley, 1966).
31. Kirchheimer, *op. cit.*, 184.
32. Facing what he calls a "variety of critical issues," Samuel P. Huntington has asked: "Is Democratic government possible without political parties? If political participation is not organized by means of parties, how will it be organized?" See "The United States," in *The Governability of Democracies* (New York: The Trilateral Commission, 1975), 36. For additional musings along these lines, see Anthony King, "Overload: Problems of Governing in the 1970s," *Political Studies*, XXIII (June-September, 1975), 294-295; Samuel Brittan, "The Economic Contradictions of Democracy," *British Journal of Political Science*, 5 (April, 1975); Giovanni Sartori, "Will Democracy Kill Democracy?" *Government and Opposition*, 10 (Spring, 1975); and Robert Nisbet, *Twilight of Authority* (New York: Oxford University Press, 1975).
33. Jack Dennis, "Trends in Public Support for the American Party System," *British Journal of Political Science*, 5 (April, 1975).
34. Frederick G. Dutton, *Changing Sources of Power: American Politics in the 1970s* (New York: McGraw Hill, 1971) 228; Richard W. Boyd, "Electoral Trends in Postwar Politics," in James David Barber, ed., *Choosing the President* (Englewood Cliffs: Prentice-Hall, 1972), 494-519.
35. N. D. Glenn, "Sources of the Shift to Political Independence," *Social Science Quarterly*, 52 (December, 1972), 494-519.
36. Dennis, *op. cit.*, 191.
37. For a more complete analysis see Alan Wolfe, "Politics as Spectacle: The Looming One-Party System," *The Nation* (June 19, 1976).
38. Dennis, *op. cit.*, 226.
39. Walter Dean Burnham, "The End of American Party Politics," *Transaction* (December, 1969), 20.

40. From a memo of Burnham's cited in Daniel Bell, "The End of American Exceptionalism," *The Public Interest*, 41 (Fall, 1975), 217.
41. Michel J. Crozier *et al.*, *The Crisis of Democracy:* Report on the Governability of Democracies to the Trilateral Commission (New York: New York University Press, 1975).

The Formation of the American Nation-State

*Margit Mayer and Margaret A. Fay**

Introduction

The recent debate among West German Marxists over the nature of the capitalist state has tended to bypass the historical analysis of concrete situations and developments and has taken as its starting-point the abstract categories which Marx developed to reveal and analyze the internal self-contradictory dynamic of the capitalist system. These abstract categories and the inexorable logic of the laws governing the self-expansion of capital have served as the premises for deriving explanations of the functions, institutions, and structures of bourgeois government. The manifold forms of the capitalist state are explained in terms of certain necessary preconditions which must be fulfilled for the accumulation of capital to continue uninterrupted and for the class relations of capitalist production to be perpetuated (e.g., Altvater, Offe).

The problem with these explanations is that their premises and logic collapse when one is confronted with the task of understanding political structures which bear the characteristics of a capitalist state, but which emerge historically in a context where the appropriation of surplus labor has not yet taken the form of surplus value, where capital has not yet developed its own self-expanding dynamic, and where capitalist social relations do not yet exist to be perpetuated. Such is the dilemma of Gerstenberger (1973b), one of the recent serious attempts at an historical analysis of the formation of the bourgeois nation state. She fudges the dilemma by the conceptual ambiguity of the term "bourgeois state." At times she means the political superstructure which the inner structure of bourgeois society must itself bring to birth; at other times she means the preconditions of the actual birth. In other words, the baby becomes, by default of clarification, no different from the events and the conditions of the actual birth, and both are produced by deductions

* This article is the result of our joint reworking of Margit's dissertation, *Zur Genese des Nationalstaats in Amerika* (Johann Wolfgang Goethe-Universität, Frankfurt am Main, 1976), where a fuller discussion of the historical data can be found. We are extremely grateful to the Bay Area Kapitalistate collective for their supportive discussions and commentary throughout our work-process, especially to Pat Morgan, Jens Christiansen, Jim O'Connor, and Pat O'Donnell, for their indispensable help in our final task of cutting and editing.

from abstract categories which are then arbitrarily imposed on the historical evidence. Consequently in her empirical work on the historical genesis of the American nation state, Gerstenberger (1973a) uncritically accepts Marx's assertion that "the state [of the North Americans], in contrast to all earlier formations, was from the beginning subordinate to bourgeois society, to its production" (Marx 1973, 884), without undertaking a serious examination of the historical evidence to discover just what this production consisted of. The view that the production-system of the 18th century North American provinces was essentially a unified one is shared by many Marxist historians (e.g., Dowd, Hacker), but is not supported by the historical evidence. The establishment of a centralized political apparatus in 1789 is in itself by no means proof of (in Gerstenberger's terms) "the coinciding conditions of production."

Our own examination of the historical record reveals that what existed on the North American continent in the eighteenth century was not a unified system of production, much less a capitalist system. Instead there was a conglomerate of different nodules of production, none of which can be accurately characterized as capitalist: for example, slave plantations in the South and independent farmers and petty commodity producers in the North. Yet the Constitution of 1787 is still with very minor changes the foundation of the U.S. political system of the 1970's which is accepted by both Marxists and non-Marxists alike as the most advanced capitalist state. Thus the problem arises for Marxist analysis: how did this capitalist superstructure emerge from a non-capitalist material base, from a non-unified, heterogeneous mixture of separate systems of production? In answering this question, we hope to demonstrate that it is possible to start with the concrete detail of history, without abandoning Marx's own conceptual framework.

What unified the conglomerate of diverse modes of production from which the capitalist social formation of the United States of America emerged was not industrial capital, but rather merchant capital,[1] the movement of which served to unify the separate and different regional spheres of production in the North American colonies into an integrated economic unit of trade, a mercantile system. This system can only be understood within the wider context of the world market and of the accelerated worldwide expansion of capitalism in the eighteenth century (cf. Marx 1955, 10). This system developed both an internal dynamic of its own and at the same time was shaped by the external dynamics of the emerging world market. The boundaries and the structure of this system found political expression in the 1787 Constitution of the Union of the independent states of North America.

The first step in our analysis is to locate the origins of the North

American colonies in the seventeenth-century mercantile system and to examine the (eighteenth-century) development of the dominant modes of production, in order to identify the economic bases and interests of the respective dominant political groups. We will then analyze how these groups effected the establishing and centralizing of their own political organs after throwing off British rule; and how each tried to realize its own interests with the aid of their new state. We will discuss the character of the 1787 Constitution of the U.S. and show how its provisions corresponded to, and fulfilled the survival needs, both external and internal, of the young nation state. We conclude our historical analysis with the translation of these principles into the seemingly neutral state apparatus created by the nascent American bourgeoisie under the first Federalist and Republican governments. In our postscript we will briefly outline the implications of our case-study for the later development of the U.S. into an industrial capitalist nation and the active role of the U.S. state in this process.

I. THE DEVELOPMENT OF THE AMERICAN ECONOMY AND CLASS STRUCTURE BEFORE 1787

1. The Origin of the North American Colonies in the Seventeenth-Century Mercantile System

The colonization of North America and the British West Indies originated from the interests of a merchant class in Great Britain who sought to create a trade network across the Atlantic in order to increase their profits (Hacker, 67 and 93-4). This commercial origin gave its imprint to the economic and political development of the American colonies and accounts for the extent to which the history of the American colonies differed from that of other British colonies, as well as from the experiences of the French and Spanish colonies. Because the most important British colonies were founded in the second half of the seventeenth century, i.e., before the British had organized their mercantile enterprises into a consolidated system, Britain did not succeed in establishing such rigid controls over her dominions as France and Spain. This left space for an indigenous accumulation of capital to develop (J.A. Williamson 1929; cf. Jensen 1968, 24).

The interests of the merchant capitalist class were formulated in the mercantile theory of British political economy, a theory which included the recognition that merchants, when denied the opportunity of outright plunder, could still profit from the colonization of North America by trading. What mattered was not only to secure the greatest possible natural riches, but also to profit from selling them

favorably to other nations (cf. Marx III, 1909, 387). In general, the more varied the products that a nation could offer on the world market, the larger would be the number of potential buyers. Hence it was of advantage to the British mother country in its competition with Holland and France to encourage diversified staple and other extractive production in its mainland colonies where exploitation by plunder was unfeasible. However, in the special case of a region where a unique combination of natural resources provided the conditions for cultivating a product that was in high demand, but could not be supplied elsewhere, the optimum balance of trade could be gained by the *exclusive* cultivation of that product. Such conditions the British discovered in the West Indies. There was a large demand for sugar in the European market, and it could be readily and cheaply supplied on the rich soil of the West Indies whose sugar plantations were developed to become the most profitable enterprise and consequently the focus of the British colonial system as a whole (Newton 1933, 149). Sugar became the *exclusive* product of the West Indies. Contrast this with the colonies north of the Mason-Dixon line which had few staples of any value in the European markets, but a permanent surplus in a variety of food and lumber; and with the colonies from Maryland to Carolina which produced both staples and a less important surplus of certain foods.

This contrasting pattern of production implied an uneven development between the West Indian islands and the mainland colonies: the mainland plantations were small and backward in relation to the sugar estates of the islands where the economies of large-scale production were applied to maximize the productive capacities of the natural resources and of the labor force of the West Indies. Agriculture in the mainland colonies was characterized by a much less one-sided division of labor. During the eighteenth century the mainland colonies concentrated on the production of tobacco, but this was much less profitable than sugar. Specialization did not really take root in the mainland colonies until the cotton boom of the early nineteenth century, when productivity rapidly expanded. Because the West Indies developed a specialized one-product economy in response to the demands of the world market, they became much more dependent (for the satisfaction of their other needs through the exchange of sugar) on the international exchange context that the Empire provided. The West Indies themselves lacked an extensive internal market of diversified products.[2] On the mainland, however, the diversity of products that were cultivated both for export and for domestic exchange and consumption created an internal market and allowed for the evolution of an American merchant class. The colonies on the North American mainland were able to develop an indigenous class of traders and merchants who later become a powerful element in the international mercantile system. But the one-factor economy of the West Indies precluded this possibility.

2. The Diversity of the Socio-economic Formations in the Eighteenth-Century Colonies

Before analyzing the historical data on the diverse modes of production which existed in the eighteenth-century colonies of North America, we would like to make four points to clarify our approach. First, the modes of production which we (provisionally) distinguish all bear the imprint of the world market context; in other words, production for commodity sale (at first on the monopolistically controlled, fixed market of the British empire) was the overriding consideration of agricultural activity in the colonies. Thus we shall emphasize that while these different modes of agricultural production cannot be characterized as capitalistic, nevertheless they were created and shaped in response to the requirements of the emerging and expanding world market, that was itself both a consequence and a promoter of the development of the capitalist system. Second, the fact that the products of the North American agriculture assumed the character of exchange values when they entered the sphere of circulation on the world market does not mean that they were already produced as such, that they were already commodities in production (cf. Marx III, 386). The slave plantations of the South, for example, were clearly not a capitalist mode of production—they were not based on wage labor—even though the goal of their production was large-scale export for the world market dominated by European capital. Third, within each of the different reproduction contexts[3] different modes of production were dominant (or rather became dominant, since it is almost impossible to treat the structure of production as static in this period.) As a consequence, different dominating classes can be identified corresponding to the dominant modes of production in each reproduction context. Furthermore since the economic interests of the dominant classes do, as a rule, find specific political expression, it should be possible to trace the origins of the different political fractions, which later faced each other in the federated state (and which to some extent influenced its structure), back to the diverse economic interests of the classes who dominated the separate reproduction contexts. Finally, the concrete shape of the central state that eventually arose depended on the forms of production and the class relations that had come to exist on the mainland.

(i) Commercial Agriculture in the North

In the seventeenth and eighteenth centuries, the vast cheap lands

of the North American colonies offered pioneering individuals the opportunity to obtain uncultivated land with relative ease and to settle down as self-reliant subsistence farmers. However, it has been established that right from the beginning all farms (with the *temporary* exception of the frontier farms) tendentially produced a surplus destined not only for local consumption, but also for sale in other colonies and for overseas export (Bruchey 1968, 27; Bidwell & Falconer). This surplus became the basis on which America developed her ever-expanding commercial agriculture (cf. Marx III, 383-5).

In New England, Great Britain encouraged the diversification of cash crops which were produced by small farmers with ownership rights to the land on which they worked. However, the framework of a market economy subjected the "free, independent, property-owning" farmers to competition with one another (a competition which was mediated and orchestrated by the middleman, the merchant capitalist) and forced them to rely on merchant capital to advance the necessary supply of instruments and stocks of raw materials for their market-oriented production. As petty commodity producers, the farmers had not yet been separated from the ownership of the means of their own labor process, but to the extent that their production took place for the market, they were dependent on "the *buyer*, the *merchant*, and ultimately produce[d] only *for* and *through* him" (Marx 1973, 510). Since the merchants pocketed the largest share of the surplus value (cf. Marx III, 393-4), the farmers were left with no resources to develop their own mode of production independently of the merchants. The class of independent farmers was, in effect, the creature of merchant capital, a product of a specific stage of the world development of capitalism, necessary for this stage where the conditions did not allow any other way of extracting wealth (cf. Marx 1973, 278).

The development of the land-holding pattern of the agrarian sector of New England is evidence of the increasing penetration of merchant capital. In spite of westward movement, the population grew annually about 1-5 percent. Land prices increased and competition among the farmers became more severe. The number of landless whites grew from 5 percent in 1700 to 12 percent in 1736 (Lemon & Nash, 1-24) and the size of average landholdings decreased from approximately 150 acres per adult male in the early seventeenth century to 43 acres in 1786 (Lockridge, 62-80). Wage-labor and the putting-out system slowly spread within the agrarian subsistence economy (Morris 1946). Thus the agricultural sector which employed 90 percent of the population cannot be interpreted as a static community of "self-reliant, small producers." It was indeed a non-capitalist mode of production, but one that reproduced itself on

the foundation of capital (cf. Marx 1973, 579).

This pattern of landholding and its development can be traced not only in New England, but also in the South and along the frontier. In the middle colonies it differed from the one in New England only insofar as the distribution of land was more unequal (the result of the British Crown's land distribution): there were not only more large farms (manors) but also more landless free whites (Fox). In the case of New York state[4] agriculture was even more market-oriented than in New England: it was highly diversified, and its exports went primarily to the West Indies.

Independent petty commodity production in North America was able to resist the penetration and eventual domination of the capital/wage-labor relationship for a relatively long time, as is evidenced by the many immigrants who started out as indentured servants or wage laborers, but were able to save enough of their earnings to buy up land and/or their own equipment and transform themselves into self-employed farmers (or craftsmen). However, the mode of independent petty commodity production which these ex-wage-workers entered was itself dependent on capital, and the long period of resistance only served to reinforce this dependence, thereby developing the conditions for the eventual abolition of the petty commodity mode of production (cf. Marx 1973, 574). In another way, too, this system of independent petty production generated within itself its own negation for, by producing a surplus of their own specialties to exchange with one another, the farmers created an internal market that was to develop into a market for new, large-scale capital. Just *because* production was not *totally* oriented towards the world market, as became the case for the sugar colonies, an internal market could develop and the demands which had initially been met by subsistence production were now supplied by the heightened productivity of advancing specialization. With the accelerated expansion of these demands, as more and more immigrants flooded into America, the small independent farmers were superseded by more efficient large-scale farming, where more and more "farm-hands" were employed. This evolving internal market provided the basis not only for the later development of indigenous capitalist and wage-labor classes, but also for the earlier emergence of an indigenous class of merchants.

(ii) Plantation Slavery and Small Farming in the South

In the southern colonies, two distinct forms of agriculture interpenetrated one another: large-scale commercial agriculture based on slave plantations (mainly along the coast and the rivers) and small independent farmers (on the hinterlands) who also participated in

the production of rice and tobacco for the world market (Bruchey 1968, 21). The slave plantation economy was dominant, but recent analyses of historical records and documents (e.g. Land 1965; Menard 1973) cast doubt on the traditional literary sources for the pre-revolutionary period, which give the impression that the tenure system of small holdings was not very widespread in the South: it now appears that at least 25 percent (the lowest stratum) of southern agrarian producers worked the land as tenant farmers. Though these two systems of agriculture were not manifestations of the same mode of production, they were vitally interrelated, and both owed their origins and development to merchant capital.

The monoculture of the large plantations had been established for the purpose of delivering large quantities of staples which could easily be transformed into wealth for Great Britain. The plantation workforce initially included large numbers of white indentured servants who immigrated from Europe in the hopes that when their work-contract was over, they would be able to settle down as independent farmers with their own land. Only 6 percent fulfilled this hope (Wertenbaker) and the frustrations of the rest broke out into open violence which disrupted production (e.g. Bacon's Rebellion in 1676 and the tobacco-cutting riots in 1682). Virginia, with its landless freemen, was thus confronted with the same problem she had been helping England to solve. Her own solution was to allow her wealthy magnates to keep their lands and to institutionalize slavery to provide the necessary labor force. The white laborers were liberated from plantation work and allowed to make their living from their own small plots of land. The violent conflict that had erupted between European landholders and landless was transformed into a symbiotic relationship between large and small landholders, but at the cost of depriving blacks of their basic civil rights (Morgan 1972, 24; Breen).

This relationship between the transformation of the plantations into a slave economy and the emergence of small landholders can be traced to the desire of British merchants to maximize the profits of trans-Atlantic trade. White labor, which had proved to be an unreliable workforce for the plantations, was replaced by coerced black labor and was now used to expand the production of export staples by bringing into cultivation soil on the hinterlands. The subsequent development of this class of free farmers was also shaped—as was the history of the class of independent farmers in the Northeast—by the dynamic which the production of staples for the world market generated.

The plantation system was never able to free itself from its original dependence on merchant capital (cf. Marx III, 382). By making guaranteed markets available for the plantation products, merchant capital perpetuated the one-sided division of labor based on coercion

and deprived the planters of any incentive to raise productivity by improving their land or means of production.[5] Consequently the monoculture of the plantation became too dependent on such external factors as successful harvest and the conditions of the export market, and failed to develop an independent, self-developing dynamic of its own. As merchant capital expanded, the slave plantations grew an interdependence which was most dramatically illustrated by the later rise of cotton. In short, the planter-slave-holders of the South remained creatures of merchant capital and as such were subject to the inherent limits of this capital.

The participation of the small farmers in the production of staples for the world market rendered them increasingly dependent on the large plantation owners who took on the role of trade agents and money-lenders. Thus the more efficiently that the free farmers produced their commodities, the more they became dependent on the sale of their produce to repay their creditors for the advance of stocks, etc.; and the more they had to subject themselves to the interests of the creditors themselves (cf. Marx 1973, 853).

The planters who had the resources to develop into land speculators, merchants, money lenders, and manufactures belonged to the wealthiest two percent who owned estates worth more than £1000. They were able to multiply the rent from their land- and slave-ownership by using this income as interest-bearing capital in the sphere of circulation. In this way an indigenous merchant class gradually developed in the South on the basis of simultaneous agrarian and mercantile businesses (cf. Gray I). But as merchants they never replaced (before Independence) the London tobacco factor, which, through an agent resident in the colonies, furnished the planters with capital, sold their products, and shipped English commodities into the colonies (see Nettels 1962, 58). Nor did they ever present, after Independence, a serious challenge to the indigenous merchant class of the northeastern colonies.

Not only did the plantation system inhibit the growth of a class of independent merchants, but it also prevented the emergence of a class of independent artisans. The plantations reproduced themselves in relative autarky, relying on the skilled labor of a few slaves trained in craftwork, and the smaller farms produced what they needed through household manufactures. Until 1830, these household manufactures remained subordinated to the production of use-values (Tryon; Gray I), and sheltered the southern modes of production from penetration by the capital/wage-labor relationship (cf. Marx 1973, 669).

In conclusion, we should note that even though the South provided an exportable surplus similar to that of the West Indies, part of the exports of the South were bought by the indigenous merchant class in the North and exported (together with the northern staples)

to offset the large quantity of manufactured goods imported to the mainland colonies from Britain. In contrast, the surplus produced in the West Indies was entirely under the control of the British. The diversity of the surplus exported by the North American colonies as a whole reflected the diversity of basic staples which were kept at home for internal trading. The combination of these different modes of production made the autonomous development of the North American colonies possible which was the basis of their successful struggle for political independence. The position of the U.S. "in the world depended not only in 1776 but thereafter on slave labor" (Morgan 1972, 6; cf. Jensen 1969, 107-24), but as the opposite course of development experienced by the West Indies, which relied on the exclusive cultivation of a single product by slave labor, shows, it was the coexistence and interrelation of the different modes of production and their diversified surplus that laid the basis for the national economic and political independence of the United States.

(iii) Merchant Capital

Until 1800, the character of American internal trade was quite restricted: it consisted mainly of exchange of local products of farms, plantations, saw mills and fisheries for local manufactures and imported goods (E.A.J. Johnson), but it provided an important foundation, on which an indigenous merchant class could begin to develop. There are several interrelated exogenous factors that facilitated the development of an indigenous merchant class on the mainland: the origin and the structure of the British Empire itself, the special relationship imposed by Britain on its North American colonies, and the financial relationship between Britain and its sugar colonies.

The British colonial system was founded upon successfully implemented trade regulations rather than direct political rule. This was possible because the European settlers themselves deemed their membership in the colonial system profitable. Indeed, the profits that the colonists could make in the (legal) trade with England almost made superfluous the English-imposed legislation restricting their exports to trade with the mother country only (Barrow, 252-5). Thus the colonists' continued voluntary participation in the Empire was based on a recognition of, and a desire to engage in, the profits of mercantile enterprises. The British trading empire fostered a general integrated economic development in the American colonies—despite the regional diversity of the separate modes of production—via bounties for certain colonial products, by military protection and the securing of markets, and by providing a source of finance (Nettels 1932; Bruchey 1968; North 1966). In addition, the special

relationship imposed upon the North American colonies by the mother country forced the colonists to earn, however indirectly, money in England to clear the debts they owed for consumer goods (Pares 1956, 158). While sugar (until 1700), served as ready money all over Europe, none of the agrarian products of the mainland were in a comparatively high demand. New England especially did not have an export staple which it could make the basis of credit arrangements with Great Britain. But since the Navigation Acts[6] forced the colonies to import their finished goods from Great Britain, there developed a class of people whose exclusive business was to get the needed bills of exchange and foreign currency through trade with the West Indies, through slave (and other) trade with Africa and southern Europe, and by taking on intermediary functions as intercolonial carriers for the tobacco and rice exports of the southern colonies. As a consequence of the economic diversity of North America whose regions required each others' products, a system of exchange developed as a permanent institution and this exchange was mediated mainly by West Indian goods. The West India trade played a crucial role in consolidating the trading partnership between Britain and its American colonies. The British demand for sugar ensured that the colonies would be able to repay their debts to the merchant capitalists in the mother country, and perpetuate the conditions for a continuing flourishing trans-Atlantic trade (Pares 1956, 146). The pattern that had evolved by the eighteenth century (after the colonies which retained some degree of financial dependence had differentiated themselves from those which depended absolutely on the mother country) was that the North Americans sold their produce in the sugar islands, and, if they wanted a remittance to Europe, bought the sugar planters' bills of exchange on their factors (Pares 1956, 151-3).

The American merchants, while building up their trade with Britain, the West Indies, and other nations, also expanded their functions as middlemen within the developing American economy itself, to a large extent on British credit, but nevertheless carried out by Americans (Andrews 1914). Growing foreign and domestic trade established a network of credit relations (Nettels 1962, 304; Hammond 1957, 218) which frequently placed the American merchants at odds with the agricultural interests of local and provincial politics (Sachs 1955, 328). After 1740, when provincial legislators had opened all ports equally to West Indian produce (Pares 1956, 25-8) and therefore also to the simple processing industries for molasses and sugar, the opportunity was created for the accelerated expansion and dispersion of merchant capital throughout all the mainland seaport centers. This dispersion was created by, and in turn reinforced, the intensity of local and regional competition on the main-

land. The competition among merchants in different regions on the mainland became a competition over the possession of an industrial process (the colonial governments protected the products of the distilleries and refineries with duties) and contributed to the accelerated domestic economic development. However, since the trading basis of the British Empire put the colonial merchants in competition with British merchant capital, there was pressure on the North American merchants to deploy their profits in ways that would rapidly expand their mercantile capital; therefore, they could not be so much concerned with potentially damaging provincial competition (Sachs 1955, 326). They developed and maintained a geographically wide network of close business connections and utilized correspondents in other colonies and countries since—to secure bills of exchange at the lowest possible prices became vital for every importer and commission agent struggling to compete successfully—they had to pay close attention to exchange rates in other commercial centers. Out of this competition of local merchants engaged in intercolonial and international commerce, a stratum of rich, resident merchants evolved, most notably in New England (North & Thomas, 98), who employed captains and agents, and who enlarged their capital by investing not only in shipbuilding, but also in private banks and insurance companies.[7]

In summary, the diversity of the existing modes of production in the North American colonies provided the basis for the development of an indigenous merchant class, a development that received impetus from the external conditions of the trading context of the British Empire, and the special role of the West Indies' monocultural economy. Thus it happened that, during the eighteenth century, the indigenous merchants' capital was able to continue to appropriate to itself the overwhelming portion of the surplus product (cf. Marx III, 389). In New England especially, the merchant class exploited the opportunities for accumulation and quickly gained the dominant influential economic position, such that they were soon able to represent their own particular interests as *the* interests of New England. However, the more the merchants intensified their commercial activity across different regions, the more they undermined a major base of their own profits, namely those profits which were derived from the exploitation of the difference in prices of production in the various regions (cf. Marx III, 386-8, 396). Thus the very success of the merchants' capital laid the basis for its ultimate and inevitable transformation into industrial capital, though this process was artifically slowed down by the mechanisms of the British Empire.

(iv) Manufacturing

Throughout the eighteenth century, the main part of American manufacturing was carried out in unincorporated home industries outside the big towns. The geographical dispersion of these "neighbourhood manufactures" (Clark) rendered the transportation costs of their products prohibitive and protected them from competition with one another with the result that production remained based on technologically undeveloped craft instruments (Ellsworth & Hindle; Morris 1944). Manufacturing also occurred in the sea towns, but here too, handicraft production remained dominant, and even the sale of products, which reached no further than the local market, was frequently undertaken by the artisans themselves (Bridenbaugh 1950; Lynd 1964; cf. Marx 1973, 512). The only industries encouraged by the mother country were shipbuilding, which benefitted the British merchants by lowering their freight costs, and the production of goods such as iron, lumber, flour and textiles, which could serve as raw materials for British industry. The few processing industries that were established (sugar refineries, distilleries) worked only intermittently, for example at times when the price of raw sugar was attractive (Pares 1956, 138).

The tendency of merchant capital to prepare the way for capital to take hold of production itself (cf. Marx III, 387-390) was slowed down in North America, not by feudal or guild laws, but by several factors that were inherent in the colonies' status within the mercantile system of the British Empire. The extraordinarily high "profits" that could be made in trade during this period diverted capital from entering the less profitable industrial enterprises; the ready availability of cheap land deprived the manufacturing sector of a free (i.e. lacking its own means of subsistence) labour force; and the cheap import of finished goods rendered domestic production superfluous. American mills and plants failed to produce enough to meet the domestic demand, but as long as it was cheaper to import, domestic production was not encouraged on a large scale by local legislatures. Already in 1650, the settlers had begun to make business a public concern: the colonial representatives took over responsibility for the settlement of certain craftsmen (by tax provision) and the procurement of credit for the erection of production plants, esp. metal and textile (Bailyn 1955, 61 ff.). Corporations were chartered to perform services such as banking, transportation facilities, and a water supply for the benefit of the community, and they included a few manufacturing companies. But the chartering of manufacturing companies on a larger scale had to await the later periods of interrupted trade (J. S. Davis II, 326-9; Handlin & Handlin 1947a, 435) and the war industry, generated by the struggle for independence. The cases of

interrupted foreign trade after 1775 all illustrate the advantages in the utilization of American capital, namely that it was easier to make a surplus in trade than in home production.

Despite the fact that self-employment was still by far the dominant way of working even as late as 1800, there is evidence that a wage-earning class of propertyless producers (which by 1800 had grown to 12%) emerged much earlier than is generally assumed. But in the context of the whole working population of the North American continent in the 1770s and 1780s, the embryonic productive enterprises were practically negligible and still confined to the large towns.

In conclusion, the primitive accumulation of capital on the North American continent before the establishment of the central state may be summarized thus: (1) capital was not yet deployed on industrialization—except in the manufacturing of assets for the deployment of merchant capital; (2) capital was concentrated in the hands of the merchant class and reinvested in their self-expansion; (3) this self-expansion was to eventually bring about the transformation of merchant capital into industrial capital, but this process was still in an embryonic stage in the 1780s, for the peculiar American conditions presented many impediments. Thus it was not the spreading of capitalist social relations, but the integrating force of merchant capital that impinged on all the various regional reproduction contexts. Consequently, the merchants, as the economically dominant class and the one with the most clearly articulated self-interests, gained a most influential position, which was only locally and/or temporarily shaken.

II. POLITICAL STRUCTURES AND THE EMERGENCE OF THE 1787 CONSTITUTION

In the previous sections we have emphasized the diversity of the modes of production in the North American mainland during the eighteenth century in order to refute the assumption (ungrounded in historical evidence) that the political unison of the American provinces after Independence can be explained by the 'coinciding conditions of production' (Gerstenberger 1973a, 81). In the following sections we will substantiate our own hypothesis that the political unison of the diverse socio-economic formations existing in America at the end of the eighteenth century was promoted by the interests with which the representatives of the dominant modes of production within each socio-economic formation participated in the world market. In each of the several different regional production contexts the economically dominant groups succeeded in usurping political leadership and in gaining the loyalty and support of

other strata for the realization of their own interests. The internal markets of the North American colonies, which had already been evolving tendentially during the pre-Independence period of British rule provided the foundation on which the formation of a national society, and therefore the development of political unison, *could* take place. The political unification of this society into one nation state finally became a historical necessity precipitated by the conflict with England and by the consequences of the exclusion of the ex-colonies from the British Empire. The results of this exclusion developed among all the economically dominant groups the awareness that without a strong central authority the internal dynamic of centrifugal forces would rob the newly independent provinces of the chance of competing on the world market and hence jeopardize their newly won independence.

1. Political Structures Before Independence

Two features common to the development of the modern nation-state and the rise of a national bourgeoisie in the countries of Europe were conspicuously absent from the social development and early political structures of North America: a feudal aristocracy and a landless, disenfranchised population of "liberated" ex-serfs (cf. Moore, 140). During the period of British rule, the official government resided in a territorially distant authority in London—the British Crown and Parliament. The functions of government entrusted to the individual provincial governments were from the very beginning limited and remained at a low stage of development. The British State retained the important functions of trade and military policy, including the provision of military defense. Hence the colonial states had no need to establish a standing military organization. Also they did not develop a system of regular taxation since they could cover their non-military expenses from interest-payments and land banks (Ferguson 1961, 5). The administrative apparatus remained not only cheap, but also relatively undeveloped (Andrews IV; Steele).

Within the framework of the British imperial system the American colonies developed and implemented *de facto* political structures of local self-determination. By 1760, the Popular Assemblies (the elected lower Houses of Assembly) had come to exercise the major influence on inner-colonial legislation. The originally intended relationship between the lower Houses and the British-appointed provincial governors, i.e., a "parity of power", receded and the governors were in effect reduced to the secondary status of accessory intermediate agencies (Jensen 1968, 30).

The political influence of the economically dominant groups

manifested itself mainly at the level of provincial government. In the North it was the merchants who controlled the provincial government which was always located in the East. Even when, as a result of westward expansion, the growing population of backcountry farmers secured a majority of seats in the House of Representatives and began to articulate their specific interests in opposition to the politically predominant coastal merchants, the merchants were still able to retain control of the business of the House by excluding the farmers' representatives from committee assignments (Zemsky, 502-520). The opposition between the interests of inland agriculture and the commercial interests of the coastal areas and the domination of the latter interests were thus reproduced at the political level of the provincial government (cf. Hoerder). In the South the great plantation owners were just as firmly established in the southern provincial government as the merchants were in the North. Here, however, westward expansion did not intensify the economic and political differences between coast and inland, because the process of expansion only involved the successive reproduction of the social relations of production in the earlier established eastern plantations. Both on the coast and in the expanding inland areas, the slaveholders/planters were not only the economically dominant group, but also the political ruling class. The fact that the political representatives of the South were recruited from the wealthiest two percent of plantation owners, who were able to deploy their capital in the sphere of circulation as land speculators, money-lenders and trade-agents (Bailey 1971), is further evidence of the influence of merchant capital on the political institutions of the emergent U.S. state.

The relatively autonomous, local self-governments gave political expression to the economic independence of the mass (70-80 percent) of free citizens (see Steeg). These small, self-employed producers had little interest in the provincial legislatures beyond keeping provincial taxes as low as possible (Zuckerman, ch. 1); and they made use of the local political apparatus to implement their own interests. It was at the local level that most of the "economically regulating functions," which ranged from road construction to the levying of taxes, were implemented (Morris 1965, 78; R. J. Taylor, 33-7). As a result, a real fear developed among the wealthy few that local government activity would strengthen the political influence of the lower strata and result in mob rule (Morris 1946, 52). Hence, during the revision procedures of the individual state constitutions, every state (except Pennsylvania, Georgia and Vermont) chose to institutionalize the division of the legislative into two houses, an upper house representing property and a lower one representing the people (Bailyn 1965, 186; Ramsay 1789, I, 351). This division was justified on "natural distinctions of rank" which, in turn, rested

on supposed "superior degrees of industry and capacity" ("Ludlow", in *Pa. Journal*, May 28, 1777, Letter II). Thus the diverging, even conflicting, interests within each of the colonies were given explicit recognition by the colonial constitutions themselves.

During the struggle for independence, the immediate tasks of defying the British and coping with the difficulties imposed by the war were the primary determinants in the citizens' decisions over what functions to allocate to state power. With the onset of war, the emergent American bourgeoisie, well anchored in the provincial structures of domination, were able to mobilize and unify the support of the other classes in sustaining their attack on imperial rule. They organized a network of inter-colonial committees and conventions to carry out the necessary co-ordinating functions for national defense. These initial functions quickly mushroomed to transform the *ad hoc* co-ordinating committees into functioning state agencies (Hacker 1940, 173-4).

2. The Impact of the World Market: Polity across State Lines

With the declaration of Independence in 1776, the central authority embodied in the British government disappeared from the American scene and the internal class relations within the now independent provinces found their political crystallization in the separate state governments. The Continental Congress, established in 1775 in response to the crisis conditions of war, was only supposed to provide diplomatic and external representation and ensure the coordination of military maneuvers. Its functions did not extend beyond the implementation of these militarily required measures. However, it soon became clear that more coordination among the individual sovereign states was necessary to ensure that the provinces' newly-won political independence would not fall victim to its economic malintegration. Other mercantile states were able, as centralized nation-states, to promote their own national process of primitive accumulation at the expense of their competitors and to maintain and strengthen their position in the world market, where Britain still reigned supreme. The North American states, lacking any political agency that could guide and promote their common interest vis-à-vis other nations, were especially vulnerable to the threat of economic domination by Britain (Jensen 1963, 241). "So the Americans discovered that with independence they became a relatively backward, underdeveloped, and weak nation" (W. A. Williams 1966, 119).

Consequently, the Continental Congress decreed the Articles of Confederation which became effective in 1781. These soon proved to be inadequate. The Articles did not deprive the individual state

governments of their rights to pass impost acts, navigation laws, and price fixing regulations, all of which varied from state to state according to the balance of forces between merchants, mechanics, planters and farmers. The Confederation itself was powerless to supersede the variegated protective legislation, which had its source in narrow regional economic interests, with a unified policy of national self-protection. It was not only the diversity of economic interests that initially prevented the establishment of a stronger central organ, but also the recent political experience of the colonies under the rule of the British government, which created resistance on the part of the local governments to any loss of their own autonomy. After Independence, the state governments jealously guarded the power which they had come to exercise during the period of remote British rule. In particular, they defended their right to levy taxes and continued to resist the surrender of the substance of power to another remote and uncontrollable government (Wood, 268). The distrust of any "governmental authority set above the people, including their own representatives" (Jensen 1940, 239-240), had grown so strong that the very idea of a new central government with coercive power receded from the public arena of political discussion.

Consequently, the rights and powers granted to the new central government by the Articles of Confederation were severely limited. Congress had no power to tax or to control interstate or foreign trade and it was too weak politically to pursue a consistent economic policy for creating the conditions for the indigenous accumulation of capital which might have rescued the nation from its vulnerability to the vicissitudes of the world market. When Congress was forced to take emergency measures to ward off any immediate threats, the succession of actions was typically extremely disruptive and conflicting. For example, in 1779 Congress lifted all restrictions on interstate trade, but then decided, reacting to the pressure for price controls, that the individual states should each establish their own price committees (Warner, 186). These different regulations presented a major obstacle to the free flow of the market-seeking commodities and, in some cases, as for example when Pennsylvania's Council of Safety prohibited the export of all food stuffs (Warner, 185), brought it to a complete halt. As a result of this disruption, the local price committees themselves soon demanded more centralized measures to regulate prices and duties (Lynd 1964, 92). Thus it became clear that the efforts of the individual states to remedy the ailing economy had such a centrifugal effect that these very remedial measures aggravated the critical problems of repaying the heavy debt incurred during the War of Independence,[8] of regulating currency and finance and of restricting competition from foreign trade. It was above all the chronic financial calamity that forced the recently

independent American people—though reluctantly—to accept a central political agency with powers of coercion over the national citizen-body and the individual state governments.

During the post-Independence period of political vacuum when Congress still lacked the power to regulate and promote trade and the individual state governments took over no diplomatic responsibilities, it was the merchant class who determined the *de facto* course of the nation's external relations and the merchants' activities were themselves determined by the conditions of the world market. Immediately after the war, Great Britain courted the American merchants with credit offers and other privileges in an effort to recapture American trade; and, despite the recent hostilities between the two nations, most merchants preferred to reestablish trade with Great Britain instead of France and made the utmost use of the British credits (Gray I, 597-600; Ferguson 1961, 83-4). The consequence of this was an extremely unfavorable balance of trade and growing indebtedness to England that reached an unprecedented peak during the years 1783-8 (Nettels 1962, 49). The individual states could not meet the excessive importation of European commodities with adequate returns (Nettels 1962, 49-60). Worse still, the different fragmented efforts of the individual states to stop the drain of specie and to limit imports by duties in practice cancelled one another out. Some states (above all New Jersey) even went so far as to exploit the worsening balance of payments deficit for their own advantage and continued to compete for British ships and goods (cf. Jensen 1950, 298, ff.). A co-ordinated reorganization of commercial relations was urgently needed and the demand for the unified measures was increasingly articulated by groups whose interests began to transcend state boundaries and who expressed unanimous preference for a more powerful central government (Jensen 1950, 344). After 1783, the joint efforts of these "advocates of central authority," to prevent a "recovery [. . .] based on the creation of an unbalanced, quasi-colonial relationship with Great Britain" (W. A. Williams 1966, 138; cf. 164), functioned in lieu of a national party to unify interests across state lines. "A small group of political leaders, . . . with a consciousness of the United States' *international impotence*, provided the matrix for the movement" (Roche, 801, italics ours).

Conflicts between the different regions, such as the dispute between the North and the South over the disposal of western lands (cf. W. A. Williams 1966, 136), receded into the background in face of the urgent need to cope with America's slipping position in the international arena "where each nation was trying to capture gains for itself" (Jefferson, quoted in Lipscomb, III, 273-4; cf. North & Thomas, 152).

In summary, if the Union wanted to continue to exist as an autonomous national power, it needed to create conditions for the enforcement of its own primitive accumulation. The world market was generating pressures which forced an internal development toward a unified political restructuring. These pressures were perceived by the commercially concerned groups throughout the nation as the preconditions for economic survival and the problem of political independence was articulated by them as the urgent need to establish a stronger central authority.

3. Economic Interests in the Establishment of the U.S. Nation-State

Each of the four major economic groups—northern merchant capital, southern agrarian capital, mechanics and industrial capital, and the independent farmers—developed specific interests in the establishment of a strong central state. The political demands of these groups can be traced to the economic functions they performed in their respective reproduction contexts and to the effect of the world market situation on these functions. Hence, though their interests converged on the *founding* of a strong central authority to protect America's slipping position on the world market, there were significant divergences among these groups concerning the precise powers, structures and functions to be assigned to this new political organ. Furthermore, these divergences were the result of the differential impact which America's participation in the world market had on each of the modes of production and on their exchange context.

(i) Northern Merchant Capital

The anarchic conditions, generated by the diverse legislation of the individual states and unchecked by the impotent Articles of Confederation, provoked a demand among the merchants for the centralized control of commerce (cf. Tench Coxe quoted in North & Thomas, 153-4). These demands became especially fervent in the northeastern states which succumbed to pressures from the emergent manufacturing interests and imposed tariffs to protect domestically produced goods (cf. Jensen 1950, 403; W. A. Williams 1966, 151). However, the merchant class as a whole was not hurt until the specific problems under the Confederation such as interstate trade barriers, inflated prices, and exclusion from both the British West Indies and from the French fishing waters began to be felt in every branch of trade. A politically vocal group of Boston shippers began to articulate the interest of the merchant class as a whole, calling for a strong national government, the creation of a national navy, an orderly and uniform tariff system, and naval legislation to challenge British and

French discrimination against American traders (Elkins & McKitrick, 236-7; Jensen 1950, 344). However, efforts to persuade Congress to implement nationwide legislation to stabilize intracontinental commerce and to protect it from foreign traders who benefitted from dealing with each state independently, were continually frustrated by interregional rivalry. The southern tobacco and rice plantation owners, for whom the export of their staples to Europe was vital, stoutly resisted any measures such as uniform tariffs which would have discouraged the competition of foreign shippers and raised the freight costs of the South's exports.

(ii) Southern Agrarian Capital

Despite their opposition to a uniform nationwide tariff system, the southern plantation owners did develop an interest in establishing a strong central authority. This sprang primarily from their additional functions as land speculators, trade agents, and moneylenders (functions performed in the North by the independent merchant class). They recognized that only a strong military power could enforce the measures needed to maintain or enhance the value of their land investments which were continually threatened by problems with Indians and squatters (Robertson 111 ff.) and by the resistance of private debtors. Furthermore, the southern planters had invested their capital not only in land, but also in government loans. These investments were the source of the merchants' and planters' common interest in guaranteeing the continued validity of the public debt (a validity which only a strong government could give) and in securing a stable payment of interest on government bonds. The need for a guaranteed financial and credit stability was the decisive common interest which united southern agrarian capital and northern merchant capital. Too many times creditors had been disappointed by the governments of the individual states which were open to pressure from below and frequently yielded to the demands of indebted farmers and others for the emission of paper money, the creation of land banks, reduction of taxes, etc. Public creditors, both in the North and in the South, emerged as a cohesive and very forceful group which energetically struggled for endowing central authority with its own powers of taxation and coercion (Jensen 1943; Nettels 1962, 149-50).

(iii) Mechanics and Industrial Capital

Under the Confederation government, concessions had been granted to mechanics and manufacturers: they had been freed from taxation, given credits and free land, and protected from cheap

importation by state duties (Bancroft, 138-9; Jensen 1950, 288). While the legislation of the individual states usually served to protect the interests of the mechanics, it increasingly became a fetter on the creation of a nationwide market for indigenous industrial products. The mechanics' awareness of the need for more centralized and uniform governmental activity was heightened by the expansion of manufacturing enterprises created by the war industry. Thus the manufacturers came to share with the trading and shipping groups a common concern to establish a central government that would impose uniform regulations and legislation.[9]

But the mechanics' essential motivation for advocating a strong central government remained different from that of the merchants. The mechanics wanted government protection from British manufactures, while the merchants profited immensely from trade with Britain. Therefore, the alliance between the importing merchants and the mechanics remained precarious and fragile. This fragility was revealed in the repeatedly broken, and subsequently patched-up, political alliances between the two groups (cf. Lynd 1964; Young 1964). The interests of the merchants always dominated the political goals of this coalition because, in the last analysis, the industrial producers, craftsmen, and artisans were all dependent for their profits on the successful marketing of their goods. To the degree that their own interests were promoted by flourishing trade, the mechanics accepted the merchants' interests as representative of all who participated, however indirectly, in the market (Nettels 1962, 126 ff.).

In short, each of these first three groups shared a common interest in establishing a strong central authority, but the tasks that each group anticipated would be undertaken by the strong central authority were narrowly defined in accordance with their desires to protect and facilitate their own economic interests, and as such they conflicted with one another.

(iv) Independent Farmers

Unlike the first three groups, the interests of the mass of small farmers did not suffer from the weakness of the Confederation government. As debtors and as vendors of their own produce, they benefitted from the inflationary conditions of the period because the higher prices that they could get from the sale of their commodities served to pay off their debts which were simultaneously reduced in real terms by the inflation. Second, the massive importation of cheap British finished products, which the small farmers themselves could not provide, was of advantage to them. Third, the system of state and local governments worked to their advantage, for they were able

to exert substantial control over the local centers of self-administration. The success of the small farmers in influencing these governments to protect their own economic interests was evidenced by the passage, in many states, of legislation which guaranteed egalitarian land policies, cancelled or reduced debts, and resulted in the issuing of paper money. Such legislation was, of course, fervently attacked by the public creditors and reinforced their opposition to the power of the state legislatures (Nettels 1962, 91).

The anarchy of individual state regulation of commerce, however, did generate some difficulties for small farmers as interstate trade restrictions. Furthermore, in certain states the funding of the war debt through land and poll taxes placed a severe financial strain on the farmers. Consequently, they too began to support the idea of a central government which not only would assume the individual states' war debts, but also would do away with duties on interstate commerce (Elkins & McKitrick 1969, 237). Furthermore, the Federalists promised that the securities of a new central government would serve to raise the price of the farmers' produce. The expected benefits from larger markets and the promise of the abolition of high land taxes helped to win the farmers over to the idea of a strong central state (Nettels 1962, 93).

In summary, the historical experiences of the four major groups during the Confederation period generated in each a growing awareness of the need for a strong central authority to protect and promote its own interests. This period of post-revolutionary chaos and governmental weakness was an important factor in overcoming the obstacles (posed by the division of the different economic groups into regionally scattered fractions) to the creation of a centralized nation-state and in consolidating widespread support behind the interests of the merchant and finance bourgeoisie. The central organs, which had been established since 1775, failed to ensure the economic viability of the newly independent American provinces vis-a-vis other nations or to reverse their slipping position on the world market. By 1787, there was general agreement on the need to establish a strong central authority which would: 1) guarantee the stability of the nation's credit system, including the public debt incurred during the War of Independence; 2) protect private property; 3) enforce contractual obligations; 4) promote the free circulation of commodities without the internal impediments of state duties; and 5) evolve some mechanism for institutionalizing compromises among the differing and often conflicting demands of the respective dominant groups. All of these functions may be summarized as establishing and promoting the preconditions for the successful primitive accumulation of indigenous American capital.

III. THE FUNCTIONS AND STRUCTURES OF THE AMERICAN NATION-STATE

1. The 1787 Constitution and the Primitive Accumulation of American Capital

The Constitution of 1787 conferred upon the new central authority an important extension in powers and functions which had previously been deemed unsafe and inappropriate to assign to any political organ above the individual states.

These new rights and powers were: (i) safeguarding the validity of the state debt; (ii) the protection of private property; and (iii) military and diplomatic representation abroad.

(i) The Validity of the State Debt

The new constitution gave the federal government the right "to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States" (Article I, Section 8, § 1). Thus the central state was no longer dependent for its revenues on the voluntary contributions of individual states. The Tariff Act and the Tonnage Act in 1789, the Funding Act of 1790, and the Excise Tax Bill in 1791 translated this constitutional right into effective government revenue-raising activity (cf. Ashley; Taussig) and diversified the sources of government revenues so that the national budget would not just depend, for example, on the tariff system, which would have discouraged mercantile activity, at this time the major source of profits and of the indigenous accumulation of capital.

The Assumption Act of 1790, which transferred the debts incurred by the thirteen individual states during the War of Independence to the central state, and thereby consolidated the public debt into a single national system, also served to guarantee the stability of the whole financial system of the U.S.[10] The Funding Act, also passed in 1790, transformed circulating bills of credit, previously issued by individual state governments, into interest-bearing bonds of the new government and authorized the central government to emit these securities (Nettels 1962, 115; Chambers 1963, 37). This Act provided the impetus not only for the founding of the First National Bank in 1791, but also for the founding of more state banks. The material validity of the public debt was further secured in 1792, when the passing of the Coinage Act translated the federal government's constitutional right to coin money into an institutionalized activity (Nettels 1962, 120-1).

As a result of these measures and arrangements for ensuring the validity of the nation's public debt, large sums of foreign investment flowed into the United States—an important mechanism for expanding the nation's supply of capital funds (Bruchey, 112). Until 1811, foreign investments pushed up the prices of securities (Hammond, 218) and eased the burden which the central state had assumed in taking over the individual states' debts (Ferguson 1961, 172). Thus the central state established in 1789 not only directly fulfilled the expectations and interest of the security holders (mainly finance and merchant capital), but also laid the preconditions for the development of a capital market (North & Thomas, 156).

(ii) Protection of Private Property

The Constitution gave the federal government the right to protect private property against, for example, the annulment of debts passed by the individual state governments during the Confederation period (Article I, Section 10, § 1). The constitutional protection of "different and unequal properties" (Madison) effectively perpetuated the economic inequality and vertical stratification of American society. Private property was rendered secure in two ways: 1) through the federal guarantee of the sanctity of contractual relations among all citizens (Article VI, § 1), a sanctity which the individual states were now prohibited from interfering with (Article I, Section 10, § 1; cf. Shaw, 107); and 2) through the creation of a national army (Article I, Section 8, § 12, 15, 16), which served as a coercive apparatus to back up the sanctity of contractual relations. The central state's guarantee for the protection of private property and the sanctity of contracts reduced, of course, the risks involved in commercial enterprises (North & Thomas, 156) and thus established the basic preconditions for the capitalist mode of production.

(iii) Military and Diplomatic Representation Abroad

Third, and most importantly, the Constitution gave the federal government the authority to represent the nation in the international context both militarily and diplomatically (Article I, Section 8; Article II, Section 2, § 1-2). This meant that there was now a superior guarantor of mutual negotiations, treaties, and business transactions at both the national and the international level. No longer was it necessary to rely on personal relations of confidence between two trading houses crediting each other. Since the central state now assumed this guarantee, neither individuals nor individual states could henceforth obstruct the interests of the nation's merchant class.

As a result of the 1787 Constitution, the credit of the United

States rose quickly. The stabilization of the nation's financial and credit arrangements attracted foreign loans and investment, particularly from England (Habakkuk, 71; Jenks, 66; Smith & Cole, 42). At the same time the thoroughly regressive taxation system which served to finance the government's operations discriminated against the buyers of imported goods and thus hindered the flow of capital out of the country. Thus the new authority of the central state generated an orderly nationwide financial system at home and guaranteed the nation's creditworthiness and strength abroad. Both were necessary preconditions for the successful accumulation of American capital, and neither could have occurred on the initiative of private enterprises alone. What the strong central state of 1789 achieved were the preconditions for the *primitive* accumulation of capital, and not the preconditions for the self-expansion of capital (capital accumulation *per se*). The profits made and the capital accumulated were, for the most part, derived from the exchange of products on the world market, and not from the indigenous production process which was still a conglomeration of heterogeneous modes of production. That the American production processes were not themselves the major source of profit is well illustrated by the nation's remarkable economic growth after 1793, when the outbreak of war in Europe enabled American merchants to again earn great profits from their activities as neutral carriers of supplies, even when these supplies had not been produced in America. At the end of the eighteenth century, American capitalism was the activity of merchant capital and the primitive accumulation of indigenous capital. Foreign capital was primarily absorbed by industries related to trade; it was not yet used for industrial capital and capital accumulation *per se*.

Though the individual states were deprived of the opportunity to influence the fiscal policy of the new government and the development of the nation's economic infrastructure, nevertheless they retained some of the functions which they had exercised earlier; and these became a vital part of the national program to accelerate the process of primitive accumulation. The most important state functions were the founding of trade and finance corporations, the chartering of private banks and joint-stock companies, and the encouragement and protection of enterprises which undertook infrastructural projects. None of these functions could be accomplished by private enterprises, but they were not carried out by the central state either, (though without the credit-worthiness of the new central state and its guarantees of the sanctity of contracts backed up by military force, they could not have been fulfilled by the individual states).

Chartered corporations, which had already existed in the colonial

era, directly promoted state activity and intervention in the economy. But the stated purpose of most corporations was, until 1809, the promotion of trade rather than industry. The central state indirectly supported the states' intensified use of the corporations through its economic policy of exclusive support for the most profitable (i.e., mercantile) activity. This policy generated investment at home and attracted the additional funds from abroad needed to finance the activities of the corporations. The corporations, in turn, were largely responsible for the success of the central government's economic policy and an important ingredient in the rapid growth of the new nation's economy.

In brief, the task of directly intervening in the economy fell to the individual state governments:[11] they not only promoted the corporations, but also intervened in the domestic economy by regulating, financing, and protecting intrastate activity. The role of the federal government was confined to the creation and maintenance of the general preconditions for economic growth. This division of functions between the individual states and the central state was especially appropriate for the heterogeneous economic substructure of the newly independent nation. In an economy where regional reproduction contexts more or less corresponded to the boundaries of grouped individual states, the federal system of government was well adapted to regional conditions and requirements. At the same time, the structure, policies, and activities of the central government ensured the coordination of the diverse economic activities, carried out by each individual state, into a concentrated national drive for the primitive accumulation of capital.

2. The American Constitution and Internal Political Stability

The historical context of any and all intervention by the American state into the economy was the international competition of the world market. The economic strength of the United States vis-a-vis other nations necessarily presupposed social order and political stability at home because, without this, none of the measures to promote investment would have been either successful or profitable. Hence the two preconditions of American independence, external economic strength and internal political stability were not unrelated, and the structures of the state apparatus which were institutionalized to secure the former also served to secure the latter. In this and the next sections, we will again examine the Constitution and the governing apparatus which was built to implement the constitutional rights and powers assigned to the new central authority in order to understand how the internal stability of the United States was established and safeguarded.

The dynamic of the world market defined the internal conditions of the newly independent American provinces in the following ways: (i) it shaped the material interests of each of the economically dominant groups and their means for achieving them; (ii) it determined the interrelationships among these groups especially the relative power of each vis-a-vis the others, the possibilities for political alliance, despite their diverse and often conflicting economic interests, and the degree to which each group sought to use its power to promote its own interests by influencing the formation and the subsequent functioning of the central state apparatus; and (iii) it determined the shifting constellations of dominant and disadvantaged groups.

The power constellation of interclass relationships, both within the dominant classes and between the dominant and disadvantaged classes structured the political and ideological struggles over the final formulation of the Constitution and over the organizational form of the state apparatus which was to carry into effect the powers and rights granted to the new central authority by the Constitution. These struggles are documented in the recorded debates among the delegates to the Constitutional Convention in Philadelphia held from 1785 to 1787 (Gales; Farrand 1937), and in the ratification debates in the conventions held in the individual states from 1787 to 1789. The Federalist Papers, written by Hamilton, Madison, and Jay, for the debate in New York State provide an excellent contemporary commentary. In particular, Hamilton and Madison exhibit in their political conceptions, theories, and discussions a clear grasp of the relationship between the concrete interests of the different socio-economic groups and the political structures and organizational forms of government.

The final ratification and signing of the Constitution by all thirteen states took place in 1789. The establishment of the United States and its governing apparatus gave the American bourgeoisie the potential to act as a single unit, despite its regional fragmentation and the uneven development of its different economic bases. Thus the structure of the new government reflected on the one hand the consensus of the ruling classes, centered on the security and expansion of private property, and on the other hand the creation and maintenance of a balance of conflicting interests both among the fractions of the bourgeoisie and between the bourgeoisie and the oppressed classes.

The events in the struggle towards this "bundle of compromises" (Morgan 1956, 135) have been extensively described in the historical literature. The vehement four-months long debates have been repeatedly quoted and the frequent concessions from the different sides, resulting in a succession of compromises between the "extreme

positions" (Farrand 1962, 202), reverently praised (e.g., Farrand 1904; McLaughlin 1935; van Doren). But these descriptions of the evolution of the Constitution fail to trace the elements of that bundle of compromises back to their original source, namely the diverse class interests which gave rise to and determined not only the "extreme positions" but also the concessions and compromises by which they were "reconciled." Hence in investigating the material circumstances which shaped the framing of the Constitution, we are calling into question the ideological claims both of the political actors at that time and of later historians. More important, however, than the formation of compromises which created the Constitution of 1787 was the subsequent anchoring of these compromises in the state administrative apparatus so that they were repeatedly activated and confirmed in governmental practice. The focus of our analysis will therefore be the structural principles which shaped the formation of the state apparatus, guided its subsequent development, and determined the way in which any additional functions were implemented and institutionalized, and how they secured the two functions which were absolutely indispensable for securing the internal social stability of the new nation: (i) institutionalizing the peaceful resolution of conflicts of interest among the economically dominant groups and (ii) processing (i.e., deselecting or rendering ineffective) the counterclaims of those excluded from the dominant groups—the oppressed classes. The structural principles which we will discuss are the principles of (1) federalism, (2) representation, and (3) the separation and mutual control of powers.

(i) The Structure of the State Apparatus and the Ruling Classes
(1) Federalism

Federalism is "a system of government in which powers are divided among a central government and several local ones" (Roche, 177) and in which this division of powers and functions is clearly defined so that the limits of each political unit vis-a-vis the others are unambiguous. This principle was already implicit in the Confederation and was a precondition for any unification of the American states, because the individual states were the existing political structures on the North American continent after the rejection of the British central authority and any proposed political structure which implied the removal of their autonomy would have been unacceptable. Only the principle of federalism which guaranteed the individual states at least a limited autonomy could make the union of the thirteen states possible; and it was immediately agreed upon.

The principle of federalism gave each of the individual states the autonomy to formulate and execute economic policies without

having to go through the central state apparatus. One of the most important effects of this principle was to perpetuate the autonomous reproduction of the diverse elements of the national bourgeoisie. They were left relatively free to sustain and develop the regional economic and social conditions for promoting their own interests through their influence on the individual state governments. The central government, on the other hand, was given control over foreign and interstate commerce (Article I, Section 8, § 3) and was thus authorized "to institute protective and discriminatory laws in favor of American interests, and to create a wide sweep for free trade throughout the whole American empire" (Beard in Levy 1969, 13; cf. Article I, Section 10, § 2-3). In this way a balance of the competing regional interests was created at the level of central state policy, and the diverse economically dominant groups were enabled to act as a unified ruling class.[12]

The debate over the possible abuse of the principle of federalism—the danger asserted by Madison and Hamilton that the individual states would exercise their powers to interfere with the functioning of the central state—developed into a fierce struggle, which resulted in the curtailment of the powers of the individual states (Diamond, 26; W. A. Williams 1966, 159-61). This struggle illuminates the process by which the central state appropriated the monopoly of repressive force, a process determined by criteria other than the formal appropriation of functions and codification of competencies provided by the Constitution (see Article I, Sections 8 and 10) and described in the *Federalist Papers* (23-31, 36, 41-6). The criteria which ultimately determined the concrete functions and powers of the central state vis-a-vis the individual state governments were the nation's needs to consolidate and accelerate its process of primitive accumulation in order to maintain and strengthen its position on the world market. This could not be done if the central state lacked the power to define and execute effectively the measures required for this process, much less if it was threatened by armed rebels whom the state militias were powerless to crush (as had happened in Shay's Rebellion when the rebel-leaders were part of the local militia). Consequently, the nation's economic growth required that the local militia, which were retained by, and under the immediate control of, the individual states (Article I, Section 10, § 16), be subordinated to the repressive apparatus of the central state. Once the resort to violence as a means of "solving" class conflicts was excluded, the other principles which structured the governing apparatus of the United States and which were explicitly intended to produce a "system of checks and balances," served to maximize the conditions for reaching and maintaining a peaceful balance of compromise among competing interests.

(2) Representation

The principle of representation meant not only (in Hamilton's words) "the dependency of the servants of the state on the people," but also the representation and protection of property. The franchise was restricted to property-holders only and the legislative branch of the governing apparatus was divided into two parts: the House of Representatives, representing the "people," and the Senate, representing "property."

An early compromise attempted to allay the fears of the small states and the small citizen-bodies of the large southern states in order to win their support for the Union. It laid down two different forms of representation and electoral procedures for the dual legislature. The Representatives were to be elected directly by the citizens of the individual states and their number per state was determined by the size of the state populations (proportional representation); the Senators were to be elected by the legislatures of the individual states and restricted to two per state (equal representation) (Article I, Section 3, § 1). However, the southern states still feared that they would be underrepresented and that the northern states would be able to use the central state to promote their own mercantile interests at the expense of the agrarian interests of the southern bourgeoisie. Consequently, a further compromise was necessary, the Great Compromise of 1787, which allowed slaves (the property of the southern bourgeoisie) to be counted as "people"—each slave representing a 3/5 citizen (Article I, Section 1, § 3). This fraction was itself determined by no ideological principle but by the pragmatic balancing of the South's own conflicting interests, since the population base was the same for representation in the federal legislature and for the apportionment of taxes levied by the central state on the individual states. If the slave population counted for nothing, the southern states suffered the disadvantage of underrepresentation in the House of Representatives; if it counted as equivalent to the citizen body, then the southern states feared they would be overtaxed.

(3) Separation and Mutual Control of Powers

The separation of powers meant that the authority of the central state to act as a single authority was split into several distinct powers and divided among separate and autonomous agencies (cf. *Federalist* 51). Thus the Constitution placed the sovereignty of the American people in three separate "departments": the Legislative, which was elected by the individual states and was subdivided into the House of Representatives and the Senate; the Executive, i.e., the office of the

President and the agencies under the President; and the Judiciary, whose members were appointed for life by the President, subject to confirmation by the Senate.

The separation of powers and the departments' different bases for the recruitment of their members were explicitly introduced to regulate the complex relations between the different interest groups in the nation. The political apparatus of decision-making and administration was intended to produce a dynamic balance of forces at the level of government, in Madison's words, "a fruitful rivalry" among the departments, but a rivalry which would never result in any one of the factions in the electorate seizing control of the whole state apparatus.

The specialized competencies of each agency interlocked with the competencies of the others and therefore each agency exercised a limiting control and influence on the others' spheres of power. Furthermore, the Constitution prescribed additional checks on the departments' exercise of their own specialized competencies by requiring the explicit approval of another department before certain decisions could be carried into effect.

This system of checks and balances served not only as a precaution against the domination of a single interest group ("the power of faction"), but also performed the "positive" function of sifting out the "common good." This public good, in principle, corresponded to the interests of no single class in American society; and the internal structure of the governing apparatus sought to perpetuate and realize in practice the effective representation of a manifold diversity of interests. But, given the world market conditions of those times, the national interest inevitably coincided with, and depended on, the interests of merchant capital. Consequently, as long as the political structures of the U.S. nation-state guaranteed the sifting-out of the public good, the merchants were assured of the state's support and promotion of their interests *without themselves having to participate directly in the government.*[13] Contrast this with the period before Independence,[14] when the only way that any economically dominant group could ensure public protection and support was to exercise direct control over the provincial legislatures by usurping the leading political positions. Later when the conditions for the accumulation of capital changed, the same structures of the U.S. state-apparatus, which in and of themselves had promoted the interests of mercantile capital in the eighteenth century, performed the same function for the development and domination of industrial capital in the second half of the nineteenth century and the twentieth century.

The capacity of the nation's political structures to operate in this way, without the dominant economic group itself exercising direct control over these structures, is what we mean by the relative autonomy of the capitalist state. By analyzing the gradual, historical development of the formal structures of the American state, and its accretion and institutionalization of functions, it is possible to grasp and understand the "autonomization of the capitalist state"—a process which typically appears only as an abstract theoretical category in Marxist debates—as a concrete, historically determined, complex process.

(ii) The Structure of the State Apparatus and the Oppressed Classes

In the previous section we examined the structural principles of the American state apparatus by which the Founding Fathers sought to permanently institutionalize a balance of compromises among the dominant economic groups and so to prevent the outbreak of open conflict among the most powerful groups in the society. Here we will reexamine these same principles to see how they functioned as mechanisms for suppressing the claims and interests of the economically least powerful groups.[15] This repressive function of the central state was already implicit in our previous level of analysis since the constitutional attempts to remove dissension from the ranks of the national bourgeoisie and to generate a political consensus diminished the possibility that they would weaken themselves vis-a-vis the oppressed classes by internal disunity.

The repression of the oppressed masses, an essential means of maintaining political stability and social order, was accomplished not by assigning the task of law and order to any specialized agency, but by promoting the nation's primitive accumulation of capital and by the very structure of the governing apparatus as a whole. In other words, the structural principles which guided the state's promotion of, and intervention in, the nation's growing economy and which served to secure a balance of compromise among the ruling fractions, also served to secure and legitimate the domination of the other social groups.

The history of the American colonies, in particular the peculiar colonial relationship to their mother country and their recent struggle for independence, made the legitimation problems of the new central authority especially acute:

> The activities of independence had unleashed a destructiveness which the Framers properly recognized could not continue once the republic was established. Thus, the problem of the foundation was not how to preserve the power and the spirit of the towns and voluntary organizations, but, on the contrary, how to defuse them. (Yarborough, 21-2)

The structural principles of the state apparatus were explicitly introduced not only to produce a balance of compromises among

dominant interest groups, but also to check "the turbulence and follies of democracy" (Randolph quoted in Hacker, 187) and "the levelling spirit" (Hamilton in Syrett III, 609); in short, to filter out the interests and counter-claims of the oppressed classes (cf. W. A. Williams 1966, 129; Beard 1913, 58; Hacker 184).

(1) Federalism

The principle of federalism, which applied only to the constitutional division of power between a central government and the governments of the individual states, failed to provide any constitutional guarantees for the lowest level of government, the municipalities. It was at this level, ever since the colonial period, that the political enthusiasm and activity of the American citizens had developed and flourished. The federal structure of the new nation-state reduced town politics to insignificance and few of those who had been previously active had any incentive to continue their participation in municipal affairs now that they only dealt with minor issues. This dampening of the political enthusiasm and activity of the ordinary citizen was not unintentional.

The individual states' retention of certain important powers under the principle of federalism, especially their powers to intervene in the economy, was part of the conscious design to perpetuate the then-existing diverse bases of American pluralistic politics (cf. Goodman, 72) in the anticipation that a proliferation of competing interests would cancel one another out and minimize the disruptive effects of class antagonisms on the political structures. The crystallization of class relations between dominant and oppressed groups was confined within the boundaries of the individual states and the state governments retained the responsibility for regulating and controlling them. The division of functions between the individual states and the central state removed the immediate interests of the oppressed classes from the central state's realm of competence and molded the expectations of the citizen-masses: they counted on the central state to provide general economic protection and the individual state governments to respond to demands for aid, tax relief, and other forms of intervention to protect their immediate interests. In this way the central state apparatus was reserved as an arena for the crystallization and balancing of the interests of the dominant economic groups *only*.

The struggle over the interpretation of the principle of federalism, which resulted in the monopolization of coercive force by the central state, deprived the oppressed classes of their ultimate means of protest against repressive government measures—the resort to violence, which had, on occasion, yielded success in the past. The local

militia, which the individual states retained, were now subject to orders from the central state "to execute the laws of the Union, suppress insurrections and repel invasions" (Article I, Section 8, 15); and the superior military force of the central state, over which the disadvantaged classes had no influence, could in turn be used to protect the individual states "against invasion; and [. . .] against domestic violence" (Article IV, Section 4), as indeed it was in the Whiskey Rebellion of 1794. Hence, in situations where the policies of the individual states failed to contain the discontent of the masses, any local uprising not only would be hindered from spreading beyond state boundaries, but also could be immediately suppressed before it could exercise any disruptive effect on the smooth functioning of the economy as a whole. The repressive apparatus of the new central state ensured the nation's credit-worthiness abroad and at the same time secured the preconditions at home for promoting the interests of the economically dominant groups at the expense of those of the oppressed classes.

(2) Representation

The struggle for independence and freedom, which had succeeded thanks to the active loyalty and participation of most American settlers, meant that the new nation could not deny representation of the masses in their own central governing apparatus. However, every effort was made to conjure up frightening images of the tyranny which would be exercised by a purely plebiscitary legislature and to convince the citizens of the need to defend the newly independent nation against the "turbulence and follies of democracy." The republican principle of representation, as opposed to "pure democracy" which Madison defined as "a society consisting of a small number of citizens who assemble and administer the government in person" (*Federalist* 10, 133-4), seemed to the Founding Fathers to be the best means of preventing "sheer majority rule or democratic despotism" (Dietze, 69). Thus the extension of the republic, based on the principle of representation meant both a concession to the demands for democracy and equality and a restriction on those demands.

The division of the Representative branch of government (the Legislature) into an upper and lower house and the Senate's power of veto over the initiatives of the House of Representatives (Article I, Section 7, § 1) gave the representatives of property equal power with the representatives of the people and ensured that the demands of the propertyless classes would always confront greater disadvantages than the interests of the propertied classes. The indirect election of Senators through the legislatures of the individual states and

their longer period of office—they were elected for six years, in contrast to the Representatives who had to seek reelection after only two years (Article 1, Section 2, § 1 and Section 3, § 1)—were specifically intended as a safeguard against the "illegal usurpation of power" by the people's representatives (*Federalist* 62; cf. Farrand I (1937), 51, 58). The indirect election of the President through electoral colleges (Article II, § 2) was also intended as an immunizing mechanism against the "emotions of the masses" (*Federalist* 67-77). The House of Representatives was persistently regarded by the Founding Fathers as a potentially dangerous source of "radicalizing" and "levelling" tendencies which, if unleashed, would overthrow the republic.

The much-praised "foresight" of the Founding Fathers in protecting the new-born republic against "radical" and "levelling" tendencies, both then and in the future (see, for example, Madison in Farrand I (1937), 422-42; *Federalist* 10), is evidence not only that they had no intention of removing the sources of economic inequality,[16] but also that they fully anticipated that economic growth and prosperity would aggravate and exacerbate the sources of destabilizing tendencies among the propertyless classes and the disadvantaged groups—namely poverty, economic inequality, social injustice and frustrated expectations (cf. Hamilton in Lodge III, 390).

(3) Separation and Mutual Control of Powers

To the extent that the principle of the separation and mutual control of powers structured the internal differentiation and organization of the central state apparatus, and not the relationship between the individual state governments and the central state (as did the principle of federalism) nor between the individual citizens and their structures of self-governance (as did the principle of representation), it operated at a level where most of the interests and counterclaims of the oppressed groups had already been filtered out. However, if any such demands did succeed in entering the decision-making apparatus of the federal government, they were subjected to the differentiation and specialized competencies of the separate state departments and agencies. Both the Senate and the independent office of the President were conceived of as explicit counterweights to the dreaded rule of the masses and given the specific function of balancing the furies of democracy. All measures passed by the House of Representatives required the concurrence of the Senate and the President's signature of approval (Article I, Section 7, § 2). These procedures, laid down by the Constitution, were further built-in mechanisms to weaken or overpower the possible influence of the masses, though in practice most of their demands would already have

been accommodated or suppressed at the level of the individual state governments.

In addition, the powers of the third autonomous department of the central state, the judicial branch, were confirmed and extended with the conscious and unambiguous design of rendering the "right to revolution" superfluous (Oppen-Rundstadt, 102; Dietze, 280). The judiciary was the only department of the people's sovereignty which was not dependent on, nor subject to recall by popular election and whose members were guaranteed their offices for life. Its function was to safeguard the Constitution against all interest groups. By separating off and locating the protection of the rights of every American citizen to liberty, equality, security, and property, in a department independent of, and superior to, the other two elected branches, the Founding Fathers claimed that the Constitution was adequately safeguarded from the abuse of power by an elected government and that this invalidated the citizens' right to take up arms against an unjust central authority.

In summary, the constitutional structure of the central state apparatus, which was characterized by a manifold splintering of the powers and functions of the people's sovereign authority and by a system of mutual checks and balances to prevent "the power of faction," was the necessary precondition for the political stabilization of the class structure of American society, a structure which the Founding Fathers had no intention of uprooting. The vertically and horizontally segmented political system of the new state gave every class access to some part of the state apparatus and an institutionalized channel for promoting its own interests. This apparatus was designed to accommodate the demands of the diverse socio-economic groups in two ways: (i) by facilitating the political expression and articulation of the interests of the dominant economic groups into a balanced consensus of compromises at the level of the federal government, thus encouraging the development of a cohesive national bourgeoisie out of the regionally-based, diverse ruling classes; and (ii) by accommodating the interests of the economically disadvantaged masses at the level of the individual state governments, and thus splintering, repressing, and filtering out the political demands of the nation's oppressed classes, whose claims on the central state were atomized into the rights of individual citizens. This formally neutral political apparatus, dedicated to the pursuit of the "public interest," was not the creation nor the instrument of any single class. Once established, it developed a dynamic autonomous institution, which could indeed function in a way which promoted the interests of a single class, but only if the interests of that class coincided with economic needs of the nation as a whole, i.e., sustaining the nation's economic growth and strengthening its position vis-a-vis other

nations. Our last section will document the historical evidence for the development of this autonomous dynamic.

3. The Influence of the Classes on the Functions and Development of the U.S. Nation-State

(i) The Coalition of the Federalists

The ratification of the Constitution in 1789 gave the Federalist coalition the authority to translate the powers granted to the new central state into an active governing apparatus. This coalition sought to unite the interests of all those who participated in the world market, either directly or indirectly. It was supported by all the dominant economic groups. The merchants, because of their immediate involvement in the world market, occupied the leading position in this coalition. The mechanics and manufacturers, who anticipated that the Federalist program to intensify trade would expand their own basis of reproduction, initially identified the merchants' interests as their own. The mass of small independent farmers were attracted by the promise that the Federalists' economic policies would bring higher prices for their export products. Finally, the strongest agrarian support for the Federalists came from the large planters and slaveholders (Chambers, 120).

Throughout the first Congress (1789-1792), the Federalists consciously sought to accommodate the interests of all the supporters of the Constitution by such compromise measures as the juggling of the tariffs, the bargain with Jefferson insuring the passage of the Assumption Act,[17] and the settlement policies of the West which were designed to allay the South's fears that the new nation-state would interfere with slavery, the economic basis of the southern bourgeoisie. All of these measures reflect not only the conflicts and contradictions in the governing "power-bloc," but also the dominance within that bloc of the merchant class which, because of its direct participation in the world market, succeeded on every occasion in implementing its preferences as representative of the nation's interests. Though the mechanics and the owners of manufacturing enterprises consistently applied pressure on the government to use its powers to redirect the nation's growing prosperity towards expansion of indigenous manufactures, such a policy could not promise the same high profits which were flowing in from trade. The tariff granted to manufacturing in 1789 was subsequently modified in 1792 and again later. Secretary of the Treasury Hamilton refused to tax commerce as a major source of public revenue, rejected the imposition of tariffs aimed at protecting American manufactures against the competition of British imports, and refused to prohibit

selected imports. He justified this economic policy on the grounds that domestic manufactures could best be encouraged by bounties paid by the local and state governments to selected enterprises; but the mechanics themselves were fully aware that such measures failed to provide any effective protection against the flood of low-priced imports. The struggle over the allocation of the government's resources between the demands of merchant capital and the needs of the still weak productive capital was determined by the nation's economic growth which hinged on the exceptional profitability of the activity of its merchant class. The Secretary of the Treasury became the spokesman of merchant capital and the mechanics became disillusioned with the idea that a political alliance with the strong merchant class could be effective in promoting their own interests.

(ii) The Emergence of the Two-Party System

The dependence of the national interest on merchant capital and the succession of national policies favoring the merchant class generated a gradual disintegration of the widespread support initially given to the hegemonial group. The frustrated interests of the other economically dominant groups united them around positions diametrically opposed to the Federalists'. Thus, a few years after the ratification of the Constitution whose provisions made it a "constitution against parties" (Hofstadter), the American electorate split into a "ruling party" and an "opposition party."

The origins of the anti-Federalist movement can be clearly traced to the economic groups who were most hurt by the Federalists' policies. Hamilton's consistent policy of raising state revenues from internal taxation, including the revenues needed to consolidate the public debt, not only alienated the mechanics, but also imposed a massive burden on the backwoods farmers. Ever since Hamilton proposed his new excise tax on distilled liquors, there were repeated protests from rural areas lying along roads to market centers. These agrarian uprisings culminated in the Whiskey Rebellion of 1794, which was overpowered by the newly-created national force dispatched by Washington (Nettels 1962, 127). Besides such excise taxes, direct land and property taxes contributed to the collapse of the Federalists' popularity in rural areas which had once provided significant support. The nation's freehold farmers became the great bedrock of the new opposition Republican party.

The southern plantation owners also began to affiliate themselves with the Republican Party, even though they did not feel attracted to the "democratic" leanings of Jefferson and his followers. In opposition to the Federalists' principle of "loose construction,"

implied in the government's measures to implement and extend the powers of the central state, the planters had always favored "strict construction"—i.e., no public debt, a frugal government, and the restriction of the activities of the central state to the powers and functions enumerated in the Constitution. The southern bourgeoisie upheld this interpretation of the U.S. government partly because the southern states had already paid off their war debts, partly because they feared federal interference with the institution of slavery, and partly because they themselves had little need for liquid capital and consequently derived little benefit from the federal government's efforts to establish a stable credit system and to attract foreign investment. In 1792-3, the Virginians in Congress formed the anti-Administration Congressional faction and initiated the establishment of "Republican Societies" at the state and local level (Chambers, 57-61).

But the changing world situation in 1793 postponed the collapse of the Federalists' pluralist base. The outbreak of war between England and France undermined the restrictions which had excluded American products from importation into Europe. During the war, the Federalists promoted the international role of the U.S. as a neutral trader and carrier, supplying needed agricultural products to the belligerent countries, whatever side of the conflict they were on (North 1961b, 183-5). Consequently, the U.S. as a whole enjoyed a most prosperous development during the hostilities in Europe; but the nation's expanded capital remained subordinated to mercantile activity.

Though all the classes benefitted indirectly from the expanding economy of the U.S., their relative deprivation vis-a-vis the merchant class caused growing discontent with the consistent use of the nation's administrative apparatus to promote the exclusive interests of merchant and finance capital. When the Federalist government concluded the Jay Treaty in 1794—a treaty which established British trade with the U.S. on a most-favored nation basis (Chambers, 77)—it was immediately attacked as discriminating in favor of merchants, banks, and insurance companies. The Republicans tailored their political program to the economic grievances of all those who did not profit from these trade functions: they insisted on the need to secure markets beyond the British Empire; they committed themselves to tariff protection on behalf of the mechanics (Young 1964); and they condemned the imposition of land taxes, necessitated by the provocation of hostilities between the U.S. and France (Chambers, 134; Goodman, 75). Furthermore, the Republicans exploited the ideological contradiction in the Federalists' foreign policy: the U.S., after achieving its own successful revolution and republican constitution, was now choosing to support their former colonial master, the

British monarchy, against the U.S.'s "natural ally," the new republic of France (W. A. Williams 1966, 167; Goodman, 134).

The Federalists' response to growing public criticism was the passing of the Alien and Sedition Acts in 1798 (Chambers, 135-6; Levy 1960). These laws, which clearly restricted personal liberty and freedom of speech and the press, generated widespread opposition and provoked some of the Constitution's most ardent supporters (including Madison himself) to oppose the Federalists' principle of "loose construction."

By 1800, the Republicans had rallied enough support to win the national elections. Their victory was due not only to the support of the agrarian sector, but also to the less prosperous craftsmen and journeymen of many trades and those manufacturers who were most in need of protection against British imports. By 1801, Hamilton's overly confident claim that

> mechanics and manufacturers will always be inclined, with few exceptions, to give their votes to merchants, in preference to persons of their own professions and trades (*Federalist* 35 (ed. Earle), 213)

had been overturned. The Federalist Party could count among its loyal supporters only old-established merchants, wealthier mechanics, craftsmen who were least in need of protection, and poorer tradesmen who depended directly on the merchants.

Not surprisingly, several historians have interpreted the Republican Party as representative of the interests of the still weak productive capital which was being threatened by the Federalist measures to intensify trade during the 1790s (Young 1964). But this interpretation is oversimplified. It fails to take into account the Republican Party's betrayal of their electoral promises, once they took over the government. The Republicans' political victory in 1800 was in fact a result of the very strength of the American merchants on the world market, a strength which had generated the strictly mercantile policies of the Federalists. These policies indirectly resulted in the growth of manufacturing by creating the infrastructure for national commerce and by expanding the markets for American manufactured goods. At the same time they sharpened the opposition between the interests of merchant capital and the interests of manufacturing capital; and they revealed the importance of controlling state policies in order to promote specific class interests. The blatant identity between the politics of the state and the interests of merchant capital (which was possible because of the strong position of American merchant capital on the world market) was the major catalyst that triggered off sufficient political opposition to transform the "bloc in power."

In summary, despite all the safeguards contained in the U.S.

"Constitution against parties" and in the structure of the state-apparatus which was designed to produce a political consensus among fractions of the ruling class, within a decade of the birth of the American nation-state, one interest, that of merchant capital, gained dominant influence in all branches of the central political organ. The political structures themselves, geared as they were to maximizing the economic growth of the nation and the national process of primitive accumulation, sifted out the interests of the highly profitable mercantile activity as the national interest. This historical development, which was counter to the conscious intentions of the Founding Fathers, is strong evidence of the determining influence of the world market in the formation and development of the American nation-state. It was the dynamic of the world market that rapidly established and consolidated the merchants' political supremacy and allowed the public interest to be identified for so long with the interests of a single class. The political opposition which this identification generated was, as we shall see in the next section, unable to change the course of the economic and political development of the United States. Instead, it merely created yet another permanent mechanism—the party system—for the "peaceful and orderly" organization and accommodation of the complex rivalries of different interests.

(iii) The Political Theory of the Republican Opposition (and its Material Contradictions)

In direct opposition to Hamilton's Federalist principles, the Republicans adopted the slogan of Jeffersonian democracy: to promote the interests of the "many" against the "few." But their idealization of a "nation of independent farmers" contradicted their utopia of self-government by the "many."[18] Survival based on independent small farming is a time-consuming activity. So too is the responsible exercise of government. There are only twenty-four hours in the day, not enough time to allow for the fulfillment of all the tasks necessary for both economic survival and political self-determination. In practice, Jeffersonian democracy rested not on a citizenry of self-reliant farmers, but on a leisured class, supported by the labor of others and therefore possessing enough time to participate in and control the government. The material basis for such a class did indeed exist in the United States among the southern plantation-owners who lived off slave labor. The Republicans' principle of frugal government coincided with the southern bourgeoisie's interpretation of the Constitution: the principle of "strict construction."

In his Inaugural Address, Jefferson demanded the curtailment of the state apparatus. There was no need, he argued, in a nation of free

and independent property-owners who had their own interests in preserving law and order, for a complex of agencies to act as "a check against factions," nor for government intervention in the economy. The functions of government should be limited to preserving the codified political and economic rights of the citizens (liberty and property) and to representing the interests of the U.S. abroad.

A minimum of government and a maximum of civil liberties were the twin principles of the Republican political theory. These principles were the electoral slogans which brought them to power. But the Republicans' opposition to excessive centralization and state interventionism failed to manifest itself after they moved into Congress and their candidate, Jefferson, was elected President. The Republicans continued the Federalists' system of regressive taxation, retained the central banking system, and imposed more revenue-raising (rather than protective) tariffs (Chambers, 173 ff., 187). Gallatin's fiscal policies were essentially no different from Hamilton's. The powers of the Executive branch of the central state, far from being curtailed, were extended. Jefferson secretly negotiated with the French to purchase the territory of Louisiana solely on his own initiative without consultation with the other branches of government. This usurpation of American popular sovereignty was confirmed by the Enabling Act, which the Republican Congress passed in 1803, giving the President total civil and military control of the new state of Louisiana, even though such powers of the Executive branch were nowhere specified in the Constitution and hence violated the Republicans' principle of "strict construction." By transforming the office of the President into the embodiment of the national interest, Jefferson expanded the role of the President far beyond either of his predecessors and fortified the power of the Executive branch of the central state apparatus against the prerogatives of the individual state governments (White 1951 (1956), 35, 551; Cunningham 1963, 93; Peterson, 691).[19]

Not only were the rights of the states curtailed, but so too was the liberty of private citizens. When Congress passed the Embargo Act in 1807, which forbade any vessel to set out from the United States for any foreign port, the merchants simply ignored it. Faced with this massive non-compliance, the Republicans in the next year passed the Enforcement Act, making full use of the repressive potential of the state apparatus. This act conceded to the central government powers of intervention considerably greater than those contained in the Alien and Sedition Acts passed by the Federalists in 1798.

The Republicans' assumption of political power had implied that significant changes would occur in the state apparatus. But what is remarkable is the failure of the new power-bloc to alter either the structure of the state or the functions it had acquired as a conse-

quence of the Federalists' program. This "incomprehensible betrayal" of Jeffersonianism is much described in American historiography, but little explained.[20] Our own analysis, which has systematically recognized the determining influence of the dynamic of the world market in the formation and development of the U.S. nation-state, offers a solution to this riddle.

Conclusion

The U.S. nation-state was established in response to the growing awareness on the part of all the diverse dominant economic groups that the existing decentralized political structures inherited from the British were inadequate to promote their respective economic interests or to protect their country's newly-won political independence. What the Constitution of 1787 represented was the transfer to a strong central organ of powers that were necessary for the effective realization of the interests of the major economic groups which, whatever the source of their wealth, were ultimately dependent on America's position within the world market. The indispensable preconditions for standing one's ground in the international competition for marketing outlets were: (1) a certain amount of privately accumulated merchant capital; and (2) a central authority that was relatively strong financially, or at least had a good credit standing. The Constitution of 1787 provided the basic possibility for the fulfillment of these two preconditions. The policies pursued by the Federalist government under Hamilton, in particular the decision to postpone the development of manufactures, successfully implemented them.

The formally neutral political apparatus, dedicated to the pursuit of the common interest and beyond the control of any single class, once established in 1789, developed a dynamic of its own, so that it attained the status of a relatively autonomous institution. But this dynamic was still in the last analysis shaped by the constellation of economic interests that had initially created the conditions for the birth of the U.S. nation-state, namely the differential participation of the dominant economic groups in the world market. Consequently, the formally neutral political apparatus could be used to promote the interests of a single class, but only if the interests of that class coincided with the interests of the nation as a whole—in particular by strengthening the nation's economic competitiveness vis-a-vis other nations. Neither the class of independent farmers, the bedrock of the Republican Party, nor the southern slave-owning planters, who formulated its policy, could promote their own interests, to the detriment of the merchants, without damaging the nation's economic growth and its position in the world market.

The Republicans came to power on the basis of an electoral program which promised not only to reverse the Federalists' consistent support of the interests of merchant capital, but also to curb the power and activities of the central state in general. Both of these principles of government were in direct contradiction to the indispensable preconditions for the economic independence of America, given the competitive international context of the world market. It is hardly surprising that the Republicans, when faced with the reality of government and of retaining the political and economic independence of their country, were forced to contradict their electoral promises and to succumb to the historically-imposed necessity of sustaining the preconditions for the national accumulation of indigenous capital. Even the most fervent advocates of rural democracy had to submit to the unavoidable crystallization of activities which only the central state could undertake. Far from pruning this runaway monster down to its strict 1787 constitutional size, the Republicans were themselves forced to extend the repressive apparatus of the state and its intervention in the economy.

Hence one of the great riddles of American history—the Republican government's "betrayal" not only of their electoral promises, but also of their political theory—is the most dramatic evidence that confirms our own hypothesis: that the origin, formation, and development of the American nation-state was determined by the dynamic of the world market situation through the participation of the U.S. as a whole and of the separate economically-dominant groups of American producers and traders in the then-existing system of international trade.

Postscript: Implications for the Later Development of U.S. Capitalism

Throughout our analysis of the formation of the American nation-state we have emphasized the role of mercantile capital. This was because the historical conditions during the period which we were examining determined the domination of merchant capital over the economic and political development of the U.S. Since American merchant capital was at this time still operating on the basis of the staple-producing agrarian economy (i.e., the division of labor which had emerged during the colonial system), the privileged promotion of merchant capital (and not of productive manufacturing capital) through the Federalist program, in the final analysis, effected a consolidation of the agrarian property relations. In other words, the comparative advantage in world trade still rested heavily on land-using types of economic activity, and the deliberate program of the Federalists to promote America's competitive position on the world

market presupposed the continued production of these marketable staples and the relations of production in which this took place. Thus the Federalists' own program laid the foundation for a permanent and structural impediment to the capitalist mode of production by consolidating the precapitalist modes of production. The less these had disintegrated (as was particularly the case in the South), the more the governmentally-mediated enforcement of the accumulation process contributed to the petrification of precapitalist class relations. Yet, paradoxically, under these same conditions of government-supported petrification, the successful establishment of the capitalist mode of production depended more than ever on massive interventions of the state.

The process of the effective establishment of the capitalist relations of production in the United States was to last throughout the nineteenth century. One of the most crucial factors in its development was to become the importation of a wage labor force sufficiently "free" to have to sell its labor power. This process does not set in on a massive scale until the 1840s. However, the regressive taxation system implemented by the Federalists in their attempt to shift the burden of raising public revenues from the tariff-system only (detrimental to the interests of the merchant class) served indirectly to accelerate the spread of wage labor. The small self-reliant farmers and petty commodity producers, which at the end of the eighteenth century still possessed their own means of production, when faced with paying the same taxes as the wealthier merchant and planter groups, frequently fell into debt and had to bail themselves out by selling their labor power. Their survival from then on depended on the sale of their labor to whomever would employ them, i.e., to the capitalist owners of the means of production, whose source of profits, unlike the merchants', was the command over the process of production. Thus the revenue-raising system of the first American governments tendentially served to proletarianize the labor force and thereby pave the way for the shift to industrial capitalism (cf. Marx I, 839).

Despite these embryonic developments during the period which we have examined, the dominance of merchant capital and the process of primitive accumulation was to last for more than half a century after the establishment of the central state. Our analysis of the initial phases of the economic and political development of the United States, which laid the historical foundations on which the development of industrial capital was to occur, serves to explain both in what ways this development was already in motion and why it could not progress according to its "natural" course, but required instead the active intervention of the state in providing adequate preconditions.

Footnotes

1. Merchant capital and industrial capital share the common goal of extracting and appropriating a surplus and of maximizing their own profitable returns. But they differ in that merchant capital is deployed in the sphere of circulation for the purposes of transporting products to and from different markets, while industrial capital is deployed in the sphere of production, processing materials and developing the means of production. Accumulation to the industrial capitalist means accumulating direct social control over more producers or employees, enhancing their productivity by reorganizing the production process itself, and thereby generating more surplus value. Accumulation to the merchant means gaining more control over goods already produced. Hence the merchant perceives the source of surplus value from the partial and blindered viewpoint of the sphere of circulation: the surplus presents itself in the form of a favorable balance of trade, i.e., buying where supply is high and hence prices are low, and selling where both demand and prices are high. The more that the merchant can extend his control over a specialized line of commodities, the easier it is for him to set his own sale-price and act as a monopolist, ignoring the market conditions of supply and demand.

2. A further factor in the West Indies' failure to develop an internal market was the elimination of small-scale cane-farming through technological advances. Sugar plantations, requiring large-scale capital outlay, soon destroyed the small producers who might have provided a basis for local exchange.

3. "Reproduction context" is a vague term meaning a geographically limited entity which is governed by certain economic laws. With this category it becomes possible to separate the double connotation inherent in the term "nation" which, in Marx's time, was the reproduction context within which the law of value was realized (and to which the general categories developed by Marx, like "average rate of profit," "tendential fall of the rate of profit," etc., applied.) Since "nation" is both a political and an economic category, it is crucial to distinguish and separate these connotations at the outset of any analysis of the historical formation of a nation-state.

4. In certain parts of New York, the métairie system prevailed. In this system, a transitional stage between the original form of rent and the capitalist form of rent (Marx III, 932-3; cf. 785), the tenant provides, besides his labor, a part of the capital stock, and the landowner provides, besides the land, the other part of the stock, and the product is then shared in certain proportions, typically advantageous to the landowner.

5. The slave-owners as such lacked any incentive to invest in labor-saving devices since their wealth was largely invested in workers whose bodies took the place of machines (cf. Nettels 1962, 191). Also it should be noted that in general incentives to invest in the productive sphere do not emerge until rent and profit have become separate forms of appropriation—or, in other words, not until the process of accumulating capital has become independent of land-ownership.

6. These legislative restraints were introduced in 1661-67, because without them, the Americans would have traded with the Dutch who at that time could pay most, sell cheapest, and carry goods most economically—and who did in fact seek investments in the colonies (Andrews II, 263-4).

7. Very few of the great American shippers tried to take over the enterprise of locally producing the goods they were shipping. But the increasingly specialized nature of their trade led to an identification of the merchant with the shipper and to the investment of mercantile profits in the shipbuilding industries (Pares 1956, 13).

8. The policies by which the national debt (initiated in 1775) was serviced took very different forms in different states, and the measures by which the individual states undertook to combat the problem of rapidly-growing inflation were equally varied. These policies and measures had a decisive influence on the conditions under which finance capital in America developed, but it would be too lengthy to provide an adequate explanation of the various policies and their various effects here. In brief, the series of attempts by the Confederation govern-

ment to meet its need for revenues failed miserably. Already by 1784 the American national government had become unable to pay its interest on foreign and domestic loans. By 1787, it was practically bankrupt. The domestic debt played an important role in that it united the various creditors as strong "centralizing nationalists" (Lynd 1967, 118) and the foreign debt united both the northern and southern capital fractions in the demand for reorganization of the federal system without which the United States could not have kept its foreign credit alive (cf. Ferguson 1961).

9. In addition, some of the larger (and more influential) manufacturers shared the merchants' concern for effective protection on the oceans and for negotiated commercial treaties to guarantee safe transportation for their wares and to secure marketing outlets on the world trading routes.

10. All the southern state governments, except South Carolina, had already absorbed their war costs and were opposed to Hamilton's assumption scheme because it meant that they would now have to share the burden of paying the interest on the unpaid debts of the other states (Bruchey, 115).

11. All case-studies of individual states (e.g., Handlin & Handlin 1947 on Massachusetts; Heath on Georgia; and Hartz 1968 on Pennsylvania) document not only the extent of the states' intervention but also "the fact that respective states held the center of the stage" and that until the Civil War "government intervention was concentrated at the state level" (Bronde, 120; Redford, 7).

12. The whole diversified system of revenue-raising to cover the expenditures of the central state was also an expression of the principle of federalism which demanded that every government agency should be adequate to the functions assigned to it (*Federalist* 30, 34); hence, the central state apparatus could not be dependent for its funding on the individual states.

13. This concept of hegemonial position should be distinguished from that of historians such as Beard whose economistic procedures in analyzing the social status of those who participated in forging out the Constitution confine the concept of hegemonial position to those economic groups who *directly* sought to realize their interests by the creation and manipulation of a central state.

14. During the Confederacy period, there were conscious attempts at both the individual state level and the confederate level to institutionalize the formal separation of the "selected representatives of the people" from those who held economic power and to delegate political power to an "autonomous institution" (Jensen 1950, 366-71). But the formal separation of political and economic power was not effectively established until the founding of the strong central state in 1789 introduced a political structure, superior to those of the individual states and designed to share power among all the dominant economic interests, so that no one economic group (the southern slave-holders or the northern merchants, for example) could directly manipulate the state apparatus and policies in their own interests.

15. These do not include Indians and slaves who, as individuals, were mere "persons" (Article I, Section 2, § 3) and had no citizen rights.

16. They fully recognized that the major source of social antagonisms was economic inequality (*Federalist* 10, 131), but they regarded this inequality as inherent in the human condition (in Madison's words, "the diversity in the faculties of men, from which the rights of property originate"), which no social reorganization could remove.

17. The southern states, which, with the exception of South Carolina, had already absorbed their war costs, were opposed to Hamilton's assumption scheme because it meant that they would now have to share the burden of paying the interest on the unpaid debts of the other states (Bruchey, 115). This opposition was contained by Hamilton's concession that the U.S. capital and seat of government would be located in the South (Washington, D.C.).

18. A perceptive and detailed analysis of this and other contradictions in Republican political theory (such as that between the perpetuation of independent property-holders and the objective necessity to accelerate the process of primitive accumulation for the sake of ensuring national independence) can be found in Gerstenberger (1973a).

19. After their defeat at the elections, the Federalists used the last days of their administration to strengthen the powers of the Judiciary and to fill the newly-created positions with their own supporters. Jefferson sought to subordinate these strengthened powers of the Judiciary to the office of the President (Mendelson, 20; Warren) and to use it against both the legislative branch of the central state and the individual state legislatures.

20. See, for example, Bruchey, 120-2 and Beard 1915, 445-7. Other interpretations of this shift from Republican theory to Republican practice vary from the reproach that the Jeffersonian elite immorally discarded all its principles to the insight that it never had any in the first place. This line of explanation appears superficially persuasive when the gap between Jeffersonian theory and practice is praised as "practical realism" (cf. Boorstin 1964; Koch).

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Industrial Capitalism and the Rise of Modern American Cities

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In the past few decades, cities in advanced capitalist countries have been shaken by crisis. Urban problems have proliferated and numerous ad hoc programs have been embarked upon to solve them. But the underlying sources of the urban crisis have not been clearly explained and the eradication of urban ills remains unlikely. In order to understand the crisis that is afflicting metropolitan areas, we need to know a great deal more about modern cities than we presently do. Although we should certainly attempt to gather new information, most of all we need to re-orient our perspective. We must stop looking at cities and their problems in isolation and start locating them in the context of the larger process of capitalist development. We need to understand the origins of modern cities, their role in the overall capitalist system, their basic inner operations and dynamics, their processes of evolution, the major causes of their problems, and so forth. In short, we need *a theory of the city*, a theory that is part of a more general theory of the nature of capitalist societies. Only with the help of such a theory can we hope eventually to understand the nature of the problems that regularly afflict modern cities.

This essay attempts to make a contribution to the emerging Marxist theory of cities. In the United States the work of David Harvey, John Mollenkopf, Ann Markusen, and others has been directed towards developing a new urban theory; in Europe, Manuel Castells, Henri Lefebvre, and their colleagues have made substantial contributions to this end. Like the above work, this essay locates the specific problems of cities within the larger context of capitalist development. But unlike much of the current writing, which concentrates on cities in advanced capitalist societies, this essay focuses on the origins of modern capitalist cities at the time of the industrial revolution.

Specifically, this essay examines the cities that arose in the United States in the middle of the nineteenth century. America's mid-nineteenth century cities already contained most of the basic insti-

tutions and patterns of life upon which capitalist cities have subsequently built. By carefully examining these cities at the time of their origin, it is possible to discover the underlying logic that "made" these cities, their institutions, their social relations, etc. It is important to understand this logic because, even if later developments have obscured it, it still continues to shape urban life.

My interpretation of the changes that took place in U.S. cities in the mid-nineteenth century can be stated briefly. Before approximately 1830, American economic development was based principally on the household, particularly the rural household. America's dominant agrarian sector was composed of various kinds of households such as the family farm, the slave-based plantation, and the ranch. The key feature of early U.S. development was the commercialization of agriculture or, in other words, the entry of rural households into the market economy. During the pre-industrial era, cities were also based on the household. All pre-industrial cities were essentially agglomerations of independent households. In addition, urban centers were heavily dependent on handling the produce from, and servicing the needs of, rural households. Thus the pace and forms of early American urban growth were largely functions of the development of the rural household economy.

But after about 1830, with the shift towards industrial capitalism, U.S. cities underwent a fundamental reorganization. At this time, the household-based cities that had prevailed in pre-industrial America began to disappear. In their place, *sectorially specialized* modern cities started to develop. Specifically, in the mid-nineteenth century U.S. cities began to contain four different but interrelated sectors of activity. Most importantly, there emerged a separate *sphere of economically productive activities* which specialized in the production and distribution of goods and services. Second, there developed a *sphere of socially reproductive activities*—including educational, religious and welfare activities—that was concerned with the maintenance and development of social life. Third, there appeared various kinds of infrastructure—notably, transportation, communications, public utilities, and urban land-use patterns—which cut across the spheres of economic production and social reproduction and helped link them together. Finally, there appeared a *sphere of state activities* which involved public intervention in the previously mentioned spheres as well as the state's concern with its own unique functions, particularly the passage and enforcement of laws and the legitimation of the social order through the political process.

America's new sectorially specialized cities, it should be clearly understood, were *capitalist* cities. The capitalist character of the newly reorganized cities was apparent from the prominent role which the productive sector played in overall urban development.

This sector—privately owned and created for the purpose of capital accumulation—was, so to speak, the "leading" sector. Its logic and imperatives so profoundly affected the other three sectors that one might fairly say that, starting in the mid-nineteenth century, the sector of production began to shape the overall process of American urban development. Yet, at the same time, the expansion of the productive sector depended upon the development of the other spheres of urban life. Hence, the rapid growth of the capitalist system of production greatly stimulated the growth of the other sectors. Thus, on the one hand, the coming of industrial capitalism generated a new form of urban organization under which *all* the significant areas of human life simultaneously became articulated and developed. On the other hand, this dynamic new form of urban life was badly distorted because, in the end, it primarily served the process of capital accumulation centered in the system of industrial production.

The City as a Center of Capital Accumulation: the Sector of Economic Production

As Richard Child Hill has stated, "Periods of urbanization in the United States correspond to phases in the process of capital accumulation."[1] Thus, colonial American cities facilitated the exchange of commodities within the British-dominated mercantilist system; in that way, they helped foster the accumulation of capital in the hands of merchants, shippers, and other mercantile elites. Later, frontier cities contributed to the commercialization of agriculture and the opening up of western lands for settlement. By fostering the process of exchange and promoting the process of primitive accumulation, frontier cities enabled traders, land speculators, and others to amass considerable wealth. The earliest phases of American urbanization, then, definitely corresponded closely to the initial phases in the process of capital accumulation. But in these first stages of American development most of the surplus which cities helped urban elites to accumulate was not actually produced in the cities themselves; rather, the bulk of it was produced in, and extracted from, the countryside. Furthermore, the restricted production that did take place in early American cities was largely petty commodity production performed within private households. Capitalists found it very difficult to control and profit from such production. Under petty commodity production, the actual manufacturing process was left in the hands of the individual producers. Urban workers were able, to a considerable extent, to determine their own hours, the pace of their work, and so forth. Even when merchant capitalists began to penetrate domestic production by instituting the "putting out"

system, independent producers retained a considerable degree of control over production. As long as petty commodity production persisted, America's emerging class of urban or bourgeois capitalists had only limited opportunities to extract a surplus from the production process and thereby to accumulate capital.

But at about the middle of the nineteenth century the industrial revolution got underway in America. Maurice Dobb has pointed out: ". . .what the industrial revolution represented was a transition from an early and immature stage of capitalism where the pre-capitalist petty mode of production had been penetrated by the influence of capital, subordinated to capital, robbed of its independence as an economic form but not yet completely transformed, to a stage where Capitalism, on the basis of technical change, had achieved its own specific production process resting on the collective large-scale production unit of the factory, thereby effecting a final divorce of the producer from his remaining hold on the means of production and establishing a simple and direct relationship between capitalists and wage-earners."[2]

In the United States, the industrial revolution closely followed the pattern described by Dobb. During the pre-industrial era, America's independent craftsmen and artisans generally were more concerned about decent working conditions, the production of quality goods, and the maintenance of a decent standard of living than the accumulation of capital. By the Jacksonian period, American production had begun to be "penetrated by the influence of capital." At that time, merchant capitalists introduced the "putting out" system; and, consequently, the locus of production shifted from the shops of skilled artisans to the homes of semi-skilled or unskilled workers. But as long as American producers managed to retain control over the work process, they tended to limit their output and set aside only a small amount of capital for investment. As a result, American manufacturing under pre-industrial conditions expanded rather slowly.

Then, at about the middle of the nineteenth century, a combination of small-scale manufacturers and industrial capitalists invaded the production process. In conformity with Stephen Marglin's interpretation, American entrepreneurs, in place of the simple system of household petty commodity production, set up a more complex hierarchical system of expanded production. The entrepreneurs' new method of organizing production, which has come to be known generally as "industrialization," consisted of bringing workers together under a single roof, closely supervising their work, and extending their labor time.[3] Under these conditions, capitalists were able to increase greatly the total volume of production, the amount of surplus value produced, and the quantity of capital that

was accumulated.

In the United States, the results of the shift from petty commodity production to the more mature industrial mode of production were immediate and dramatic. Within a remarkably short period of time, the new capitalist-controlled system of production yielded sizable increases in investments and output. America's rising entrepreneurial class was able to increase the amount of investment in manufactures from $250 million in 1850 to $1,000 million in 1860. Similarly, the total volume of manufactures increased substantially. Between 1850 and 1860, the value of manufactured products nearly doubled from just over $1 billion to just under $2 billion. The total value added to raw materials by the manufacturing process rose 157 percent between 1839 and 1849; and it increased another 134 percent between 1844 and 1854.[4]

Clearly, then, the American economy did "take off" in the decades before the Civil War. But this "take off" should not be understood simply as a remarkable example of "economic growth." Such an interpretation obscures the real nature of the changes in the American economy in the pre-Civil War decades. The "take off" of the antebellum years was the result of the emergence of industrial capitalism and, more particularly, of the introduction of a revolutionary new system of production based on the direct exploitation of human labor power.

There is a close link between the appearance of these expanded forms of production and the development of cities. Earlier methods of production were not necessarily urban. For instance, petty commodity forms of production were on a small scale; they required limited inputs; and they furnished goods for a restricted market. Hence, they could be performed just about equally well in the countryside as in cities. Also, some of the first factories were set up in rural areas; there they could take advantage of water power from streams, seasonal labor supplies, and the proximity to raw materials.

It was possible, however, to locate manufacturing in predominantly rural areas only during the very earliest stages of capitalist development. At later stages the development of modern capitalism demanded that production increasingly take an *urban* form. There are a variety of reasons why this was the case. On the strictly economic level, urban centers provided many things that were absolutely essential to the full-scale development of the capitalist system of production. For instance, cities were commonly able to furnish large, inexpensive supplies of labor. They usually had sizable, readily available markets for industrial goods. And they contained the financial institutions which the new industrial system needed. In addition, cities were the locus of a wide range of activities and institutions that indirectly aided capitalist production. By situating

themselves in urban areas, capitalist enterprises were able to gain access to transportation, state-financed social services, information about economic conditions, and so forth.

In a moment, I shall discuss some of the numerous urban activities and institutions which contributed *indirectly* to capitalist production. But, first, it is desirable to say something about two sets of urban-based activities that contributed fairly *directly* to the rise of capitalist industry: finance and trade. Of course, finance and trade were important activities in American cities *prior to* the coming of industrial capitalism. But under the impact of the industrial revolution both of these activities simultaneously grew and were transformed; ultimately, they became integrated into a whole new system of accumulation dominated by capitalist industry. Put in another way, finance and trade became part of what I have called the sector of production.

To begin with, let us examine finance and especially banking. Before the Civil War, most U.S. banks were chartered by individual states. These state banks, located for the most part in urban areas, proliferated rapidly. In 1836 there were approximately 600 state banks in the United States, of which more than one-third had been established in the previous three years; by 1857 there were some 1,500 to 1,600 banks.[5] Above all, these banks furnished the short-term credit necessary for commerce to expand; however, they also helped finance the growth of small-scale manufacturing. Besides the state banks, a number of other financial institutions developed after 1830. For instance, several large international investment banks were set up, concentrated in New York and Boston. These banks arranged a good deal of the short-term credit necessary to facilitate international trade and the long-term credit necessary to permit capital-intensive undertakings. Finally, in addition to the state and international banks, there appeared for the first time a number of other financial institutions capable of raising considerable amounts of capital for purposes of investment. The most significant of the new institutional investors were the savings banks, trust companies, and insurance companies.[6]

In brief, a significant expansion of America's financial system occurred in the decades before the war and played a crucial role in the accumulation of capital. First of all, by undertaking loans, investments, and speculative ventures, America's financial institutions accumulated sizable amounts of capital from their own operations. Second, they facilitated the accumulation of capital through trade. Third, by financing the construction of infrastructure, they contributed to the creation of the general conditions necessary for accumulation to proceed. Finally, by supplying capital for manufacturing, they helped launch a major new form of accumulation.

Naturally, a great deal of the expansion of the U.S. financial system before the Civil War can be attributed simply to the continuing growth of well-established American commerce and agriculture. But the financial institutions' investments in manufacturing and infrastructure (especially railroads) pointed in a new direction: these investments helped pave the way for the rise of an urban-based system of industrial capitalism.

Commerce, like finance, grew and changed under the impact of the industrial revolution. Under the conditions of capitalist production, acts of direct production are futile unless the mass of commodities can be sold. As America's new expanded forms of production yielded hitherto unimagined quantities of goods, it became imperative for capitalists to discover or to create wider markets for their products. Otherwise, capitalists would be unable to realize the gains which their revolutionary transformation of production made possible. Fortunately for American capitalists, commercial activity increased rapidly in the antebellum decades. On the one hand, the continuing development of commercial agriculture, especially in the West, created a growing market for both consumers' and producers' goods. On the other hand, the burgeoning populations in the cities also provided an expanding market for the producers' and consumers' goods manufactured by American industry. Before the Civil War (and for a long time afterwards) the expansion of the rural market was essential to the development of industrial capitalism. But, from an early stage, the growth of the urban market was also important; moreover, in the continuing expansion of this latter market lay the long-run hope for American capitalist development.

Taken as a whole, the new manufacturing, financial, and commercial institutions that arose in mid-nineteenth century American cities constituted a *sector of production*. This sector of production was the center, the very heart, of the new form of urban life that first emerged at that time. But it was only one part of the total urban system emerging under industrial capitalism.

The City as an Arena for the Development of Social Life: the Sector of Social Reproduction

As industrial capitalism advanced rapidly in America in the decades before the Civil War, it created in urban areas a whole new set of social relations, activities, and institutions which were not merely by-products of industrialization or of the process of accumulation. Rather they played an integral part in the overall development of industrial capitalism. These social relations, activities, and institutions constituted a particular system of *social reproduction*, one especially adapted to suit the needs of the emerging industrial capitalist order.

It is possible to identify three main dimensions of all systems of social reproduction. On the most basic level, social reproduction involves the biological reproduction of the members of a society or its equivalent (e.g., the maintenance or expansion of a population through migration or immigration). Second, social reproduction entails the support of a society's members by providing them with the material goods they need to live. More specifically, material reproduction involves providing the labor force with the means of subsistence necessary for it to reproduce itself. By extension, the maintenance of a society's labor force has historically been the precondition for the reproduction of the non-productive portions of the population, whether they have been parasitic privileged classes or merely the young, the elderly, the unfit, or the disabled. Third, besides reproducing themselves biologically and providing materially for the subsistence of their members, societies must try to insure the transmission of their values, beliefs, skills, and patterns of life. To this end, all societies establish specific ways of raising children, organizing family life, furnishing housing, imparting social and technical knowledge, preserving cultural traditions, providing for recreation, and doing whatever else is necessary to preserve their basic fabric. In short, social reproduction takes place at three levels: the biological-demographic, the material, and the cultural-institutional. In order to preserve themselves, societies perform tasks of social reproduction on all three levels.

The revolutionary character of the particular system of social reproduction that appeared in U.S. cities during the transition to industrial capitalism can be more easily grasped if it is compared with systems of reproduction in earlier historical periods. Traditionally, rural households have been the most important single institution in human society. Rural households have been the chief locus not only of productive, but also of reproductive, activities. They have been responsible for raising children, feeding and clothing their members, caring for the elderly and disabled, and so forth. Occasionally, special institutions such as churches have assisted traditional rural households in performing their socially reproductive responsibilities. Until modern times, however, households have always carried on the bulk of all reproductive tasks. Furthermore, traditional, household-based systems of social reproduction have been basically *simple*; that is, they have been concerned primarily with maintaining (i.e., simply reproducing) society, not with expanding or developing it.

But with the coming of industrial capitalism, new largely extra-household forms of social reproduction were created, and economically productive activities became separated from social reproduction. Having become separated from production, reproductive activities underwent a swift transformation. Novel social relations, activities,

and institutions developed to constitute an entirely new system of social reproduction. Furthermore, this system was not simple, but *expanded:* it helped society not only to maintain itself, but also to change itself in accordance with the needs of the overall process of capitalist development.

At the biological-demographic level, urban centers did not reproduce their populations merely through natural increase. Indeed, if American cities had attempted to rely on natural increase, they would have grown extremely slowly; and, as a result, the industrial revolution in America would never have taken off as it did. But instead of depending exclusively on natural increase, mid-century U.S. cities began to draw heavily on *migration* and *immigration* to bolster their populations. America's extraordinarily rapid urban growth between 1830 and 1860 was to a great extent attributable to the arrival of immigrants. In the two decades before the Civil War, the first massive wave of immigrants came to America. In the forties, 1,700,000 Europeans arrived; in the fifties 2,600,000.[7] These immigrants came mostly from Ireland, Germany and Scandinavia. Even though the bulk of the newcomers from Europe had rural origins, a large portion of them settled in urban areas after they arrived in the United States. In other words, a significant portion of the immigrants simultaneously made the move from Europe to America and from the countryside to the city. The famous Dillingham Commission Report revealed that by the end of the nineteenth century five-sixths of the Irish lived in cities; two-thirds of the Germans; and three-fifths of the Swedes. The extensive urbanization of the immigrants was in marked contrast to the persistent rural orientation of the native-born population. By 1890, 62 percent of the foreign born lived in urban places as against only 26 percent of native whites born of native parents.[8] Within a remarkably short time after their arrival, the immigrants constituted a significant portion of the urban population, especially in the Northeast and the Midwest. By the Civil War, for example, foreign-born people comprised a majority of the urban population in Chicago, Milwaukee, and St. Louis; and they made up a sizable minority in many other areas.[9]

The arrival of large numbers of immigrants was crucial to launching the industrial revolution in America. Prior to their coming, the United States suffered from an acute shortage of unskilled laborers. This shortage proved to be a major obstacle to the emergence of industrial capitalism. Finding most male city-dwellers unwilling to work under capitalist conditions of production, early American industrialists often resorted to special methods to obtain an adequate labor supply. For instance, New England manufacturers set up textile mills in relatively isolated areas. These mills, run in a patern-

alistic fashion, drew their labor force from among the young, unmarried women who lived in the New England countryside. Other early industrialists, such as those in Rhode Island, set up factories which could use the labor of entire families and thereby maximize the amount of labor power which could be exploited.[10] But despite capitalists' persistent efforts to expand the available supply of free exploitable labor, America's labor bottleneck continued. This labor shortage proved a formidable impediment to the overthrow of the prevailing petty commodity forms of production.

Then at mid-century, the arrival of masses of often impoverished immigrants suddenly provided American entrepreneurs with a large supply of cheap, unskilled labor. This new, urban-based labor supply at last enabled American capitalists to reorganize the system of production and so launch America on the path of industrialization. In addition, cheap immigrant labor was employed to build railroads and canals, to construct houses and factories, and to perform a wide variety of other jobs essential to the overall development of U.S. capitalism. The agglomeration of immigrants in cities also tended to push up land values, to stimulate the construction industry, and to increase the value of private real estate holdings. Finally, America's growing immigrant population provided a constantly expanding consumer market for the goods produced by industry.

Rapid population growth especially in urban areas was closely connected with the emergence of a new way of organizing the material reproduction of the American labor force. As the productive apparatus of society was removed from the household and set up as a separate sphere of activity, privately owned and controlled by a class of entrepreneurs, the pre-condition for workers to receive the means necessary for subsistence was that they sell their labor power. In other words, social reproduction increasingly became dependent upon *wage labor*.

Although wage labor developed in many rural parts of America, this form of employment was particularly prominent in urban areas. Furthermore, as industrial capitalism expanded, so too did the proletarianization of the urban population. In New York City, for example, there was a four-fold increase in the relative number of wage earners between 1795 and 1855.[11]

The new system of social reproduction based on wage labor forced workers to participate in the capitalist production process in order to survive. In order for workers to earn a living through wage labor, they were required not only to produce enough for their own needs, but also to produce a surplus. Under capitalist conditions, the larger the amount of surplus value that individual capitalists can extract from their workers, the more they are able to re-invest in production and the faster the total value of their capital increases. Hence, to

achieve the highest possible rate of capital accumulation, early industrial capitalists attempted to maximize the rate of exploitation of labor and to keep the prevailing wage rates as low as possible. Specifically, capitalists tried to increase the length of the working day to its biological limit. They vigorously resisted all attempts to unionize workers. They encouraged immigration, thereby creating a reserve army that drove down wage rates. They sought a general cheapening of the goods consumed by wage labor. And they tried to pass off the costs of socially necessary labor onto others (notably the state and, as we shall see in a moment, women within the household).

The capitalists' strategy of maximizing workers' output while minimizing their consumption resulted in one serious problem, however. Although such an approach was profitable in the short term for individual capitalists, it led periodically to crises of over-production for the system as a whole. Increases in goods production coupled with low wages and hence a low level of consumption could produce gluts of commodities that wracked the entire economic system. Put in another way, because of imbalances between the level of economic production and that of social reproduction, abundance and scarcity could and periodically did appear side-by-side.

So far, then, we have looked briefly at the biological-demographic and the material dimensions of the new system of social reproduction that appeared in mid-century U.S. cities. We turn now to the third aspect of the system of reproduction; i.e., the cultural or institutional aspect. Although the limits of this paper only permit a cursory treatment of this subject, it is tremendously important. With the coming of industrial capitalism, an explosive growth of new social institutions occurred in U.S. cities. A partial list of the new social institutions that were set up in urban areas between 1830 and 1860 includes: modern urban families, public schools, hospitals, churches, asylums, almshouses and other relief organizations, taverns, clubs, theatres, parks, sports arenas, and other institutions for recreation or amusement. Altogether, these institutions (and others) constituted an elaborate institutional apparatus devoted to the maintenance and development of the social lives of city dwellers.

The emergence of a new kind of urban family deserves special attention. Prior to the advent of industrial capitalism, familial households were the basic institution in American life. Early American households performed both economically productive and socially reproductive tasks (education, health care, support of the elderly and disabled, etc.). But, with industrialization, the urban family underwent a major transformation. Most notably, families lost most of their historic economic functions to the new economic sector arising outside the home; in addition, they lost many of their

traditional reproductive functions to new extra-familial institutions such as schools, hospitals, and relief organizations.[12]

Deprived of most of their long-standing responsibilities, urban families nonetheless persisted. Indeed, the new reconstructed urban family became *the* key institution in the emerging system of social reproduction. As a critical part of that system, they performed a number of specialized tasks. First, families continued to be the chief place for the procreation of children and for their early education. Second, familial households (supplemented by boarding houses and hotels) provided for the feeding, clothing, and housing of the population. Finally, households became refuges from the competitive world beyond the hearth and centers of a new realm of warmth, intimacy, and personal life.[13]

Increasingly, the major tasks carried on in the home became the exclusive responsibility of women. To get women to carry on their domestic "duties," mid-century American society expended considerable energy and resources to create a new *ideal of women* as mothers, housewives, and comforters. The new images of womanhood combined with external circumstances succeeded in mobilizing women in the home to perform without compensation a great deal of the socially necessary labor essential to the development of early industrial capitalism. If the capitalist system had been required to pay for women's domestic work, the system would have incurred tremendous costs, enough perhaps to stop the entire process of capitalist development. But since women's domestic labor was unpaid, such work amounted to a massive free dividend for the economy.

Meanwhile outside the home other social institutions proliferated rapidly. These new urban social institutions were concerned with at least four major areas: health, education, welfare, and recreation.

Extremely unhealthy living conditions existed in America's burgeoning cities. Thus in the mid-nineteenth century, city dwellers, especially those from the middle classes, became preoccupied with health questions. An environmental theory of diseases became popular. A movement calling for improved sanitation arose. Hospitals were constructed and a modern medical profession emerged. Yet because of the priorities of the system of industrial capitalism, the private character of most health care, and the limited middle-class base of the public health movement, healthy urban environments failed to materialize. Despite ameliorative measures, American cities remained notoriously unhealthy throughout the nineteenth century.

The common school movement made far greater advances than the public health movement in the thirty years before the Civil War. During these decades, the education movement succeeded in getting many U.S. cities to set up their first public school systems. The new

urban public schools were strikingly different from their predecessors. On the one hand, in contrast to the earlier rural or district schools which had generally operated in an erratic, seasonal fashion, the new urban public schools placed a great deal of emphasis on regularity, order, and discipline. Thus the new schools served as major institutional mechanisms for socializing and training the young to fit into the emerging urban-industrial order. On the other hand, in contrast to earlier urban public schools, the new common schools were intended not merely for the poor but for a broad spectrum of society. Since the common schools were devoid of the stigmas formerly attached to public education, they opened up the educational system as an outlet for upward mobility or at least for the promise of it. However, there was a strong tendency for the new public schools to impose a middle-class, Anglo-Protestant set of standards upon their students. The unwillingness of Catholic, working-class immigrants to allow their children to be educated in the new urban public school system ultimately led to the creation of an alternative parochial school system. The creation of this second educational system, often at considerable personal expense to the parents who supported it, testifies to the powerful desire of the ethnic working class to retain control over a major institution of social reproduction while at the same time accommodating to the larger demands of the society.[14]

A third set of emerging urban social institutions was the relief or welfare organizations. Until the beginning of the nineteenth century, most welfare responsibilities (e.g., care for the sick, the disabled, the elderly, etc.) were performed by individual households. Starting in the Jacksonian period, however, institutions specializing in welfare began to proliferate. Originally in the 1830s the idealistic, middle-class founders of almshouses, orphanages, insane asylums, and other relief agencies hoped that institutionalized relief would succeed in rehabilitating welfare recipients. That is to say, welfare reformers possessed a positive, *developmental* approach to those aspects of social reproduction requiring direct relief. But by the 1850s there was a sizable, permanent, and mostly foreign-born welfare population. Confronted by this mass of needy people, relief specialists abandoned their initial high hopes. Welfare agencies ceased to focus on rehabilitation and began to degenerate into institutions of social control.[15]

Underlying the rise of formal welfare institutions were several factors, all related to the process of capitalist development. First, capitalist development periodically produced crises (e.g., in 1819, 1837, and 1857). In these recurring periods of depression, masses of people were thrown out of work. To sustain the unemployed and to quell social disorder during depressions, it became necessary to set up

formal welfare organizations and to expand direct relief. Second, because of the major influx of immigrants in the 1840s and 1850s, large numbers of people without any means of support began to be concentrated in urban centers; relief measures were needed to maintain these people until they found their way into the market economy. Third, a sizable population of elderly people, disabled persons, and orphans existed; the breakdown of the traditional methods of caring for these people within private households made it imperative to create new public relief institutions to handle them. As in the case of education, groups such as immigrants and blacks often made substantial efforts to set up their own relief or self-help organizations and thereby retains control over yet another important area of social reproduction. The willingness of underprivileged groups to assume some of the costs of relief eased the welfare burden carried by the state and the more privileged classes. But, even so, upper and middle-class Americans frequently complained about lower-class immigrants' resistance to accepting an even greater share of responsibility for their needy compatriots. Thus the welfare system made necessary by the process of capitalist development was a major area of controversy then, as now.[16]

Finally, in the mid-nineteenth century a wide range of institutions and facilities emerged which specialized in furnishing entertainment to city dwellers. Among the most important of these institutions and facilities were taverns, clubs, parks, theaters, and ballparks. (Baseball first became popular in the pre-Civil War period.) At the most basic level, the new leisure-time institutions provided city dwellers with *a means of escaping* from the cares and trials of the work world (a common feature, incidentally, of many reproductive institutions); however, these institutions served a variety of other purposes as well. The particular institutions which various city dwellers frequented in their leisure time often indicated these persons' status or position in society. Whereas the working classes and immigrants socialized in saloons, the privileged classes went to private clubs and attended fancy dress balls. Blackface minstrel shows held in urban dance halls helped link Northern workers with the Southern-dominated Democratic Party; meanwhile, some of the more exclusive city theaters catered to wealthy Whig or Republican audiences. Thus participation in particular kinds of leisure activities became a basis for solidarity along class, or status, or party lines.[17]

In sum, a whole range of new urban social institutions came into being in U.S. cities between approximately 1830 and 1860. Taken as a whole, these institutions formed the organizational basis of a new urban *sector of social reproduction*. These institutions simultaneously maintained the urban population, altered it to serve the requirements of the expanding capitalist economy, and provided it with

opportunities for escape from that economy. The new urban reproductive institutions, many of which were dominated by the middle classes, were often controversial. American workers, especially the immigrants, repeatedly struggled to retain control over at least those social institutions that most directly affected their lives (e.g., schools, churches, benevolent societies, saloons, etc.). To a considerable extent they succeeded. But the overall system of social reproduction that emerged in pre-Civil War cities was organized to provide for the needs, and to fit the logic, of the larger process of industrial capitalist development.

The City as a Structural Environment: The Sector of Urban Infrastructure

The modern American cities which developed under the impact of industrial capitalism were more than powerful centers of production and dynamic arenas for the development of social life. Beginning in the mid-nineteenth century, U.S. cities started to furnish sophisticated *structured environments* in which productive and reproductive activities could be carried out. For the first time, many American cities began to develop extensive inter- and intra-urban transportation facilities, complex water and sewerage systems, specialized land-use patterns, and modern means of communication. In other words, cities began to contain an elaborate *system of infrastructure*. Its appearance and the particular form it took were integrally related to the requirements of capitalist development.

Pre-industrial U.S. cities, of course, depended on a certain amount of infrastructure. Most importantly perhaps, all early urban settlements were situated near good natural transportation outlets such as oceans, rivers, or lakes. Early American cities had harbors, warehouses, and shipping facilities; they were criss-crossed with streets; and they contained water supplies and newspapers. Taken as a whole, however, the infrastructure of pre-industrial U.S. cities was fairly crude and was heavily oriented towards serving the predominantly commercial purposes of those communities. Water was usually supplied by private wells. Newspapers were fairly specialized and partisan. Streets were generally unlighted and unpaved. Although urban thoroughfares were crowded with horses, carriages, mules, and wagons, walking was still the principal method of intraurban transportation. Since most city dwellers had to walk wherever they were going, compact patterns of urban development prevailed. Land use was not merely intensive, but also mixed. Commercial, residential, and manufacturing facilities were generally bunched together. Very little residential segregation existed. Rich and poor, natives and immigrants, blacks and whites lived fairly close to one another. The

major activities of cities revolved around trade, and the waterfront was the focus of urban life. Trading companies, warehouses, shops, and taverns were all clustered around the wharves.[18]

At about the middle of the nineteenth century, however, urban infrastructure suddenly started to undergo a process of specialization, reorganization, and development. It was absolutely essential for capitalist industrialization not only that "capitalist production in particular" be transformed, but also that the "communal, general conditions of production"—i.e., infrastructure—be provided. Unquestionably the most important kind of infrastructure that was developed with industrial capitalism was the *intercity transportation network*.

Already by the 1830s, even before the rapid development of industrial capitalism, the United States had a merchant marine and an extensive system of river transportation; it had a network of roads, highways, and toll bridges; and it possessed an elaborate system of canals. Some elements of this original American transportation network were privately owned and financed; others, publicly. All in all, the early nineteenth century transportation system effectively served the needs of an expanding economy based on commerce and agriculture; and it laid the groundwork for a more advanced stage of national development.[19] In the decades before the Civil War, however, a revolutionary new method of transportation began to link cities and regions together: the *railroad*. Baran and Sweezy have noted that the railroad was one of the few truly "epoch-making" innovations in the history of capitalist development; it was one of those special "innovations which shake up the entire pattern of the economy and hence create vast investment outlets in addition to the capital which they directly absorb."[20] According to the authors of *Monopoly Capital*, probably only three innovations have deserved to be called "epoch-making": the steam engine, the railroad, and the automobile. "Each produced a radical alteration of economic geography with attendant internal migrations and the building of whole new communities; each required or made possible the production of many new goods or services; each directly or indirectly enlarged the market for a whole range of industrial products."[21] Certainly each of the three "epoch-making" innovations just cited was critical at one or another stage of capitalist development. But as Baran and Sweezy mention, "the railroad. . .occupies a unique place in the history of capitalism. . .From 1850 to 1900 [American] investment in the railroads exceeded investment in all manufacturing industries combined." Furthermore, by the last two decades of the nineteenth century, ". . .somewhere between 40 and 50 percent of private capital formation was in the railroads. This concentration of investment in one industry is surely unrivaled at

any time before or since. If we add the indirect effects of the railroad on economic activity and hence on capital investment—undoubtedly comparable in scope and magnitude to the indirect effects of the steam engine and the automobile—we can see that this one innovation quite literally dominated half a century of capitalist development."[22]

The American railway system was well underway before the Civil War, although it continued to expand steadily thereafter. In 1840, there were 2818 miles of railroad track in the United States.[23] During the forties another 6000 miles of track were laid. Most of this track was in the eastern portions of the country out of Boston, New York, Philadelphia, and Baltimore. Then, in the 1850s, the railway system experienced explosive growth; over 21,000 miles of new track were laid in a single decade. Much of the new track was in the West. By 1860 the railway system reached Milwaukee, St. Louis, Memphis, New Orleans, and Chicago. Chicago alone had "fifteen lines and well over a hundred trains," all linking that rapidly growing city with the East Coast. Beyond Chicago, the railway system was stretching out into Missouri, Iowa, Arkansas, and Texas.[24]

The railway system dramatically shortened the length of time needed for intercity travel. Using river, canal, or road transportation in 1840, it required nearly a week to get from New York to Cleveland, Cincinnati, or Louisville; and two weeks to New Orleans, St. Louis, or Detroit. By 1860 the trip from New York to St. Louis took 72 hours; Chicago or Detroit, 48 hours; and Cleveland, less than 24.[25]

The construction of the railway system required enormous quantities of capital. The early development of the railroads before 1860 involved an investment of $1.5 billion or 25 percent of the total active capital in the United States.[26] New economic institutions—namely, private stock-holding companies of which the railroad companies were the leading examples—raised the large amount of money. However, in order to obtain sufficient capital, the early railway companies generally needed sizable public as well as private support. In the decades before the Civil War, municipal and state governments were often major contributors to the railway system. For instance, the first American railroad was the Baltimore and Ohio, incorporated in 1826. The state of Maryland and the city of Baltimore purchased half of its stock. Furthermore, public authorities gave the Baltimore and Ohio Railroad a charter granting it special privileges including rights of eminent domain and tax-exempt status.[27] By the 1840s, many cities, facing stiff economic competition from other communities, were emulating Baltimore's example and trying to obtain railway connections. Eager to get tied into the railroad system and pushed by ambitious local elites, municipal governments became

generous creditors. By 1853 many cities had acquired substantial railroad debts. For instance, the per capita debt of Wheeling was $55; Baltimore's was $43; Pittsburgh's $34; St. Louis' $30; New Orleans' $23; and Philadelphia's $20. Altogether, these six cities owed about $21 million in railroad debts.[28] In the 1850s, states rather than cities increasingly assumed the responsibility for financing railroad construction. Between 1850 and 1857, the two states of Minnesota and Missouri alone used their credit to buy more than $22 million in railroad bonds and also gave away vast quantities of timber and land.[29] Finally, after 1860, with the rise to power of the Republican Party and the coming of the Civil War, the federal government took over the responsibility for assisting the railroads. In one the biggest land give-aways in history, the federal government handed vast tracts of public land over to the railroad companies and thereby financed the completion of the national railway system.[30] Thus even in the heyday of private enterprise, state intervention played an absolutely crucial role in the development of a key sector of the American capitalist system.

Overspeculation in railways was a major factor contributing to the depression of 1857, the first world-wide depression to begin in the United States. During the expansionary years of the early and middle fifties, industrialists and merchants used railroad stocks as collateral to borrow money with which to expand their plants and their commercial activities. Also banks and other financial institutions acquired large holdings in railroad stocks. Then between 1853 and 1857 the price of railroad stocks began to fluctuate widely and decreased an estimated 45 percent in value. Finally, in August, 1857, the failure of the Ohio Life Insurance and Trust Company sparked off a general economic collapse. The Ohio company was forced to sell its railroad stocks to meet its depositors' demands. Soon many banks, required suddenly to call in their loans, forced speculators to sell their stocks at whatever prices they could get. "In a week thirteen leading issues dropped 40 percent; the best bonds 10 percent. In six weeks, Reading, Erie, Illinois Central, and Michigan Central failed. The market had collapsed and the banks with it, for they had depended on railroad securities for their own collateral."[31] Although the resulting depression only lasted a few years and was relatively mild in comparison, say, with the depression of 1837, it profoundly illustrates the problems inherent in the method industrial capitalism used to build infrastructure. The speculative way in which infrastructure was constructed not only involved a tremendous waste of resources, but also periodically had exceedingly harmful spill-over effects on American society as a whole.

Even more important than the impact of the railway system on

the business cycle was its contribution to shifting the pattern of regional economic alliances and to shaping the overall course of national economic development. During the era of ocean, river, and overland transportation, the Northeast was connected to the South by ocean traffic along the Atlantic coast; the West was connected to the South by transportation along the Mississippi River. Meanwhile, only a poor overland transportation system connected the Northeast with the West. The good, water-based transportation systems along the Atlantic and Mississippi contributed much to the early growth of commerce and influenced the basic pattern of interregional trade in the early nineteenth century.[32] But after 1830 the canals and even more the railroads began to connect the Northeast ever more closely with the West. Thus a formidable new economic alliance developed between small commercial farming in the West and capitalist industry in the Northeast. Although Cochran and Miller exaggerate slightly, there is considerable truth in their remark that ". . .railroads by 1860 had joined the western granery to eastern and western factories, had joined markets to new machines, the country to the city. Communication, not production, was the key to industrialism in the United States."[33]

Within a remarkably short period of time, then, the railroads became a major force shaping the future course of the nation. The impact of the railroads on individual cities was equally impressive. Their effect on the growth of the city of Chicago was especially dramatic. According to Homer Hoyt, "At the beginning of 1848 Chicago was still a country town with cows browsing in pastures a mile from the city hall, and occasionally roaming through the main business street. Hogs recently had run wild in the center of town, and wolves had been seen at Wabash and Adams Streets. . . .Such was Chicago—a town without pavements, sidewalks, sewers, gas lights, street cars or railroads on the eve of the influx of a series of new transportation agencies that were to transform it entirely."[34] Beginning in 1848, Chicago was completely transformed in only six years. Whereas the city had not a single mile of track at the beginning of 1848, it was the railroad center of the West by 1854. The coming of the railroads stimulated every aspect of urban life. The population of Chicago rose from 10,859 in 1847 to 80,000 in 1855; by this latter year over half the city's population was foreign-born.[35] Total shipments of grain from Chicago increased from less than 2,000 bushels in 1850 to 13,000 bushels in 1854 and to almost 22,000 bushels in 1856.[36] The number of workers in manufacturing jumped from 2,081 in 1850 to 10,573 in 1856; and during this same period the value of manufactured products increased from $2,562,583 to $15,513,063.[37] The rise in land values in downtown Chicago was especially amazing. Land near State and Roosevelt, which had been

offered for $200 an acre in 1845, sold for from $50 to $150 a foot, or an average of $20,000 an acre, in 1856.[38]

The railroads profoundly affected American urban development. Cities that were railroad centers, such as Chicago, thrived while ones that still relied heavily on earlier water-based methods of transportation, such as St. Louis, declined in importance. The *Detroit Advertiser* in 1853 commented: "The city of Chicago has built herself up, doubled her trade, trebled the value of her real estate and rendered it saleable by a single act of policy—that of making herself a railroad center."[39] By midcentury, businessmen, newspaper editors, and politicians in cities all across America were beginning to recognize that the success of commerce, manufacturing, real estate, and finance all depended on access to good railroad connections. Thus urban elites (i.e., local "pro-growth" groups, nineteenth-century style) everywhere eagerly supported the boom in railway construction; and, more often than not, they turned to municipal or state governments for assistance in getting railroads to come through their communities.

By the 1860s, the railroad terminal had replaced the waterfront as the focus of community life in many cities. But, though the intercity railroad system was unquestionably the most important single form of infrastructure that stimulated capitalist expansion, it was by no means the only form. *Intraurban transportation* systems, which developed rapidly in the pre-Civil War decades, also had a major impact on the growth and economic well-being of cities.

The first important innovation in urban mass transit was the introduction of the omnibus. As George Taylor has said, "In urban United States history the years from about 1830 to the early 1850s may well be termed the Era of the Omnibus. During this period of unprecedented city growth, the omnibus facilitated and helped to make possible urban expansion."[40] Omnibuses were coaches, generally drawn by two horses, which carried about twelve passengers. They travelled along city streets, following fixed routes and picking up or dropping off passengers at frequent intervals. Omnibuses proliferated rapidly after 1830. New York City licensed 80 omnibuses in 1833, 260 in 1847, 425 in 1850, and 683 in 1853 (the high point). Many other cities—including Boston, Philadelphia, Baltimore, Washington, Pittsburgh, and St. Louis—licensed omnibuses as well.[41]

Omnibuses were usually owned by individuals or small companies. The proprietors of the omnibuses ran them for profit, not as public services for city dwellers. Hence omnibuses were generally operated only on the most lucrative routes and charged fares as high as the market would bear. But on account of their quasi-public nature the omnibuses came under public scrutiny and regulation; and the granting of omnibus franchises increasingly became matters of favoritism and patronage. As city officials all too often were willing to accept

money or stocks in omnibus companies in return for the granting of licenses, routes, and other favors, the omnibuses opened up a whole new field for municipal graft and corruption.

The era of the omnibus, however, was short-lived. In the 1850s, the introduction of horse railways revolutionized urban mass transit. The first horse railways consisted of passenger cars ordinarily pulled by two horses; they were drawn along fixed rails; and they easily accommodated at least 40 riders. In short, the horse railways were the forerunners of the streetcars that would dominate urban mass transit throughout the late nineteenth and early twentieth centuries.[42]

During the 1850s, many metropolitan areas experienced a street-railway boom comparable in many respects to the intercity railway boom that was going on at the same time. In New York City, 142 miles of street railway lines were built between 1850 and 1857; in Boston, 57 miles of lines were constructed between 1853 and 1860; and in Philadelphia, 155 miles of track were laid in the remarkably short period of time between 1857 and 1860. In 1860 alone the horsecars in New York carried nearly 45 million passengers and those in Boston 13.7 million. Baltimore, Chicago, Cincinnati, Pittsburgh, St. Louis, and a number of other large American cities acquired horse railways in 1859 or 1860.[43]

The introduction of new methods of mass transit made possible a revolution in urban form. Previously, because of the reliance of most city dwellers on walking as their only means of transportation, U.S. cities had of necessity been compact. The advent of mass transit changed that. Not only the introduction of horse railways, but also the development of commuter railroads, bridges, and ferries at last permitted urban dwellers to live increasingly far from the center of cities. As a result, the major metropolitan areas in the United States began to develop suburbs and satellite cities. In the New York metropolitan area, Brooklyn, Newark, and Jersey City grew rapidly. In the Boston area, Roxbury, Charlestown, and Cambridge experienced substantial population growth. In the Chicago area, satellite towns such as Carville, Cleaverville, and Holstein sprang up; also the first embryonic suburbs—Hyde Park, Englewood, and Grand Crossing—appeared along the railway lines.[44] A Philadelphian wrote in 1859: ". . .already the great mass of our population 'lives along the line' of [horse] railway; and before the next decade shall have far advanced, every rural vicintage within our corporate limits will be 'grappled with hooks of steel' to the steps of the Exchange."[45] In city after city, the process of suburbanization simultaneously dispersed the urban population, augmented the overall size of the metropolitan area, drove up land values around the periphery, and created subcommunities increasingly differentiated on the basis of class and

function.

Besides intercity and intracity transportation systems, other kinds of urban infrastructure were built in the pre-Civil War decades. For instance, many cities began to undertake the improvement of sidewalks and streets. The crude thoroughfares which had served fairly well when cities were smaller now proved totally inadequate. Initially businessmen and homeowners accepted a major portion of the responsibility for improving streets and sidewalks.[46] Such individualistic methods, however, yielded haphazard results. Also, they placed the costs of improvements upon the more privileged classes, classes which possessed considerable political influence. So, frequently as a result of pressure from business elites, municipal governments began to take over the tasks of street and sidewalk construction. In the 1840s and 1850s, Chicago planked many of its streets, especially in the downtown area. As Hoyt mentions, "These plank roads contributed greatly to the rise of land values on State, Madison, and North Clark streets, since, as they were planked for considerable distances, they attracted the omnibus lines."[47] Similarly in Milwaukee the city council undertook extensive street and sidewalk improvements; nearly $900,000 was authorized for such purposes in the middle fifties. Bayrd Still comments: "This concern for street improvement out of all proportion to other urban services may be explained by the personal interest of members of the council in the contracts, a situation that led to accusations that the aldermen and councilors were improving streets to the advantage of their own property, ordering work done where it was not needed in order to make jobs, and letting contracts on adjoining streets at prices varying from 50 cents to $1.70 per yard."[48]

The last major kind of infrastructure that expanded rapidly in the period from 1830 to 1860 was *communications*; indeed, the improvement of communications within, and among, cities was one of the notable achievements of the pre-Civil War period. For one thing, postal services were extended and cheapened. By the time of the Civil War, there were more than 28,000 post offices and 260,000 miles of post roads in the United States. U.S. postage travelled a total of 86 million miles in 1860, over 100 times the distance covered in 1791. Postage rates, which had previously been quite high, were steadily lowered in the 1840s and 1850s. Also reduced rates were provided for newspapers and other printed matter, thereby stimulating the general improvement of communications. Local mail service benefitted from lower rates too; and, in 1863, "local collection and free delivery were commenced, starting in about 50 large cities."[49]

The antebellum period also witnessed the invention and introduction of the telegraph. Already in 1850 telegraph lines connected

eastern cities with some of the larger cities of the West; and by 1861, with the aid of the government, telegraph lines reached the Pacific coast. Hence, even before the nation was tied together by the railroads, it was linked by an effective system of rapid communications. The significance of the development of the telegraph for the economy of cities is suggested in the following comment by Homer Hoyt: "By 1851 the corner of Clark and Lake streets was the center of four intersecting telegraph lines which put wheat buyers and wheat sellers in quick touch with the world markets and facilitated the rise of Chicago as a center of financial control."[50] What was true for Chicago was even truer for New York.

The most important area of communications was undoubtedly the publication and distribution of periodicals and newspapers. Even before 1830 a large number of newspapers and periodicals was published annually in the United States; for example, 68 million copies were sold in 1828. But soon a virtual revolution in printed media occurred. In 1850 the number of papers and periodicals was 2,526; by 1860 the number was 4,051. The total circulation of all kinds in 1850 amounted to 426,409,978 copies; the total annual circulation by 1860 was 927,951,548, or an increase of more than 117 percent. The communications revolution involved not only substantial increases in the volume of material published, but also a significant change in its character. Before the 1830s only major cities had daily papers; these dailies were fairly expensive; and they tended to focus principally on politics. Then in the thirties the penny paper became popular. As papers began to obtain a larger and larger share of their revenues from advertising, they increasingly focused on expanding their circulation. Newspapers tried to appeal to wider, mass audiences. They diversified their functions. And they became less overtly partisan. Newspaper pages began to be filled up not only with politics, but also with general news, advertising, editorials, business information, help-wanted notices, and boosterism. Naturally, even after the advent of the penny paper, the press still tended to reflect many of the divisions within American society. For example, city newspapers often split over such issues as slavery, western expansionism, questions of social policy, and campaign endorsements. Nonetheless, the overall pattern was for newspapers increasingly to abandon overt partisanship in favor of a more broad-based appeal to a mass public.[51]

The new mass circulation dailies exerted an important influence upon American society. The *Report of the Eighth Census* said: ". . . the newspaper has in our day enlarged equally the area of its diffusion and the character of its contents, while the celerity with which it is disseminated equalizes throughout large tracts of the country the conditions of that popular intelligence which make up an enlight-

ened public opinion. . . .At the present day the newspaper and the periodical have become 'popular educators'. . . .And in no country has their influence been more sensibly witnessed, or more widely extended, than in the United States. The universal diffusion of education, combining with the moderate prices at which the daily visits of the public press may be secured, has given to the newspaper a very great currency among us."[52]

In conclusion, the pre-Civil War decades experienced not only a revolutionary transformation of production and of social life, but also an explosive development of infrastructure. Transportation systems, municipal services, utilities, and communications all grew extraordinarily fast. The new expanded forms of infrastructure played an essential part in the rise of the system of industrial capitalism. On the one hand, infrastructure of one kind or another made possible the extraordinary mobility of the population; it provided at least the minimal amounts of water, sewerage disposal, and sanitation necessary to sustain urban life on an enlarged scale; and it provided the information and social knowledge necessary for city dwellers to adapt to a complex, changing world. On the other hand, infrastructure made an absolutely essential contribution to the emerging industrial system by providing the "communal, general conditions of production." The new system of infrastructure furnished the transportation facilities necessary for markets to expand and for national, regional, and urban economies to become integrated; it made available utilities and other urban services which full-scale industrialization required; and it provided new forms of communications that were essential to the management of a complex capitalist society. In short, the new system of infrastructure greatly accelerated the processes of social reproduction and economic production alike.

The City as a Political Community: The State Sector

So far this paper has shown how midcentury U.S. cities were centers of production, arenas for the development of social life, and structured environments. One final aspect of those cities remains to be considered: their roles as *political* communities. At the local level, the *state sector* in America consisted of the institutions of the city government, the programs and policies of municipal authorities, the local parties, the electoral procedures, etc. During the period under study, the state sector locally took a special form, a form which simultaneously was shaped by the process of industrial capitalist development and helped shape that process.

Midcentury municipal government and politics owed many of their most important features to practices established at earlier stages

of American history. The first American cities, as we saw before, had evolved as part of the mercantile system. The original colonial cities possessed corporate status granted by the crown. In these colonial cities, there was no separation of powers; councils possessed virtually all the authority; and mayors were practically powerless individuals who were appointed by the colonial governor, by the council as a whole, or by the aldermen. Nearly a third of all colonial municipalities were "closed corporations" in which the existing council members merely reappointed themselves and no popular elections at all were held; even in cases where elections were permitted, only a small proportion of the population was eligible to vote or hold office.[53] Thus the original American city governments were run by tight-knit local elites, virtually free from popular influence at least through normal political channels. Riots and mob violence, however, served as alternative methods for people to express their political views; and, to the dismay of urban elites, such methods were employed not infrequently.

After independence, American cities continued to be corporate entities. But under the Constitution the power to grant municipal charters passed into the hands of state legislatures. This commenced the legal subordination of cities to the states and it opened up the opportunity for the domination of city governments by state legislatures, a phenomenon that became increasingly common in the nineteenth century.[54] Still, for a long time after independence, traditional local elites continued to dominate city governments just as they had done earlier. In New Haven, Connecticut, for example, from 1784 to 1842 ". . .public office was almost the exclusive prerogative of the patrician families."[55]

But as the United States expanded westward in the early national period, new political currents arose. On the frontier, the forms and techniques of local government that prevailed on the eastern seaboard were abandoned. In their place, a highly individualistic, open, competitive, and manipulative style of local politics was introduced. The constitutions of western states gave virtually every white adult male the right to vote and hold office; and so competitive elections for local offices became commonplace. Also, since the duties of office were simple and the payment for public service was lucrative, most adult males were capable of holding office and many sought to do so.[56] In practice it was often the new communities' local elites—land speculators, merchants, manufacturers, lawyers, and newspaper editors—who ended up controlling the reins of power in city government.[57] Nonetheless the new, formally more democratic practices introduced in the western states definitely did establish a new political tone.

Before very long, the political practices that had sprung up in the

West began to penetrate the East; the political style of the periphery, so to speak, redounded upon the center. For several decades, the established state and local elites along the east coast vigorously resisted the demands for greater democratization being pressed by the working classes, and especially by the propertyless, disfranchised workers in the cities. But in the end, as a result of prolonged struggle, those at the bottom managed to obtain a series of basic political and civil rights.[58]

The entry of the working classes into the political process in America did not occur at the same time or under the same circumstances as in most other Western nations, however. In Europe, the working classes generally struggled to gain political rights *at the same time* as they were struggling to obtain economic rights. Hence in Europe the economic and the political struggles of the working classes often became linked; the result was the rise of working-class parties. But in the United States the struggle of the lower classes to obtain political rights *preceded* the industrial revolution and was won before industrialization really got going. And so in America the kinds of democratic politics and mass parties that existed *before* industrialization were adapted to suit the needs of an industrializing society. In other words, the *timing* of the extension of formal political participation (i.e., before industrialization) and the *form* that this participation took (i.e., mass-based, patronage-oriented party politics) both must be considered if one wants to understand American local politics and government during the early stages of industrialization.

As the United States entered into the industrial phase of its development, the Jacksonian-style of local politics was extended and modified to suit the needs of a rapidly changing economic and social order. Michael Holt has written: "Perhaps political historians should recognize that political patterns shaped by the complex economic and ethnic issues of an industrial society also emerged in the decade before the war."[59] As Holt has correctly perceived, new patterns did indeed begin to characterize the public sector during the early stages of industrialization. The innovative, developmental role of the state sector, especially at the lower levels, is apparent in the ways in which this sector *intervened* in each of the other emerging sectors previously identified: the sector of economic production, the sector of social reproduction, and the sector of infrastructure. A survey of the varieties of government intervention at midcentury will show 1) how the U.S. state functioned as a *capitalist* state, and 2) how the particular set of *policies* pursued by the public sector contributed to early industrial capitalist *development.*

While refraining from intervening directly in the production process in the best laissez faire tradition, the public sector undertook various measures to encourage the growth of private capital accumulating units and to guarantee them legal status. Corresponding to the Jacksonian tradition of localism, it was chiefly state governments rather than the federal government that acted to help business. State legislatures starting with Connecticut in 1836 began to pass general incorporation acts.[60] These acts made it relatively easy for businessmen to set up corporations; they provided the legal foundation for the modern firm; they aided enterprises to raise capital; and in general they stimulated industrial development. Also many states began to grant bank charters more readily.[61]

There were powerful forces at work that encouraged the states to support corporations and banks. First of all, at the level of political influence, local entrepreneurs began to have an increasingly great impact on state legislatures. But also, at a more basic structural level, individual states started to realize that their chances for economic success depended to a significant extent on how aggressively they backed private enterprise. States which wanted to stimulate economic growth in their areas had no alternative but to encourage the private sector.

Meanwhile municipal governments, with less legal power than the states, exercised no direct control at all over the powerful new private enterprises that were shaping their economies and the lives of their inhabitants. City governments, however, faced the same dilemma as the states: to stimulate economic growth in their particular areas (and, incidentally, increase city revenues), their only real option was to encourage private enterprise. Hence, cities began *indirectly* to support the private sector of production, especially by handling many of the social consequences of industrialization.

In short, the role of the state sector vis-a-vis the sector of production under early industrial capitalism was quite straightforward: public authorities fully accepted the hegemony of private enterprise. They not only recognized the autonomy of the private sector of production, but also sought to give it a solid legal status. In other words, the public sector at midcentury gave free rein to the process of private capital accumulation and even went out of its way to reinforce the independence of action of private enterprise.

Besides backing private enterprise, the state began to intervene in certain areas of social reproduction. The expansion of government's role in society was a response to needs created by capitalist development. As capitalism progressed, it created a mass of social problems. Karl Deutsch has described the social consequences of development as follows: "As people are uprooted from their physical and intellectual isolation in their immediate localities, from their old habits and traditions, and often from their old patterns of occupation and places of residence, they experience drastic changes in their needs. They may now come to need provisions for their housing and employment, for social security against illness and old age, for medical

care against the health hazards of their crowded new dwellings and places of work and the risk of accidents with unfamiliar machinery. They may need succor against the risks of cyclical or seasonal unemployment, against oppressive charges of rent or interest, and against sharp fluctuations in the prices of the main commodities which they must sell or buy. They need instruction for themselves and education for their children. They need, in short, a wide range and large amounts of new government services."[62]

Unfortunately, the fact that the process of development creates numerous new needs does not necessarily mean that governments will provide for these needs. The state sector does not *automatically* respond to the requirements of the reproductive process; it has to be compelled politically to respond. And in fact, as Deutsch mentions, the liberal state of the mid-nineteenth century did a pretty poor job of providing for peoples' needs. In a fashion probably unacceptable in *any* developing society in the twentieth century, the U.S. public sector in the nineteenth century adopted a *minimalist* strategy as far as providing for the social reproduction of the country's burgeoning urban populations. The allocation of resources was tipped heavily in favor of helping the process of private accumulation at the expense of the process of social reproduction.

The state's willingness to subordinate social development to privately controlled economic development was evident from the fact that under early capitalism the public sector allowed the basic living standards of the population to be determined almost entirely by the free play of the market. Occasionally state legislatures, e.g., in Massachusetts, considered workers' petitions requesting laws to regulate wages, hours, working conditions, child labor, etc.[63] But by and large state governments did little to interfere with the private determination of living standards. And local authorities, lacking legal authority, were able to do even less.

While refraining from interfering with the system of wage labor, public authorities did take certain steps to control and ameliorate the reproduction process. For instance, state and local governments built almshouses, asylums, and orphanages. That is to say, public authorities undertook certain relief measures to compensate for the consequences of privately-controlled development. America's first important welfare institutions, set up in the Jacksonian period to carry out reproductive tasks formerly performed by households or communities, functioned reasonably well. But by the 1840s and 1850s, under the impact of the accelerating pace of urbanization, industrialization, and immigration, these relief institutions degenerated into institutions of social control.[64] Only persons totally incapable of supporting themselves in the private market economy were likely to accept the appalling conditions that commonly existed in midcentury relief

institutions.

Besides institutional relief, other state-sponsored forms of welfare were created to cope with the problems of unemployment and adjustment to urban society. Sometimes public authorities financed or subsidized philanthropic or ethnic-based relief agencies. More importantly, they often used jobs in the public sector to absorb surplus urban populations. Thus political patronage, especially in city government, became a major instrument for assimilating and controlling the swelling populations of cities.

A key area of reproduction in which the state *did* expand the scope of its activities was education. In the decades before the Civil War, many municipalities and states assumed the responsibility for providing free public education. As Reinhard Bendix has observed, in western societies the introduction of compulsory public education has historically played an important role in integrating the working classes into the nation; moreover, public education has usually been introduced under conservative auspices.[65] The American case was no exception. Although the call for free public education was originally voiced by the urban working classes in the pre-industrial era, when it was finally introduced during the period of rapid industrialization public education was generally administered by conservative groups and used for conservative purposes.[66] Public education became a socializing device: it inculcated habits of order and discipline and it helped assimilate diverse populations into the economy and the polity. Also, public education made a fairly straightforward contribution to the process of industrialization. In an age when the breakdown of apprenticeship and the mobility of the work force made private training of workers both impractical and costly, the new urban public school systems shifted the costs and responsibilities for training industrial workers increasingly onto the shoulders of the state.[67] Small wonder, then, that public education grew rapidly, while welfare and other social services remained heavily restricted, during America's early stages of industrial growth.

Viewed as a whole in the years from 1830 to 1860, public sector intervention in the process of social reproduction had a distinct character. If one considers the extent of public intervention in social affairs, the amount of resources allocated, and the selective nature of the intervention, a clear pattern emerges: during the pre-Civil War decades, the American state sector—particularly at the local level—served as an important instrument for ameliorating, controlling, and stimulating the process of social reproduction *in such a way as to provide the social prerequisites for industrial capitalist development.* Above all, public intervention did not interfere with the wage system as the basic arbiter of the level of social reproduction. Indeed, it was consistently organized so as to reinforce that system. But, given this

important constraint, sufficient selective public intervention in the lives of urban dwellers was performed so as 1) to legitimate the overall social order, and 2) to provide the kind of social development necessary for accumulation to expand.

The state's role in the construction of infrastructure was somewhat different. In this area, state intervention definitely played a major role. The limited amount of capital available to the small but growing productive sector made it imperative for entrepreneurs to rely on state assistance for building infrastructure. But President Jackson's veto in 1830 of a bill providing federal funding for the Maysville Road made it clear that under the Democrats public improvements would not be a national responsibility. Federal support for the construction of a national transportation system and other similar projects would have to await the assumption of power by the Republicans.[68] Thus in the pre-Civil War decades states and municipalities were called upon to provide the bulk of the funds for public improvements.

At midcentury a competitive struggle among local communities rather than any system of rational planning was forging the national network of cities. In this context, the fate of particular cities depended on their ability to attract outside capital and to get local businesses going. This situation allowed entrepreneurs to greatly increase their influence over city governments. In some places, businessmen directly assumed the reins of power; elsewhere they worked through professional politicians.[69] One way or another, they managed to get cities to undertake programs to stimulate the private economy.

To finance public improvements, cities either raised taxes or went into debt. (Legal restrictions on local indebtedness were introduced only in a later period.) Naturally, tax increases were unpopular with the public so local politicians tended to finance capital investments by incurring debts. By 1860 net municipal indebtedness in the United States had reached an estimated $200 million.[70] When public improvements managed to stimulate a good deal of economic growth, these improvements were self-financing. But when public improvements failed to generate enough economic activity, communities became saddled with large, unpayable debts, and municipal bankruptcies followed. In this framework of policy alternatives, local public funds were essentially used to gamble on private sector development; municipal politics, policies, and financing took on a speculative quality; and the whole tone of midcentury city politics became suffused with a spirit of boosterisms and hustle.

One special feature of the new infrastructure being built was that it frequently improved the conditions for social reproduction as well as for economic production. Transportation, streets, water systems, etc., affected the everyday lives of city dwellers in addition to

helping business. Hence, by financing the construction of infrastructure, public authorities were sometimes able simultaneously to improve the conditions for accumulation and to increase the legitimacy of government. Yet, in general, city governments placed a much higher priority on improving the conditions for accumulation than on enhancing social reproduction. And city dwellers, recognizing that they were frequently being asked to pay for projects which principally benefitted private entrepreneurs, started to rebel against the rising costs of municipal government. As a result, a *new style of city politics* emerged.

Starting in the 1840s and 1850s, those in power in city halls started spending large sums of money on public improvements. Opponents would attack these expenditures as excessive. They would call for an end to corruption, waste, and inefficiency. Once in power, the reformers themselves would often end up spending large sums of money. Thus the charade of urban politics, sliding back and forth from "corruption" to "reform", commenced. This charade persisted until at least the beginning of the twentieth century. The public, aware that it had no real control over the basic operations of government, gradually became cynical. Voters simply supported the election of those politicians who promised to offer the most to their own class, or ethnic group, or personal welfare. Meanwhile, the functions of municipal government essential to capitalist development—namely facilitating the accumulation process and providing the minimum services necessary for legitimation—continued to be performed without interference.

During the period from 1830 to 1860, public sector intervention in the various sectors of urban life (i.e., production, reproduction, and infrastructure) became sources of controversy. For instance, government policies vis-a-vis the private productive sector occasionally stirred up considerable unrest. In the Jacksonian period, workingmen in New York City split with the Democrats over that party's position on banking, currency, and related matters.[71] Later the tariff became an important issue in several of Pittsburgh's elections.[72] Controversies around public policies in the area of social reproduction were probably even more common. The introduction of public education was initially resisted in some cities and towns. Welfare, religion, and education also served as focal issues in many municipal election campaigns.[73] Finally, government financing of infrastructure was a recurring source of controversy. In Boston, the mayoral campaign of 1845 was fought over the issue of whether to build a city water supply system.[74] In Pittsburgh, annexation of surrounding communities was proposed as a means of paying for outstanding railroad debts; and from 1854 to 1859 electoral campaigns in that city were fought over the railroad issue.[75] And in New York City,

the manner in which horse railway franchises, street pavement contracts, and land sales were handled became important political issues in the 1850s, leading to the formation of a City Reform party.[76]

Besides intervening in other spheres of urban life, the public sector at the local level developed its own special qualities and raison d'etre. For the citizens, city politics became a *spectacle*. Municipal election campaigns were often the "greatest show in town." Torch-light parades, picnics, rallies, and other events amused and delighted urban residents. Political mobilization, in the restricted sense of participation in electoral politics, was extensive. The frequency of elections (typically three or more a year) kept communities at a fever pitch. And elaborate methods were used to attach voters symbolically to one or another of the political parties. Yet all this ballyhoo rarely had much to do with substantive political issues; rather the purpose of most of this feverish activity was *to get people elected to public office*.

Although municipal politics was largely a spectacle in the eyes of the ever-expanding electorate, it was a serious business for the professional politicians. Despite the onset of industrialization, American city politicians continued to engage in Jacksonian-style politics: they displayed an extraordinary interest in obtaining elective public offices, gaining access to patronage, and getting a chance to share in spoils. In marked contrast to European politics during the same period, midcentury American politics barely focused on class or ideological issues at all. This did not mean that America was a classless society (it certainly wasn't) or that politics did not affect capitalist development (it certainly did). But even the important controversies over public intervention in production, reproduction, and infrastructural matters--controversies that bore directly upon the process of capitalist development—tended to get submerged in the mad scramble for offices, patronage, and spoils.

During the early stages of industrialization, then, the U.S. public sector was fairly unusual by general western standards. At the time of its economic "take off" the United States lacked the sophisticated kind of state system which most contemporary European nations possessed. In America, government and politics grew up alongside factories, railroads, banks, schools, etc. Furthermore, the main political tradition which the United States drew upon during early industrialization was the Jacksonian system; and this gave midcentury U.S. politics and government a unique quality. In American cities, top government positions were filled by election, not appointment. Lower-level positions were allocated on the basis of patronage, not professional qualifications. Office holders were more concerned about immediate personal gain than long-term class interests. And

policies were based on pragmatic calculations instead of ideological convictions. In short, Americans substituted patronage-style party government for the more developed state administrative systems that other western countries generally relied upon to back up the process of capitalist industrialization.

An important consequence of America's way of doing politics was to greatly strengthen the *legitimating* role of the state. In the course of their efforts to win elections and to obtain offices, American city politicians often undertook measures such as extending formal political participation to newcomers, putting surplus populations on city payrolls, and dishing out favors to the electorate. Preoccupied with holding office, the politicians de-emphasized divisive issues. Thus, American-style party government helped to assimilate new populations into the polity and to stabilize the social order.

One final dimension of the U.S. public sector at midcentury should be pointed out. Holt has quite rightly argued that at this time *local* political issues were much more important than historians have generally recognized.[77] As the analysis in this paper has shown, public sector operations at the local level did substantially affect the early development of industrial capitalism. But ultimately midcentury city politics cannot be considered in isolation. Urban politics was closely tied into the larger *national* pattern of politics. American development turned on what happened not only in the cities but also the countryside. Even though midcentury cities were dynamic centers of change upon which the future course of U.S. development rested, they still contained only about a fifth of the country's population. National political parties, therefore, had to gain the support of rural as well as urban voters. Because of the links between local and national parties, city politics became inextricably tied up with broader national issues, developments, and electoral coalitions. Furthermore, cities were deeply split internally over their relations to the rural sectors of America "external" to them.

Generally speaking, one might say that by the eve of the Civil War the more privileged, native-born segments of the urban population were tending to join with western farmers in support of the new Republican Party; meanwhile, the urban working classes, and especially the Irish, were usually allying with the planter-dominated Democratic Party. Thus in the intensifying controversy over whether the western territories should be slave or free, urban areas were divided. As a result, cities, in partisan political terms, often became moderating influences.[78] Only with the coming of the Civil War and the assumption of power by the Republican Party did the situation change. And (*pace* Charles Beard) only after the Republicans in the war years firmly established a new party system and a new agenda of public policies was a secure basis laid for the ongoing development of

urban industrial capitalism.

Conclusion: Cities and the Overall Process of Capitalist Development

To recapitulate: By the middle of the nineteenth century American society was already making the shift from landed and commercial capitalism to industrial capitalism. Involved in this shift was the decline of long-standing rural household forms of social life and their replacement by new, urban-based forms. At the same time, U.S. cities themselves were being radically transformed. Increasingly, they were becoming centers of production. The accumulation of capital, hitherto dependent upon rural production and urban commerce, was beginning to be concentrated in the powerful new sector of production located in urban areas. This was not all, however. American cities were becoming *much more than centers of production.* This is a point which hopefully this paper has made abundantly clear. Capitalist development is complex. It extends far beyond the actual production process.

Besides a revolutionary transformation of production itself, capitalist development also necessitated particular social relations and institutions, specific kinds of infrastructure, and a special sort of state apparatus. Already at the middle of the nineteenth century, many of the social, infrastructural and political prerequisites for accumulation, like production itself, were becoming concentrated in urban areas. In short, American capitalism in the mid-nineteenth century created an entirely new form of social life suited to its needs and imperatives: the *modern capitalist city*.

Hopefully, the analysis which I have undertaken in this paper is of more than merely historical interest. This analysis, I should like to believe, explains some of the important ways in which modern cities are shaped by the process of capitalist development. It reveals that the growth of these cities depends on an interplay among four major sectors (production, reproduction, infrastructure, and the state). The paper also suggests that how these four sectors combine is determined, first of all, by the underlying logic of the accumulation process, and, secondarily, by the particular historical circumstances and struggles that characterize a particular country's process of development. Finally, this paper at least hints that the urban-based process of capitalist development both shapes, and is shaped by, the larger national process of development, especially as it occurs in rural areas.

The "model" of development presented in this paper is somewhat different from most models currently in use in the social sciences. Basically, my model holds that the major transformation of modern times—i.e., the shift from rural household-based to urban, sectorially

specialized societies—has been a result of the demands, logic, and imperatives of capitalist development. Furthermore, this model focuses on the interplay of the four principal sectors concentrated in urban areas as the key to the process of development. Such an approach to the study of change, it seems to me, might fruitfully be used to analyze other historical cases. For instance, the model which I have sketched might be employed to examine the development of various European societies in the nineteenth century; it could be applied to the study of developing countries today; or it might be used to analyze some of the later stages of U.S. or Western European development. Obviously, such extensions of the model would have to take into account important differences between the United States in the nineteenth century and the particular countries at the specific stages of their development which were being analyzed.

Footnotes

An earlier version of this paper was presented at the American Political Science Association Convention in Chicago, September 1976. In working on this paper, I have acquired many debts. I would like to try partly to repay a few of these. Several people have made important contributions to my thinking about matters dealt with in this essay. Rick Busacca first introduced me to the concept of "social reproduction" and suggested its possibilities, and Larry Hirschhorn has repeatedly pushed me to recognize the value of a "developmental" approach. Without their invaluable assistance, the present paper could not possibly have been written. Also, a number of persons made helpful comments on an earlier draft of this paper: Lenny Goldberg, Carol MacLennon, and Chuck Noble. Finally, I would like to thank the members of the Bay Area Kapitalistate Collective for their comments, criticisms, and assistance in editing this paper. However the responsibility for the views expressed in this paper remains mine alone.

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The Rise and Decline of the Keynesian Coalition

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I. Introduction

In this paper, I present an interpretation of the origins, development, and decline of Keynesian macroeconomic policy in the United States. During and after World War II, an explicit strategy was formulated to deal with economic instability. This strategy, drawing heavily on Keynesian economic theory, incorporated a number of political elements. It should be analyzed in terms of the inter-action of its economics and politics. In addition, a political coalition formed around the new strategy, and this coalition became the dominant one in the succeeding period.

The Keynesian strategy and the Keynesian coalition do not completely describe the U.S. political landscape in this period. International struggles, domestic social and economic struggles, and struggles for and within the state itself can each be taken as a focus of analysis. By centering my analysis on economic policy I am not seeking to deny the integrity or importance of these issues. Instead, I am attempting to show that, just as economic policy can be seen as an element of foreign policy or urban struggles, the latter can also be viewed as a component of the practice of economic policy. My goal is not to reduce everything to economic policy but to move the analysis of economic policy outside the bounds of the economy and to situate it in the context of a *political* economy. I am presenting, and interpreting, one slice of that political economy which is centered on how problems of the macro economy were perceived, and what solutions were sought.

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The argument I make is that a consistent and coherent strategy evolved in the period from the mid-to-late thirties to the mid-to-late forties. Some of its roots can be found earlier but it began to coalesce toward the end of the New Deal. Its coherence and consistency is clearer to us now with historical hindsight. However, actors in the state arena consciously and articulately created institutions and shaped policies for what was taken to be a unique opportunity and historical mission. The ending of a depression and a major war was seen as a time for new beginnings, new sets of relationships, and new opportunities to shape the political economy. Thus, there was a substantial attempt to look forward, to create coherent and consistent visions of the future, and to move those visions toward reality.[1]

I am not arguing, however, that the post-war political economy was the result of a master plan imposed upon a population by a manipulative ruling class. I think there was, and is, a ruling class that manipulates, but this ruling class is itself subject to constraints. The strategy that I am analyzing emerged out of the economic and political forces of the period, was a response to how these forces were perceived, was altered in response to opposition and changes in perceptions, and contained contradictions which ultimately undermined the basis of the strategy.

A complete analysis would put forward a model of the economy and trace how policy was formulated in response to how the economy actually operated. The present analysis investigates the level of perception. It probes the Keynesian strategy as the product of how the economy was perceived by participants and how that led to concrete political activity.

A more complete analysis would also investigate the array of class forces in the 1940s, and how they changed over the next thirty years. The analysis of political coalitions stays at the level of policy and ideology. Only in spots and often implicitly does the analysis move beneath the level of policy. This paper is a first attempt to organize what we know about the post-war strategy, the coalition that brought it into being, and the limitations and contradictions that have brought its demise.

II. The Post-War Strategy

A. Aggregate Demand

What was this new strategy? First, overall stability was to be achieved by using aggregate policy tools, such as the size of the federal budget deficit or surplus, to achieve aggregate objectives, such as the level of unemployment or the rate of change of prices. The notion of attempting to stabilize the economy by rationalizing

production in individual sectors, which dominated thinking in the early New Deal, was gradually replaced by the concept of aggregate equilibrium.[2]

At the same time, the emphasis shifted from supply to demand. Drawing on interpretations of the 1920s, and the experience of the depression and the war, and buttressed by the growing influence of Keynesian economics, there had been a shift from seeing cost squeeze and sectoral instability as the main problem to a focus on deficiencies of aggregate demand. While the more severe version of the new doctrine that were argued by some, such as Alvin Hansen, did not find widespread support, a clear motif of stagnationist thinking colored economic policy ideas in the 1940s.[3]

The emphasis on aggregates, and the shift to a demand orientation, seem to go together. One of the criticisms of earlier government forays into the manipulation of production was that, regardless of overall effects, such intervention involved a large amount of bureaucratic costs and meddling. Not only was supply-side intervention expensive, both for the government and in terms of the costs borne by companies, but it interfered with traditional business prerogatives, in ways that seemed to have little or no rationale. The experiences of many businesses during World War II reinforced this feeling.[4] It is possible to conceive of supply-side intervention that occurs at aggregative levels, such as policies that affect interest rates or taxes on business income. But the historical record suggested that supply intervention would quickly move toward the particular and away from the general. The new economic theory of demand management held the promise of the reverse.

It is important, then, to understand the concept of an aggregate. There is no obvious line between an analysis that takes place at the level of aggregate variables and one that occurs at a more disaggregated level. A policy tool such as the budget deficit is not derived independently of its components, and an objective such as increasing the level of investment spending must make distinctions among types of investment in order to have the desired effects on rates of growth or on productivity. An emphasis on aggregates also hides many strategic differences. Finding the appropriate balance between monetary and fiscal policy, deciding whether macroeconomic policy should be primarily counter-cyclical or should emphasize long-run growth in the economy, and balancing a fiscal stimulus between spending and tax changes are examples of conflicts that did emerge.

But an emphasis on aggregates is not misplaced. It was precisely the aggregative quality of Keynesian policy that was hailed as one of its main strengths, given the task at hand. If the government must intervene in the economy one of the obvious dangers is that it will distort the market, impose additional costs, and act to favor a few.

The advantage of a strategy that emphasized a small number of aggregate variables is that it purported to reduce the scope of state meddling by giving the state well-defined targets that would have relatively uniform impacts throughout the economy. If the Federal Reserve sets a limit on bank reserves or on the Treasury bill rate, it alters a market result, but everyone on the market receives the same altered result, so the distortion is more even and hopefully more predictable in its impact. An emphasis on aggregates was thought to have the effect of generalizing the intervention of the state in precisely this fashion. The problem that then occurs, and one that is never really solved, is how to ensure that this state mechanism will impart the "correct" signals, that is, to ensure that the state will act like the market while simultaneously transcending the market.

An emphasis on aggregates also has political implications. Choices seem less visible, more impersonal, and, therefore, less subject to the influence of democratic pressures. Joan Robinson has written: "There is in some quarters a great affection for credit policy because it seems the least selective and somehow lives up to the ideal of a single overall neutral regulation of the economy. The enormous ideological attraction of the Quantity Theory of Money. . .is due to the fact that it conceals the problem of political choice under an apparently impersonal mechanism."[5]

Many of the macro policy ideas of the 1940s were attempts to extend this principle to fiscal policy. Among the more widely discussed policy schemes were several that did little more than place the state on automatic pilot. Milton Friedman's "Monetary and Fiscal Framework for Economic Stability" was probably the most extreme in this regard, although the Committee for Economic Development's stabilizing budget was another prominent example, with its glorification of automatic stabilizers.[6] The CED scheme is important because it emanated from a business group that strongly supported the new initiatives in macroeconomic policy and was a leader in the effort to educate the public and bring businessmen into the fold.

The aggregative quality of the new macro policy can be seen as an attempt to derive a form of state intervention that would be successful in fighting stagnation tendencies. At the same time, it was a form of intervention that operated at a general level while allowing the market to determine specific results, such as the composition of output and employment. In effect, the view was that an aggregative policy would overcome instability and thus counter the undesirable effects of the anarchy of capitalism, while allowing that anarchy to remain.

B. State Centralization

The second important feature of the new strategy was the changing conception of the state. For one thing, the state's responsibility for managing the economy was made more explicit and it became more widely accepted. This meant that *ad hoc* arrangements would have to be replaced by relatively permanent institutions and policies. Also, the centrality of aggregates in economic policy implied a greater degree of centralization within the state. If the budget was to be an economic weapon then it must be unified toward that objective. Throughout the post-war period, there was conflict within the government over these issues. Which agencies within the executive branch would have primary responsibility for economic policy: the Treasury Department, generally conservative and finance-oriented; the Council of Economic Advisers, which was over the years more activist and expansionist; or the Board of Governors of the Federal Reserve System, the most conservative of all? How much role would Congress and the Executive have in spending and taxing decisions? How would the hard politics of contractionary budget policy be handled?

The experience of the depression had shown that a piecemeal and partial effort at economic management would not work. And, while the wartime experience was hardly an unqualified success, it did seem to push in the direction of the acceptance of a larger role for the state. The tremendous expansion of productive capacity during the war reinforced fears that the economy was permanently in stagnation and required a greater and more systematic government role. Also, the war brought people to Washington and gave them an inside look at the state. According to Otis Graham, this "was an educational experience. . . and in the end a politically moderating one." Business learned how to live with a big state; many individuals learned how to manipulate one. Again according to Graham, "the real issue was not whether government would remain responsible for economic development, and be active in a balancing role; this was conceded. Disagreement focused not upon the fact of government economic management, but its forms and goals."[7] Some of these disagreements, however, remained important.

Issues of state centralization were part of a dispute about the control of monetary policy. During the war, the Federal Reserve System supported government policy by purchasing Treasury bonds on the open market to ensure a market and keep interest costs low. After the war, the Fed wanted to gradually end its support of the bond market and its pegging of interest rates, arguing that such a policy did nothing more than directly monetize government debt and therefore was an engine of inflation. In addition, the pegging policy effectively reduced monetary policy to being an adjunct of debt management. The Truman Administration pressured the Fed to continue its support of the bond market and the dispute was not resolved until 1951, in a Treasury-Federal Reserve Accord, when it

was agreed that the latter would gradually move toward a more flexible policy.

The United States is the only major country which does not have a central bank that is directly under the executive branch of government. The post-war dispute was partly over the issue of whether the Federal Reserve, while legally independent, was bound to ratify the economic policy of the Administration. At another level, a dispute raged over the theory of economic policy. Some of the early Keynesian models had argued, somewhat simplistically, that money, and monetary policy, mattered little or not at all in the overall management of the economy. This view was gradually being replaced, in the United States, by one which argued that money did matter, although there was, and remains, disagreement over the quantitative question of how much it matters. The resolution of the dispute between the Administration and the Federal Reserve was a setback to formal centralization. It firmly established the independence of the Fed and made the issue of coordination an important one in policy debates.[8]

Other areas of dispute included the role of the Council of Economic Advisers and the relative importance of Congress and the Executive in determining the Federal budget.[9] Opposition to state centralization often overlapped with opposition to particular examples of state activity, so when the Keynesian strategy became more widely accepted, so did the need for more centralized determination of economic policy. Disagreements over the forms and goals of state policy were sometimes about different theories or ideologies of policy. Often, however, they were really about access to the state. A prospective change in the location of policy formation, or the creation of new policies and institutions, meant that the issues of access had to be fought anew. Much of the conflict over state centralization represented a clash between those who were emphasizing general policies and institutions to support such policies, and those who were seeking to preserve or acquire their own piece of the state.

C. Labor

The third element of the new strategy was the changed political and economic relations between labor and the corporate economy. Industrialization and proletarianization had proceeded rapidly in the first decades of the twentieth century and the working class became more organized and a greater political force. Unionization pressure increased and was openly fought by the state. Working class presence in the national Democratic Party grew during the 1920s and was a major force by the end of the decade. The bringing together of workers and other "out" groups in a successful electoral coalition in 1932 signalled the beginning of a new political era in the United

States. And the Depression was both a massive economic crisis and a setting for political organizing and disruption.

In such a context the working class made substantial gains. Through mobilization and struggle, workers made inroads in national politics and achieved numerous advances in union organizing. The establishment of national systems of social security and unemployment compensation, the Wagner Act which established a legal basis for union organizing, and the expansion of public works spending, are prominent examples of such gains. These actions were the result of a mixture of pressure from below and attempts to defuse and co-opt such pressure from above. Such actions were also a form of primitive Keynesianism, in that they attempted to place purchasing power in the hands of those who would spend it quickly. In this regard, such actions are part of a move away from some of the radical strains of early New Deal policy thinking which emphasized more severe structural measures, such as a wide-ranging attack on monopolies and a call for national economic planning. While the incorporation of labor into the national economic and political consensus does represent an important change, it is one whose basic features and contradictions took a while to become apparent. At the time, it appeared as both good politics and good economics, and a move away from both the left and the right. New Deal social legislation can also be seen in terms of a search for legitimating mechanisms in which some dissident elements are brought into the majority coalition by expanding access to the state.[10]

This is not to say that the elements of conflict were removed. Just the opposite. After the war there was a major effort to restrict union activity, for example with the Taft-Hartley Act, and there was a largely successful effort to purge the labor movement of its more radical elements. Firms, particularly in competitive industries, often fled from strong union areas and set up operations in the South, the Southwest, and sometimes out of the country. Specific legislative objectives of labor were fought against. And there was a major strike wave in 1946.

The growth of labor as a political force and the existence of continuing conflict made the issue of how labor would be integrated into the national political economy a difficult one to resolve. In attempting such integration, the Keynesian model provided some important direction. Its emphasis on demand, employment, and state expenditures provided, in principle, a number of areas that could serve to support working class demands. There was, at the same time, a relative de-emphasis on profits, credit, and costs, and therefore, a de-emphasis on the need to discipline labor. Much of the early business opposition to Keynesianism came from this shift in emphasis since it was feared that a government that tried to achieve high

employment would dry up the reserve army, force up labor costs, and cut heavily into profitability.[11]

Over time, the actual practice of economic policy showed a greater concern for costs and profits than the early expressions of Keynesian advocacy, and this reality helped to create greater business acceptance.[12] Yet there was clearly a fine line to be walked. The stagnationist fears that were bred in the depression, and which re-emerged at the end of the fifties, led many to argue that there was a need for greater government stimulation to achieve high mass consumption which could only mean a lowering of the unemployment rate and an upward push to wages.[13] Fears of profit squeeze and investment shortages led others to argue for more traditional policies such as credit control, tax incentives, and a greater tolerance for unemployment to ensure profitability. The former policy was the one most closely associated with Keynesianism and was the one most favorable to the economic interests of labor. In actuality, and even after the Keynesian strategy achieved its victory, economic policy incorporated elements of both.

Another aspect of the emerging Keynesian model was the importance given to automatic stabilizers, such as the progressive income tax and unemployment compensation. Automatic stabilizers are counter-cyclical in that when GNP falls (or rises) they keep personal income, and consumption, from falling (or rising) to the same extent, thereby moderating cyclical changes in demand. In addition, they operate without special state action although in several cases, in response to recession or boom conditions, there have been legislative or administrative changes in tax rates and unemployment benefits, indicating that the automatic stabilizers are insufficient by themselves. What is important for the present argument is that automatic stabilizers represent the economic codification of some of the most important gains of labor and the left in the United States in the twentieth century—the progressive income tax, unemployment compensation, social security, welfare; and later, medicare and food stamps. All of these programs provide a rise (fall) in payments as income falls (rises) or, in the case of taxes, a fall (rise) in tax liabilities which is greater than the fall (rise) in income. Automatic stabilizers are an example of an attempt to incorporate the gains of the left into a program for the economic stability of the system as a whole.

Labor and the left had been pushing for expanding social legislation and extending unionization throughout the thirties and forties while business, in general, opposed both. Some basis needed to be found for the new Keynesian strategy that could satisfy the most powerful segments of both labor and business. This basis was found in pushing Keynesianism toward an emphasis on economic growth and in making growth itself dependent upon the military and private

production, not on social spending. It was the building in of a growth orientation that was crucial, in the 1940s, to the integration of labor.[14] Richard Child Hill describes what happened in one extremely important instance:

> A postwar economic settlement between capital and labor eventually emerged in the auto industry. This settlement was predicated upon the dual principles of labor productivity and cost of living adjustments. The guiding standard for industrial unions to the present day was the wage formula proposed by General Motors president Charles Wilson, and accepted by the United Auto Workers in 1948. The Wilson formula proposed that wage increases be tied to increases in national productivity and buttressed against inflation by a cost-of-living allowance based on increases in the federal consumer price index. In the wake of the bitter GM strike of 1946, the auto companies considered such measures essential. The COLA provision and productivity bargaining were proposed by GM as a way to avoid auto strikes in the future and stabilize its relations with the young and still militant auto union. The cost to the corporation would be minimal, GM's executives believed, since prices would be relatively stable in the postwar period. UAW negotiators and their counterparts throughout the community of organized labor united behind the corporate rationale that labor's share should be wedded to national productivity and growth.[15]

In tying their interests to productivity, the UAW and other CIO unions were following the example set by the AFL in formulating its policies in the 1920s. In both instances, labor's strategy was predicated on the assumption that the economy would grow and that the unionized sectors would receive substantial benefits from that growth. Such a strategy accepted existing relations between business and labor and created a bias, on the part of the union, toward perpetuating those relations. The move away from redistributive aims, in terms of bargaining with industry, by the CIO unions was an implicit recognition of the lack of wide popular support, for example, in the form of a growing socialist or social democratic political movement. One of the results, however, was that tying labor's interests to the successful performance of the capitalist economy was likely to help prevent the rise of just such a movement.

From the point of view of business and the state, the economic integration of labor in the form of productivity bargaining made the achievement of a growth policy even more important. But the question remained how to do so. One possibility was to tie growth to the world economy, in the form of ensuring U.S. export markets. This had some success but was not sufficient. Another possibility would have been to enact a series of subsidies, tax advantages, and so forth to encourage business spending and count on the ensuing investment boom. The federal highway program and urban renewal can be seen as examples of this. A problem was that labor opposed attempts to directly subsidize business and it wasn't until the Kennedy administration that a program of tax incentives for investment gained wide support. Another alternative would be a large increase in social

spending and transfers, on the grounds that this would stimulate consumer demand by placing purchasing power in the hands of those who would spend it. This, of course, was opposed by business on the grounds that it was less likely to improve profits and would interfere with market incentives. And opposition to social spending was a reason for the move toward a growth orientation.

In the late 1940s and 1950s, the item of federal expenditure that seemed least subject to partisan veto was military spending. As will be described more fully below, by the end of the decade of the forties, military spending had assumed a central role in economic planning.

D. The World Economy

The fourth element in the new strategy was the establishment of U.S. hegemony in the world economy. Even before the war, it was clear that the U.S. had supplanted the U.K. as the dominant economic power in the capitalist world. The issue was how to translate that dominance into a set of policies. Starting in the thirties, in the policies of the Roosevelt Administration, and then in the context of post-war planning that was proceeding during the war, one vision was coming to dominate. This drew upon nineteenth century economic liberalism and Wilsonian diplomacy, and was personified, in the government, first by Secretary of State Cordell Hull and then by Assistant Secretary of State for Economic Affairs Will Clayton, a wealthy cotton exporter who had joined the government in 1940. This vision argued for a drastic reversal of the protectionism of the late-1920s and 1930s, and a consequent widening of the world economy through freer trade and payments. It argued for multilateral trade mediated by the dollar as the key currency. In effect, the U.S. would secure its hegemony by using its massive productive power to out-compete the rest of the world.[16] An implication of this approach was that great power diplomacy with its acceptance of spheres of influence and its reliance upon political and military considerations would take a back seat to a diplomacy that was based upon opening the world to American trade and investment. This was a diplomacy based more upon butter, and less upon guns. (It is important to point out that the actual practice of diplomacy under Roosevelt was far more eclectic than this vision would indicate. Roosevelt was quite willing to practice great power diplomacy, such as at Yalta, when it suited his needs.[17])

There was a second vision, much more prominent in Europe than in the U.S., which opposed the new *laissez-faire*. This second vision drew on Keynesianism and the welfare state. It argued for economic growth based upon the expansion of state spending, extensive re-

distribution, and a greater emphasis on social welfare goals. It included a strong element of protectionism, as the concern was more with immediate jobs and income than with the promise of greater economic welfare some time in the future. This vision argued that national economies should be insulated from the world economy to a large extent, in order that domestic goals could be achieved. An open world economy constrains domestic policy, since it subjects an economy to flights of capital and the importation of recession and inflation.[18]

There was certainly pressure within the U.S. to move toward this second vision of economic policy. Its primary importance, however, was that it represented an alternative for Europe and one that would be much more acceptable to the growing European left. It was essential for the Hull-Clayton strategy that Europe be part of the new order and not be insulated, since Europe, and later Japan, formed the rest of what could be seen as the advanced capitalist world. Some combination of elements had to be found that would keep Europe tied to the U.S.

The early post-war years, then, represented a fairly clear conflict between a market-based and a state-based vision of economic development. Even as they were moving toward greater state involvement domestically, policy makers in the U.S. favored the market-based vision for the international economy. But in order to attain it they had to begin compromising, drawing upon the emerging Keynesianism on the domestic side. International economic policy began to move much closer to its domestic partner.

The international economic order that was created had three main spheres. It was the result of a series of diplomatic efforts beginning during the war and continuing throughout the decade of the forties. Looked at from the vantage point of the United States, the main spheres comprised policies toward the advanced capitalist countries, policies toward the less developed countries, and policies toward socialist countries.

In order to open up the world economy and integrate the other advanced capitalist countries, trade barriers had to be lowered and an effective payments mechanism had to be created. Many in the U.S. saw the dominance of the U.S. asserting itself in terms of exports and argued for policies that would maximize access to other markets. In turn, exports linked the international to the domestic economy since a strong export surplus would provide stimulation for the economy and reduce demands for expansion of the state budget. But an export surplus requires buyers, and the other advanced countries had little in the way of purchasing power. Their currency reserves were minimal and their own productive potential was so low that they had little they could trade for U.S.

products. Unless this dilemma was resolved, the U.S. dream of an export boom would vanish and Europe would be on the road to withdrawal from the world economy.

The solution was two-fold. On the one hand, the creation of the International Monetary Fund and a fixed parity exchange rate system based upon the dollar attempted to impart stability to the world payments system as well as institutionalizing a mechanism for the expansion of international liquidity. On the other hand, the extension of dollars to Europe, in the form of foreign aid, direct investment, portfolio investment, and later, military aid, was quite explicitly viewed as a way of establishing export markets for the U.S. as well as establishing the point that European recovery was dependent upon the United States. The Marshall Plan, for example, had as one of its objectives the use of U.S. funds for the purpose of increasing the demand for U.S. made goods and services, a kind of Keynesian stimulation through the back door.[19]

Investment was important with regard to the third world and the main direction of U.S. policy was to establish strong economic links, either to supplement political controls or as a substitute in the case of countries that were gaining their formal independence. Initially, most U.S. investment was for the purpose of obtaining materials. Later, U.S. firms would establish manufacturing facilities (runaway shops) in third world countries and send the products back to the United States. In some cases, third world countries were able to develop large enough internal markets so that U.S. firms would seek to sell there. The overall policy was to keep these areas open for U.S. penetration and to oppose nationalization.

The policies adopted toward the socialist countries emphasized containment and isolation. The U.S. was willing to have socialist countries participate in the world economy, such as joining the IMF, but only if they agreed to accept the rules of behavior that were being formulated. In other words, they would be allowed in if they agreed to act as capitalist countries. Later, even that option was no longer available as cold war diplomacy began to dominate. Throughout the 1950s and 1960s, the United States tried to enforce trade restrictions with the socialist world. U.S. citizens and businesses could be penalized for trading with socialist countries, with the case of Cuba being perhaps the most prominent example. The U.S. had less success in inducing others to adopt such restrictions. While European countries did trade with the socialist bloc, they undoubtedly did so to a lesser extent than if the U.S. had not adopted a policy of economic isolation.

U.S. policy, then, was attempting to establish the boundaries of the capitalist world economy and to open up that economy to U.S. penetration. State action was necessary to accomplish this dual task

and new state institutions were established. As was the case with fiscal policy, the new institutions were charged with the task of overcoming the instability of the market while at the same time enforcing the incentives of the market. An important case in point is the IMF. The establishment of the fixed parity exchange rate system and the use of the dollar as the main reserve and trading currency was, initially, a boon for the U.S. It meant that the U.S. could run deficits without fear of economic or political reprisal since the rest of the world needed dollars. And many of these dollars would come back as increased purchases of U.S. products. When other countries experienced balance of payment problems, the IMF pushed them to adopt deflationary policies as a pre-condition to providing liquidity. Two kinds of asymmetry developed. One was that the United States was treated differently than other deficit countries because of the privileged position of the dollar. Pressure on the U.S. came either through speculation against the dollar and gold, or through bilateral channels, as when the French government exerted diplomatic pressure in the mid-1960s. The second asymmetry was between deficit and surplus countries. The IMF enforced the discipline of the market on deficit countries and pressured them to deflate, but did not force surplus countries to adopt expansionary policies.[20] This was perhaps because the IMF had the liquidity that the deficit countries needed, and therefore had a real threat to back up its pressure, whereas surplus countries needed nothing from the IMF.

This situation is illustrated by the case of the U.K., which received IMF advice to deflate and to cut wage and social services bills, in response to continuing balance of payments weaknesses. The irony is that Keynes originally envisioned the IMF permitting countries to escape traditional market discipline by creating a governmental financial mechanism. The reality turned that conception around and applied it to Keynes' own country, the U.K.

E. Military Keynesianism

The four elements of the Keynesian strategy can be seen in the changing conception of military spending. The military budget fell drastically after the war and the Truman Administration wanted to keep it small on the grounds that a large amount of military spending would seriously damage the economy. In addition, in Truman's view, the American monopoly over the atomic bomb meant that the U.S. could retain military superiority without large expenditures. And that monopoly was expected to last for several decades. But by the end of the forties, even before the start of the Korean War, the Administration had changed its position and favored a massive expansion of the military budget. There were a number of influences

that led to this change, but three seem to be most important.[21]

By the late forties, foreign policy was dominated by a militant anti-Communism that was aimed primarily at the Soviet Union. A new world view was dominant, which retained the notion of defining the boundaries of the capitalist world economy and opening it to U.S. capital, but now defined those limits in terms of the containment of Communism. It was a world view in which strategic considerations, including military muscle, were becoming more important, and market ones slightly less so. "Yet," as Daniel Yergin has pointed out, "it was a world view living beyond its means. It lacked the requisite budget."[22] The testing of an atomic device by the Soviet Union in 1949 was a second important influence on the re-evaluation of U.S. strategy. The American monopoly had lasted for four years, not twenty, and Truman now felt the need to expand both the nuclear and conventional arsenal.

The third major influence was economic. Domestically, the post-war boom had run its course and there were many in the Administration, Leon Keyserling of the Council of Economic Advisers most prominently, who were arguing for a strong dose of government spending as a stimulus. Politically, it seemed unreasonable to expect that this could be done either through social spending or through direct subsidies to business. The international economy had shown improvement but there were still problems. Marshall Plan aid, while playing the role of stimulus, was controversial domestically and it was not clear that a long-term foreign aid program would gain Congressional acceptance.

In January of 1950 Truman commissioned a study of U.S. strategy and capabilities. The study was directed by Paul Nitze, head of the State Department's Policy Planning Staff, and included representatives of several government agencies. Keyserling sent several economists from his staff. The study ultimately came under the auspices of the National Security Council under the label NSC-68. It was not declassified until 1975 but it has been clear that this study was one of the most important events in the shaping of U.S. foreign and domestic policy.[23]

The study's key recommendation was that the military budget should be increased by at least 100 percent. The figures being discussed at the time were in a range of from $15 billion to $18 billion; NSC-68 recommended a range of $35-50 billion to take effect immediately. There were a number of reasons given, such as enabling the U.S. to catch up to the U.S.S.R. in terms of the share of GNP devoted to the military. The economic arguments were quite important. First, in direct contrast to the position that had dominated only a few years earlier, it was argued that the U.S. economy would not be damaged by such a huge increase in military spending. On the

contrary, the economy could stand even more of a rise. Second, an increase in the military budget would be an economic stimulant, along Keynesian lines, and therefore would foster economic expansion, not retard it as had previously been argued. Finally, rearmament and foreign military aid could replace Marshall Plan aid in providing a stimulant for other capitalist economies and thereby boost U.S. exports. Fred Block has described this package as "a brilliant solution to the major problems of U.S. economic policy."[24] Within a few weeks after the completion of NSC-68 the start of the Korean War gave Truman the opportunity to put its recommendations into practice.

F. The Keynesian Coalition

Political and economic strategies do not exist in isolation; they exist in the ideas and actions of groups and coalitions. In assessing the transformation of Keynesianism from economists' drawing boards to concrete state policy it is important to spend some time on these groups and coalitions. My argument is that three broad coalitions can be seen, coalitions that are united in terms of sharing a vision of economic policy in the post-war world. One of them, what I call the Keynesian coalition, emerged victorious but only after fifteen years. Its victory was achieved through efforts to undermine its opponents, as well as attempts to forge compromises and win over and incorporate some of the opposition. Also, the policy content of Keynesianism was altered in this process, both because of the necessity to build a larger coalition and because of how the political and economic problems of the United States were seen as the period developed. Finally, the victory of the Keynesian coalition was a short-lived one as the program it knit together began to unravel almost as soon as it was completed.

The main coalitions are described in terms of traditional categorizations of left, center, and right. These are largely relative categories and refer to the policies represented by the three coalitions, not to their social composition. As I indicated in the Introduction, how coalitions around policy issues were formed out of changing class forces needs further study.

The left coalition was united by an emphasis on redistribution, full employment, and a much greater state role in the achievement of social goals. It included CIO unions, and many groups loosely labelled as liberal.[25] The left coalition saw the New Deal as a beginning and wanted state policy to achieve what the New Deal had heretofore promised. It included those who advocated social and economic planning and other forms of structural change; it supported Keynesian initiatives, such as in the Employment Act of 1946,

but was wary of Keynesianism as being a narrowing of multiple goals to the single issue of employment and thereby avoiding the issue of social welfare. The left coalition wanted state social spending to grow and wanted the state to assume a greater role in guaranteeing the well-being of workers, minorities, farmers and, in general, the less privileged.

The unity in the right coalition came from a shared goal of re-establishing market mechanisms and reducing the role of the state. The right was vocally anti-New Deal and anti-Communist and often the two were combined. They saw the growth of the state as a serious threat to accumulation and as an attempt to upset the apple cart of political stability. They tended to argue that the reason the depression lasted so long was government meddling, as opposed to the argument of the left that the government hadn't meddled enough. They rejected Keynesian notions that the problem was one of demand deficiency and argued that the problem had been excessively high labor costs and low profitability. They tended to be quite explicit in arguing that the economy needed a sizable reserve army of labor and therefore that occasional depressions were therapeutic. The right in the post-war years was concerned with keeping the federal budget balanced and taxes low to restrain the growth of the state, a strong anti-inflation policy, repealing many New Deal measures such as selling the Tennessee Valley Authority to private owners, and restraining unions.

The third coalition, the one that emerged as the dominant coalition, can be situated in the center. Such a characterization could be misleading since there were liberal and conservative elements within this coalition. It included New Deal social spending advocates like Leon Keyserling and cold warriors like Paul Nitze and, in terms of the politics of the initial years after the war, such views and groups would not appear as allies. The strength and character of the center coalition was its ability to merge these tendencies, a merger which can be called cold war liberalism and which was built around a strong state role in promoting economic growth at home and economic growth and military superiority abroad. The center coalition, which included many businessmen, emerged from the war in favor of a strong and more centralized state that would take the lead in stabilizing and stimulating the economy at home, and in reconstructing the world economic and political order in the American image. The outlines of the overall strategy were presented above. It is worth repeating that the strategy involved integrating elements of both the left and the right, first by getting segments of the left to accept the notion that long-term growth was superior to immediate redistribution, and second, by tailoring the new state mechanisms and policies to reinforce, rather than undermine, the forces of the market. The

fact that both lines of strategy were later to prove to be contradictory, and in a sense impossible to bring off successfully for any extended period, should not obscure the fact that they proved successful in forging a dominant coalition and, for a time, a growing, crisis free economy.

The cold war liberals achieved their dominance in part by mediating and compromising between the left and the right. But they also adopted strategies that distinguished between left and right. The left was split, with some segments being repressed and others being enticed with images of an expanding economic pie. Those who continued to argue for redistribution and structural change were isolated and effectively given the option of being politically ineffective or of joining the emerging cold war-economic growth coalition and therefore accepting its premises. At the same time, the content of policy moved to the right.

Most of this was accomplished in the years between the accession of Truman to the Presidency and the beginning of the Korean War, from 1946 to 1950. There was a concerted and largely successful effort to remove communist influence from unions. The large industrial union were tied to economic growth. They continued to press for redistributive measures through the state but the threat that unions would disrupt the status quo in accumulation now appeared to be greatly lessened. The U.S. cold war strategy had been established by 1949, with the IMF, the Truman Doctrine, the Marshall Plan, and the attack on supposed left influence within the government. Much, but by no means all, of the union movement joined this strategy. The crushing defeat handed Henry Wallace and his supporters in 1948 was another element in the isolation of the left, as it was accompanied by many New Dealers publicly and vociferously declaring themselves to be part of the center.[26] By the end of the decade, and before the hostilities began in Korea, the Administration had committed itself to a major and long-term expansion in military spending. This new policy used economic growth both as a reason why the economy could afford a vastly expanded military budget and as a result to be expected from expanding that military budget. The Council of Economic Advisers helped to formulate the new position. Until its influence was diminished by the new war and Truman's ensuing political difficulties, the Council and the Administration had been moving strongly toward a more activist countercyclical and growth policy.[27] It wasn't Kennedy-style activism but it was a move in that direction.

Throughout the fifties, the remnants of the left coalition were able to do little more than criticize from the outside. During the Eisenhower years they were joined by many from the center and pro-Keynesian arguments frequently took on a critical flavor. For all

practical purposes, the early post-war left coalition was dead.

If the Truman years were the scene of the defeat of the left, the Eisenhower years can be described as the last gasp of the right. But while the results were somewhat similar, the tactics were quite different. With the possible exception of the extreme McCarthyists none were repressed, and with the possible exception of extreme free-marketeers, like H.L. Hunt, none were read out of the dominant coalition. The tactics adopted toward the right consisted largely of an attempt to convince them that the center really had their best interests at heart and that Keynesian policies could be instituted in a conservative fashion. Some of what happened can be seen largely in terms of structural features. When Eisenhower had the federal budget analyzed with an eye toward cutting back, he was stymied. His advisers could find precious little fat in the budget and no agencies or programs that could be removed. When a recession hit after the decline in military spending that followed the cessation of the Korean fighting, the Administration began to employ counter-cyclical measures as it was unwilling to take the political risk of a full or severe recession.[28]

The Eisenhower Administration could not be labelled Keynesian, however, unless that term is used in a purely pragmatic way. Arthur Burns, chairman of the Council of Economic Advisers in the first term, had published some thoughtful and thorough criticisms of the Keynesian model and was thought of as a leading conservative economist, although a pragmatic and "non-ideological" one, in contrast, say, to the free-marketeers. George Humphrey, the Secretary of the Treasury who played an important role in the making of economic policy, was a conservative anti-Keynesian who was by no stretch of the imagination thoughtful, and who pushed hard for budget balancing and restraints on expenditures.[29]

In addition, the Eisenhower Administration did not develop anything more than a mild anti-cyclical policy, and even that became less effective as the decade progressed. Stagnation in the economy became more evident, counter-cyclical policy weakened, and growth policy never developed. At the end of Eisenhower's second term, the Keynesian strategy and the Keynesian coalition remained largely out in the cold.

It was Kennedy who opened the doors of Washington. Much of what the Kennedy, and then Johnson, Administration did with regard to economic policy is well known: the 1962 and 1964 tax cuts and regressive tax revisions; the growing use of Keynesian economists, such as Walter Heller and Arthur Okun, and the explicit use of Keynesian language, such as in Kennedy's 1962 Yale Commencement Address; the conflicts between domestic and international economic policy and between the use of business subsidies and

social welfare; and the attempt to hide the costs of the Vietnam War through various subterfuges.[30]

While the Keynesian strategy came to dominate during a Democratic Administration, the Keynesian coalition cut across party lines. The Truman Administration never became Keynesian but it showed signs of moving in that direction. The Eisenhower Administration was not Keynesian yet it did not retreat, as many feared it would. By the start of the Kennedy Administration both Republicans and Democrats were pushing for acceptance within the government of Keynesian notions. Because of the components of the Keynesian strategy, with its emphasis on state spending and the integration of labor, the Democratic Party was initially more receptive.[31] But Republicans also supported Keynesianism to a significant extent—two of Kennedy's top Cabinet members, Secretary of the Treasury Douglas Dillon and Secretary of Defense Robert MacNamara, were Republicans—and by the end of the 1960s Republican policy, as represented by Nixon, was in the Keynesian mold. The Keynesian coalition favored a larger role for the state in stimulating economic growth as well as a role for the state in ensuring that growth benefited private accumulation. During the Kennedy Administration, the politics of economic policy centered on the attempt to achieve both aggregative stimulation and private profitability.

III. Limits and Contradictions of Keynesianism

A. The Aggregative Strategy

When John Kennedy was organizing his administration in late 1960, he called James Tobin to offer the Yale professor a position as one of the three members of the Council of Economic Advisers. Tobin protested he wasn't qualified. "I am afraid that I am only an ivory-tower economist," he told the President-elect. And Kennedy replied, "That is the best kind. I am only an ivory-tower President."[32]

Kennedy was less than candid. While the Kennedy Administration can be seen as the culmination of a generation-long development of Keynesian macroeconomic theory and policy, as embodied in individuals such as Tobin and Walter Heller, events such as Kennedy's 1962 Yale Commencement Address, and policies such as the 1964 tax cut, it was also the accession to power of the Keynesian coalition. Ivory-tower economists and presidents may populate the mythology but it was the real world of political decisions that brought the Keynesian strategy and the Keynesian coalition its success. And it was the contradictory real world that undermined the strategy and threatened the power of the coalition.

The story can be picked up where we left it in the preceding section. According to Scott Gordon, it appeared, in the late 1950s, that the economy was undergoing some basic changes. That decade was:

> . . .an era of change in the stability of the American economy and, equally important, an era of corresponding change in professional and economic opinion about the inherent stability characteristics of a market economy. Before the mid-1950s, economists had good empirical grounds for attributing the phenomenon of inflation to the force of aggregate monetary demand pressing against the real productive capacities of the economy. . . . The emergence during President Eisenhower's second term of simultaneous inflation and unemployment in a peacetime economy occasioned a significant change in economic thinking. The simple Keynesian textbook model. . .gave way to the Phillips Curve, which raised more complex issues of stabilization policy. What emerged was a widespread view, to which the only vigorous intellectual opposition was the "monetarist school," that to be stable a market economy requires government control of its structure as well as its aggregates. This general view. . .has had considerable influence on the theory of stabilization policy, one of the most important aspects of which is the growth of the opinion that some form of wage-price, or "incomes," policy is a necessary item in the array of stabilization instruments.[33]

Gordon can be criticized for making too much of an alleged transformation in "the inherent stability characteristics of a market economy." The historical record prior to the 1950s hardly describes a stable economy; it was largely in the policy models of Keynesians that the economy was considered stabilizable. Gordon's formulation, then, is instructive. The relatively early appearance of stagflation meant that the economy was not performing as expected, at least with respect to the models that the macro policy strategy was based upon.

In the decade after World War II, problems of inflation and sectoral imbalance could with some accuracy be attributed to war and the adjustment from wartime conditions. But by the late 1950s the pre-war nightmare of stagnation reemerged compounded by the existence of inflationary pressures that apparently emanated from costs and market structure, not demand. The Eisenhower Administration's anti-recession policies were weak and mistimed, particularly in the recession of 1958, and much of the blame for the economy's poor performance could be placed there. But booms were becoming weaker and shorter, recession occurred more frequently, unemployment seemed to be rising over time, and prices were drifting upward.[34]

In addition, by the late 1950s, it was becoming clear that the international financial order was also changing. The dollar shortage was becoming a dollar glut as countries were forced to retain dollars that were being fed into the system by U.S. deficits, in order to maintain fixed exchange rates. U.S. firms were feeling competitive pressure from Western European and Japanese companies in particular, and were in turn placing pressure upon the government to control the growth of wage costs. Many in business feared that an expansionary economic policy would worsen their competitive position since it would push, rather than restrain, the growth of wages.

The Kennedy and Johnson Administrations attacked these problems with a variety of specific measures. The guidepost policy was formulated in an attempt to isolate and influence wage and price decisions in key industries. There were also a series of measures aimed at the balance of payments problem, such as the interest equalization tax and the voluntary credit restraint program. Although this type of direct intervention was a clear move away from the ideal of a purely aggregative strategy, it was justified as being necessary in order to place the economy in balance, so that the aggregative strategy might be applied. Thus, the basic strategy was turned on its head. Originally, macro policy was seen as the means of achieving overall balance so as to allow the private sector to operate with minimal restraint from government. But by the early 1960s restraint from government to achieve sectoral balance had become a pre-condition for the application of an expansionary macro policy.

The Kennedy Administration was convinced that an expansionary macro policy would be strongly opposed by corporate and Congressional leaders, who were concerned with the possibility of touching off a wage explosion and with defending the dominant position of the United States in the world economy. The prerequisites for the tax cut of 1964 were conditioned in important ways by explicit political pressure. This conditioning is illustrated by William Barber's account of the shift in economic advocacy in the early months of the Kennedy Administration:

> From the experience of the first hundred days, two lessons could be drawn: that political constraints on the explicit use of deficits to stimulate the economy were both formidable and likely to be unyielding, at least in the intermediate run, to purely economic argument and that prospects for winning support for expansionary programs might be considerably brightened if assurances could be made that price increases would not result. A plausible posture on wage-price stability thus assumed significance in the weaponry of expansionary advocacy, *even to those who, on the merits of the case, were far from persuaded that inflationary pressures were either a present or an imminent danger.* It was now apparent that fiscal remedies for closing the GNP gap were unlikely to be acceptable to the White House or the Treasury unless such measures could be reconciled with increased international competitiveness. Similarly, the cooperation of central bankers in expansionary programs was likely to be contingent on the availability of plans to deal with upward pressure on wages and prices before the full employment threshold had been crossed. Arguments that concern about inflationary pressures was largely misplaced—at least until the recovery of the economy was much further advanced—had been tried and had failed.
>
> The initial disappointment of the domestic expansionists thus tended to produce a shift in the style and substance of advocacy. By late March [1961] CEA members were prepared to assign greater importance to wage-price issues.[35] (emphasis added)

Thus, at the peak of success of Keynesian policy, the need for intervention into selected supply conditions became more widely accepted. It was also accepted that a disaggregated level of intervention would be part of what was still conceived of as an aggregative strategy.

When the boom of the mid-60s turned inflationary and the balance of payments deteriorated even further, there was greater use of direct intervention. There was also greater use of monetary policy. Expenditures for the war in Southeast Asia were added to an already inflationary situation. The Johnson Administration delayed asking for an increase in taxes to pay for the war, and the macroeconomic effects of the budget became secondary as the budget was increasingly shaped by the war. In this context, much more of the burden of economic policy was assumed by the Federal Reserve.

The weaknesses of economic policy in this period contributed to the stagflation of the 1970s. But there were other sources. Financial weaknesses, international competition, rising raw materials prices, and problems with domestic productivity, also contributed to the developing cost-price squeeze. The main sources of difficulty in the economy came from the supply side, and not from a deficiency or excess of aggregate demand. During the Nixon Administration, the use of direct controls reached its peak, with the wage-price freeze of 1971 and the various control mechanisms of the ensuing few years.

Two conclusions can be emphasized. The first is that the various forms of direct intervention were contradictory, in the sense that a policy designed to achieve a particular result tended to foster conditions that led to its opposite. For example, the various measures to control capital movements were an important source of the growth of the Euro-currency system, which then became a major source of liquidity pressures on the international monetary system, and, of course, on the dollar. Another example is the evolution of wage-price guideposts into wage-price controls. Designed to moderate unevenness in the market they ended up contributing to the creation of distortions. They also contributed to a heightened politicization of wage and price determination, something that capitalists have always tried to avoid. Thus, wage and price controls led both to market distortions and to legitimation problems.

The second conclusion is that as supply-side problems came to the surface the apparatus of stabilization policy became more obviously ineffective. The model of economic policy became less relevant to the real economy that it was supposed to be controlling. By the 1970s inflation had become relatively immune to deflationary economic policy while unemployment responded only slowly to expansionary policies. The result was that recessions tended to worsen unemployment while making only a slight dent in inflation,

while expansions pushed up the inflation rate while reducing unemployment only a little. Both unemployment and inflation rates exhibited upward trends and the attempts to impart stability via the now traditional Keynesian mechanisms yielded a far from stable economy.

The same general point can also be stated in different terms. While interventions aimed at demand maladjustments can be formulated so as to be general, aggregative, and apparently neutral, interventions into the conditions of supply tend to move toward the level of production where they are specific, disaggregated, and in a form where they are much harder to portray as being in the interests of all. They require a much larger administrative apparatus and a much greater involvement in the basic prerogatives of capital. And they tend to politicize conflicts between labor and capital. While searching for stability, the state becomes a source of instability.

B. The State Budget

The Keynesian strategy also encountered difficulties because state policy was never able to be uniquely fitted to the needs of the strategy. This is partly because the concrete politics of brokerism continued to exert a major influence, and partly because policy weapons are themselves subject to structural influences that are relatively independent of the needs of macroeconomic policy. The area where these considerations seem most relevant is the state budget.

The Federal budget is obviously a crucial element of the aggregate strategy. It is an important, if not the most important, determinant of aggregate spending flows, and state expenditures are a large component of those flows. It can be defined in terms of aggregates, such as the full employment surplus. And it involves a degree of conscious and centralized state planning. But although the budget fits into the delineation of the overall strategy, viewing it solely in this way tends to obscure the very phenomena which make it less suitable for that strategy. Particularly on the spending side, the federal budget is far less centralized and less of an aggregate than the strategy calls for. The political process by which spending is determined is complex and contains a number of different places where key decisions are made. Executive agencies, Congressional committees, Congress as a whole, and the Office of Management and Budget are the most important, but they, and others, are all places where there is potential access to the state from outside. Thus, the budget process is relatively decentralized within the state, and open to pressure from outside of the state.

Throughout the post-war period, and especially in recent years,

the issue of centralization versus decentralization has been a focal point of political conflict. From Truman to Carter, administrations have wrestled with the problem of how to control the budgetary process. The establishment of the OMB, and Nixon's attempts to further centralize via the doctrine of executive impoundment and the proposed reorganization of the executive branch along the lines proposed by the Ash Commission, along with the creation of Congressional budget committees, attest to the importance placed upon budgetary control. On the other hand, many such attempts have run afoul of the existing patterns of political power. MacNamara's heralded program to rationalize budget making within the Department of Defense could not overcome the powerful and symbiotic relationship that has been developed among the military, the producers of military goods and services, and key Congressional committees.

The budget is also shaped by structural influences. The aggregate strategy required greater centralized control over the political processes of budget making, but it also assumed that macroeconomic stabilization would become the prime determinant of the overall budget. However, there is an alternative dynamic, formulated by James O'Connor,[37] which suggests that the budget may not be so nicely tuned to the imperatives of macroeconomics.

It has become obvious in recent years that demands on the state's resources have tended to grow faster than revenues. This has produced the now-familiar phenomenon of a fiscal crisis of the state. Demands on the state arise from two main sources. One is from accumulation. As the economic system has become more interdependent and externalities have grown in importance, the state has assumed a greater responsibility to underwrite investment in both means of production and labor power. In the United States, examples include state expenditures on research and development, transportation, education, and health. Although there is some overlap with attempts at macroeconomic stabilization, and some obvious links to economic growth, the main point is that there is no reason to expect that the needs of accumulation as defined by market failure will always be the same as the needs of accumulation as defined by the business cycle or the rate of aggregate economic growth.

The other source of demands on the state is legitimation requirements, the maintenance of peace and harmony in a class society. This accounts for a number of budgetary items, such as police, welfare, and education. (Many budget catergories, such as education, include elements of both accumulation and legitimation.) Expenditures of this type arise because of attempts to offset some of the effects of accumulation, such as structural unemployment, and to counter the manifestations of class struggle, such as armed struggles against U.S. imperialism. There are also continuous attempts to shape ideology,

maintain order, and the like. Legitimation is one of the elements of an overall strategy aimed at stabilization, but although there are important links to macroeconomic policy, there is far less than total conformity between the two.

The precise way that accumulation and legitimation affect budgetary items can not be determined without a more specific analysis. One example is the military budget. Military spending attempts to serve more than one function. It is not just a provider of military muscle but an important element in foreign policy, an underwriter of the international economic position of U.S. capital, an element of aggregate economic stimulation, and a means of subsidizing private investment, particularly in research and development. These functions can be in conflict with each other and at any given time, one or more may dominate the others in determining the size and composition of the military budget.[38]

O'Connor's analysis leads toward the conclusion that contradictions tend increasingly to be shifted into the state. At the same time, some segments of the state are dominated by private interests, and other segments are battled over. Much of the budget, then, is determined outside of the macroeconomic policy process. This means that, within the state, there are barriers to the aggregate strategy that have not been overcome.

C. The Keynesian Strategy and the Keynesian Coalition Revisited

The decline of Keynesianism can also be seen if we turn our attention to the original elements in the Keynesian strategy and to the politics surrounding the Keynesian coalition. The original Keynesian strategy contained four elements. It was, first, an attempt to shift state policy from a supply-oriented, sectoral approach to stability toward a demand-oriented, aggregative one. In addition, the emphasis gradually shifted toward economic growth and toward incorporating various elements of the economy into a growth orientation. As we have seen however, the state was unable to move to a growth-oriented, demand management strategy without first initiating and strengthening its interventions into supply and into particular sectors. These latter interventions proved to be contradictory, in that they created new problems while trying to solve the old ones. Supply-side interventions did not represent a widespread and consistent strategy and when problems of stagflation became dominant in the 1970s, neither a supply nor a demand strategy was adequate to the task.

Second, the Keynesian strategy implied greater centralization within the state. There were some clear moves in this direction, particularly after 1961. Centralization of economic policy never

went as far as centralization of foreign and military policy, but by the 1970s the executive had far more authority and responsibility in this area than ever before. But, as was indicated above, control over many of the components of macroeconomic policy remained relatively decentralized. The executive was never able to obtain the control and flexibility that the Keynesian model called for. In addition, particularly under Nixon, centralization became a major political issue. Nixon's proposed reorganization of the government, and his attempt to thwart Congressional intent by not spending all that had been authorized (a technique called impoundment that had been used by every president at least since Truman) became symbols for an older politics of brokerism. Keynesianism never became as flexible and precise a tool as it was supposed to be, in part because it had been oversold, but also because the necessary control was not achieved.

Much of labor went along with the overall Keynesian strategy; yet labor continued to push for more in the way of direct aid to unions and workers. By the 1970s, however, it was apparent that even labor's inclusion in the dominant coalition was not sufficient to assure the success of the strategy. In fact, labor became a major barrier to that strategy's success.

The tendency for unemployment to rise in the 1950s was reversed in the Kennedy-Johnson boom, but reappeared by the late 1960s. If the years of the Korean and Vietnam Wars are omitted, and if unemployment is measured at successive business cycle peaks, there is a clear upward tendency in the rate. In addition, each sub-period, from 1945 to 1950, 1954 to 1960, 1961 to 1965, and 1970 to 1976, had a higher average unemployment rate than its predecessor.[39] The measured unemployment rate is just the tip of the iceberg of a more fundamental issue, the inability of the U.S. economy to generate sufficient employment for its labor force. What this means is that labor, while it may have been integrated to some extent in terms of political participation, was not being integrated economically. As the economy was making labor more and more redundant, the task of integration fell more and more on the state.

The reforms of the New Deal greatly expanded access to the state; indeed, this can be seen as one of its great achievements in terms of reducing political tensions and providing a mechanism for legitimation. After the war, a general growth strategy applied to the state also. Pressure from below, in the form of struggles over civil rights, welfare rights, housing, medical care for the aging, unemployment benefits, and the like, tended to be dealt with by instituting a series of state programs. Muting reform through growth was the overall approach; this expanded in the 1960s and with it came an explosion in state budgets. What was gradually happening was that the costs of

reproduction of the working class as a whole, and the reserve army in particular, were becoming more and more politicized and more and more determined within the state. While the politics are far more complex than can be detailed here, one implication is clear. Unlike the classic mechanisms involving the reserve army and the costs of reproduction, wherein such costs increase with the rise in accumulation and the drawing down of labor reserves, and are reduced when the pace of accumulation slows and the reserve army expands, there is no such mechanism within the state. Indeed, it could be argued that reproduction costs expand as the reserve army expands since more and more people then need state support. It takes a visible and personal set of political struggles, rather than an invisible hand working through an impersonal market, to lower reproduction costs when they are more politicized. Thus, what started out as a means of integrating labor and fostering aggregate demand, ended up as one of the factors that was impeding accumulation and preventing the reorganization of the economy in the interests of capital.

The final element of the Keynesian strategy was the world economy. The original scheme, to create an open world economy and a payments system biased in favor of the dollar, worked marvelously well; in fact it worked too well. Part of the strategy was for a recovery in Europe so that region could become a large export market for the U.S. But by the end of the 1950s, Europe, and Japan, had recovered so well that they were competing heavily for markets in various parts of the world, including the U.S., leading to U.S. deficits and a dollar glut, not a shortage. Until 1971, when Nixon unilaterally ended the Bretton Woods system of fixed exchange rates, the United States expended much of its policy energy defending the dollar against excess supply and speculative pressures and trying to protect the payments system that it had worked so hard to create. This often involved adopting policies, such as high interest rates, that damaged key sectors of the U.S. economy, such as housing. In effect, the degree of freedom that was won in 1945 was turned against the United States. Throughout the 1960s it was the U.S., along with England and a few others, that had one less degree of freedom.

By the end of the 1960s, the three post-war political coalitions were still in evidence, although each had undergone changes. But whereas the Keynesian coalition appeared to be in unquestioned dominance in the middle of the decade, it now was under attack, and searching for a new basis of unity and strength.

The attack from the left was born in protest—civil rights, anti-war, welfare rights, tenants organizing, women's rights, union organizing, and many more. Many reforms that were thought of, by those on top, as instruments of co-optation and social control became instead a forum for social protest and organization. This new coalition of

those on the left briefly captured a major political party with the McGovern nomination in 1972. For over a decade, they constituted a major threat to the stability of the center coalition and its dominance of the state.

There was also an attack from the right. The victory of Keynesianism brought a counter-revolution which had two main components. One was monetarism, or the argument that it was the money supply, not aggregate demand as manipulated by the state budget, that was the primary deteminant of aggregate income and production. This attack was led, of course, by Milton Friedman. A second line of criticism, also with important leadership from Friedman, was much more subtle. This was the argument that it was the institution of Keynesian policies that distorted the economy toward stagflation, not some change in the underlying structure of production. High pressure economics, the argument goes, pushes the economy to a point where people come to expect continued economic growth and make their plans accordingly. As an inflationary environment develops, and people come to expect it to continue, they push up the prices they charge and are willing to pay higher prices. The result is similar to that described by Scott Gordon earlier, an outward shift in the Phillips Curve trade-off but in this case the shift continues until it cuts into profits and investment and the economy slows down. Then it takes a long and severe cooling off period to remove inflation and regain stability. The expectations argument has many variations but its essential core is that if an economy is pushed too hard it will be subject to a long, cold bath of reality. The implication is that the Keynesian strategy is illusory; it gives a short high but the crash can be just as severe as in the bad old days.[40]

A similar argument, with similar roots, was put forward in a more explicitly political context. Centered in such journals as *The Public Interest* and *Commentary*, a group of ex-liberals developed conservative critiques of the expansion of the state. Their basic argument was that the expansion of the state undermines private systems of authority, such as the family and the labor market, while the state tries to do more than it can effectively handle. The result is a weakening of both the state and the private sector and the remedy is for the state to do less, for democratic impulses to be restrained, and for the private sector to be strengthened.[41]

In the midst of a reality of a stagflating economy and a declining sense of the legitimacy of political arrangements, the center was trying hard to hold. And like a generation earlier, the center tried to hold by rejecting the left and moving toward the right. The new strategy of the center, a strategy which is still being formed and can be pieced together only with some caution, draws upon both the old Keynesian strategy and the new right wing one. It still emphasizes

state responsibility for combatting business cycles and stimulating economic growth, although now the state will try and perform these tasks by providing greater incentives for the private sector. The military budget will remain at the center of both the state and the economy but there will be an attempt to make those state activities that are most concerned with the reproduction of the work force conform more closely to market incentives. There will also be a renewed push for freer trade and payments in the world economy. The left groups, and much of organized labor, are being given symbolic rewards, such as more women and third world people in government, but access to the state and a share of economic growth will, in the new strategy, be harder to obtain. Thus, the new center coalition can no longer be called Keynesian, yet neither is it post-Keynesian. A Keynesian strategy has been supplanted by a commitment to state management but it is a state management without internal consistency. It is caught between a weakened Keynesianism and a push for greater reliance on market mechanisms and the logic and politics of this combination have yet to be worked out.[42]

IV. Concluding Comments

I have argued, in the preceding analysis, that macroeconomic policy was limited because it was unable to overcome barriers within the state and because it was unable to conform to changes in the economy. I have also argued that the state should be treated not just as a repository of contradictions but also as their source. The limits and contradictions of macroeconomic policy in the United States come both from the economy and the state. This suggests that the traditional ways in which economists have analyzed economic policy are bound to be lacking some important elements. A focus on the effectiveness of policy tools, or the contradictions of accumulation, while important, are at best partial. The study of economics and economic policy would benefit from a more systematic integration of the theory of the state.

My analysis also emphasized that the U.S. ruling class, in the past, has responded to the intensification of instability by attempting to manage and manipulate the process of change. It appears that we are again in a period of intensified change and that there are again serious efforts by those in power to reshape the world in their interests. It is by no means clear, however, that the U.S. ruling class is always capable of finding the appropriate strategies for controlling social change. And if they do achieve a degree of success in reshaping institutions and policies, any new strategy will be subject to its own limitations and contradictions, and even a ruling class cannot change that.

Footnotes

1. The attempts to plan for a post-depression and post-war economic order were occurring in a variety of settings. Since the late thirties, Keynesian ideas had been making headway in universities, government agencies, and private research organizations, and this often took the specific form of policy planning. A number of business sponsored organizations, such as the Committee for Economic Development and the National Planning Association, were active in this regard. Planning for foreign economic policy occurred in the State Department, the Treasury Department, where Harry Dexter White's Keynesian influence was crucial, and in the Council on Foreign Relations. See, e.g., John Kenneth Galbraith, *Money: Whence it Came, Where it Went*, New York: Bantam, 1976, ch. 16-20, Herbert Stein, *The Fiscal Revolution in America*, Chicago: University of Chicago Press, 1969, ch. 6-9, David Eakins, "Business Planners and America's Postwar Expansion," in David Horowitz, editor, *Corporations and the Cold War*, New York: Monthly Review Press, 1969, Laurence Shoup and William Mintner, *Imperial Brain Trust: The Council on Foreign Relations and United States Foreign Policy*, New York: Monthly Review Press, 1977, ch. 4-6, Alan Sweezy, "The Keynesians and Government Policy, 1933-1939," *American Economic Review*, LXII, 2 (May 1972), 116-124, and Byrd L. Jones, "The Role of Keynesians in Wartime Policy and Postwar Planning, 1940-1946," *ibid.*, 125-133.

2. For analyses of the New Deal's sectoral approach, see, e.g., Ellis W. Hawley, *The New Deal and the Problem of Monopoly*, Princeton: Princeton University Press, 1966, and Alan Wolfe, *The Limits of Legitimacy: Political Contradictions of Contemporary Capitalism*, New York: The Free Press, 1977, ch. 4, 5. The aggregative aspects of New Deal policy are discussed by Stein, *op. cit.*, ch. 3-6, and E. Cary Brown, "Federal Fiscal Policy in the Thirties: A Reappraisal," in Robert Fogel and Stanley Engerman, editors, *The Reinterpretation of American Economic History*, New York: Harper & Row, 1971.

3. Stein, *op. cit.*, ch. 8.

4. Otis L. Graham, Jr., *Toward a Planned Society: From Roosevelt to Nixon*, New York: Oxford University Press, 1976, ch. 2.

5. Joan Robinson, *Economic Philosophy*, Garden City, New York: Anchor Books, 1964, pp. 99-100.

6. Milton Friedman, "A Monetary and Fiscal Framework for Economic Stability," in Friedrich A. Lutz and Lloyd W. Mintz, editors, *Readings in Monetary Theory*, Homewood, Illinois: Richard D. Irwin, 1951, originally published in 1948. Stein, *op. cit.*, ch. 9, discusses the Friedman and CED schemes. See also Walter Heller, "CED's Stabilizing Budget After Ten Years," in William Hamovitch, editor, *The Federal Deficit*, Boston: D.C. Heath and Company, 1965.

7. Graham, *op. cit.*, pp. 81, 82.

8. A brief account of this episode is in G.L. Bach, *Making Monetary and Fiscal Policy*, Washington, D.C.: The Brookings Institution, 1971, pp. 78-85. For a broad critique of the underdevelopment of financial theory in Keynesian thinking see Hyman P. Minsky, *John Maynard Keynes*, New York: Columbia University Press, 1975, and Hyman P. Minsky, "The Financial Instability Hypothesis: An Interpretation of Keynes and an Alternative to 'Standard' Theory," *Challenge*, 20, 1 (March/April 1977), 20-35.

9. On the Council see Edward S. Flash, Jr., *Economic Advice and Presidential Leadership*, New York: Columbia University Press, 1965, ch. 2 & 3. On budgetary conflicts, see Stein, *op. cit.*, and James O'Connor, *The Fiscal Crisis of the State*, New York: St. Martin's Press, 1973, especially ch. 3-8.

10. A widely held interpretation is that New Deal labor policy and social legislation was dominated by business interests and was successful in containing labor and radical activity. For examples of this interpretation see, e.g., Rick Hurd, "New Deal Labor Policy and the Containment of Radical Union Activity," *Review of Radical Political Economics*, 8, 3 (Fall 1976), 32-43, and Ronald Radosh, "The Myth of the New Deal," in Ronald Radosh and Murray N. Rothbard, editors, *A New History of Leviathan*, New York: E.P. Dutton & Co., Inc., 1972. This interpretation tends to understate the gains made by labor in terms of unionization, social welfare benefits, and access to the state. More importantly, this interpretation employs a static view of politics and the state—there is no sense that the responses of a ruling class to political conflict in one period may create the conditions that help create important changes in another period. See also Barton J. Bernstein, "The New Deal: The Conservative Achievements of Liberal Reform," in Barton J. Bernstein, editor, *Towards a New Past: Dissenting Essays in American History*, New York: Vintage Books, 1969, and Wolfe, *op. cit.*, ch. 4, 5.

11. Sidney S. Alexander, "Opposition to Deficit Spending for the Prevention of Unemployment," in Hamovitch, *op. cit.* (Originally published in 1948.)

12. Raford Boddy and James Crotty, "Class Conflict and Macro-Policy: The Political Business Cycle," *Review of Radical Political Economics*, 7, 1 (Spring 1975), 1-19.

13. Joan Robinson and Frank Wilkinson have recently argued that labor's economic demands can support economic growth:

> The trade union movement regards itself as charged with the right and duty to maintain for its members a proper share in the growing productivity of industry. In prosperous times, it is performing a useful function for capitalism. In the absence of trade union pressure, real wages would not rise in line with the increasing productivity due to technical progress, and stagnation would be induced by the failure of mass consumption to rise in step with productive capacity. (*Cambridge Journal of Economics*, 1, 1 (March 1977), p. 9.)

The other side of the story, however, is that rising real wages represent costs that can cut into profits and investment.

14. Jim O'Connor has pointed out to me that the early reports of the Council of Economic Advisers explicitly raised the issue of social reform and economic growth as being alternatives and not complements. The notion of a growth coalition is formulated, with respect to post-war urban politics, by John Mollenkopf in "The Post-War Politics of Urban Development," *Politics and Society*, 5, 3 (1975), 247-296. The relation between growth and political reform is explored by Alan Wolfe in "The Capacity for Reform: The Postwar Cycle and the Health of America's Domestic Political Institutions," Working Paper, Childhood and Government Project, University of California, Berkeley, 1977.

15. Richard Child Hill, "At the Cross Roads: The Political Economy of Postwar Detroit," unpublished paper presented at A Conference on Urban Political Economy at the University of California, Santa Cruz, April 8-10, 1977, pp. 11-12. See also Ronald Frederick King, "The Politics of Regressive Tax Changes: The Investment Tax Credit of 1962 as a Hegemonic Public Policy," unpublished paper presented at the 1977 annual meetings of the Midwest Political Science Association, April, 1977, for a similar argument about labor and economic growth.

16. Lloyd C. Gardner, *Economic Aspects of New Deal Diplomacy*, Boston: Beacon Press, 1971 (1964), especially ch. 13. On the effects of the lack of hegemonic leadership in the 1930s, see Charles P. Kindleberger, *The World in Depression 1929-1939*, Berkeley and Los Angeles: University of California Press, 1973.

17. Daniel Yergin, *Shattered Peace: The Origins of the Cold War and the National Security State*, Boston: Houghton Mifflin Company, 1977.

18. Fred L. Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present*, Berkeley and Los Angeles: University of California Press, 1977, especially ch. 1.

19. Block, *op. cit.*, ch. 4, Eakins, *op. cit.*

20. Cheryl Payer, *The Debt Trap: The International Monetary Fund and the Third World*, New York and London: Monthly Review Press, 1974, develops this interpretation in the context of IMF policy toward third world countries.

21. The events leading to the Truman Administration's change in policy are presented in Block, *op. cit.*, pp. 102-108, Flash, *op. cit.*, pp. 36-39, and Yergin, *op. cit.*, pp. 398-404. The notion that the U.S. had a twenty-year monopoly on

the bomb is discussed by Yergin, pp. 135-137. There were many in government and among scientists working on atomic energy who disputed this estimate and were far less surprised when the Soviet Union tested their bomb.

22. Yergin, *op. cit.*, p. 398.

23. Yergin, *op. cit.*, p. 401. For a study of the drafting of NSC-68 see Paul Y. Hammond, "NSC-68: Prologue to Rearmament," in Warner R. Schilling et al, *Strategy, Politics, and Defense Budgets*, New York and London: Columbia University Press, 1962.

24. Block, *op. cit.*, p. 103.

25. For one delineation of a liberal-labor coalition see Stephen Kemp Bailey, *Congress Makes a Law*, New York: Columbia University Press, 1950, ch. 5.

26. Alonzo L. Hamby, *Beyond the New Deal: Harry S. Truman and American Liberalism*, New York and London: Columbia University Press, 1973, chronicles the undermining of the left and the move to the center by many liberals.

27. Flash, *op. cit.*, ch. 2, Walter Salant, "Some Intellectual Contributions of the Truman Council of Economic Advisers to Policy-Making," *History of Political Economy*, 5, 1 (Spring 1973), 36-49.

28. Harold G. Vatter, *The U.S. Economy in the 1950's: An Economic History*, New York: W.W. Norton & Company, Inc., 1963, ch. 3.

29. Flash, *op. cit.*, ch. 4, 5.

30. Flash, *op. cit.*, ch 6, 7, Stein, *op. cit.*, ch. 15-17, Richard DuBoff and Edward Herman, "The New Economics: Handmaiden of Inspired Truth," *Review of Radical Political Economics*, 4, 4 (August 1972).

31. This point is developed in San Francisco Bay Area Kapitalistate Group, "Political Parties and Capitalist Development," *Kapitalistate: Working Papers on the Capitalist State*, this issue.

32. Arthur Schlesinger, *A Thousand Days: John F. Kennedy in the White House*, Boston: Houghton Mifflin Company, 1965, p. 138.

33. H. Scott Gordon, "The Eisenhower Administration: The Doctrine of Shared Responsibility," in Craufurd D. Goodwin, editor, *Exhortation and Controls: The Search for a Wage-Price Policy 1945-1971*, Washington, D.C.: The Brookings Institution, 1975, pp. 95-96.

34. Robert Aaron Gordon, *Economic Instability and Growth: The American Record*, New York: Harper & Row, 1974, Ch. 5, Bert G. Hickman, "The Postwar Retardation: Another Long Swing in the Rate of Growth?" *American Economic Review*, LIII, 2 (May 1963), 490-507.

35. William J. Barber, "The Kennedy Years: Purposeful Pedagogy," in Goodwin, *op. cit.*, pp. 145-146. DuBoff and Herman, *op. cit.*, present an excellent critical interpretation of the Kennedy-Johnson years. The essays in the Goodwin volume trace the evolution of wage-price policy from the end of World War II.

36. James P. Crotty and Leonard A. Rapping, "The 1975 Report of the President's Council of Economic Advisers: A Radical Critique," *American Economic Review*, LXV, 5 (December 1975), 791-811, analyze the policy of this period. See also Douglas Dowd, "Accumulation and Crisis in U.S. Capitalism," *Socialist Revolution*, Number 24 (5, 2), (June 1975), 7-44.

37. O'Connor, *op. cit.*

38. Clarence Y. H. Lo, "The Conflicting Functions of Military Spending After World War II," *Kapitalistate: Working Papers on the Capitalist State*, no. 3 (1975), 26-46.

39. The average official unemployment rate, in each successive period, was 4.6 percent, 5.2 percent, 5.5 percent, and 6.0 percent. Calculated from data in *Economic Report of the President*, Washington, D.C.: U.S. Government Printing Office, various issues. An excellent account of the rise in the rate of unemployment that is generally accepted as "full" employment is presented by Richard DuBoff, "Full Employment: The History of a Receding Target," *Politics and Society*, 7, 1 (1977).

40. See DuBoff, *op. cit.*, for a summary and critique of the expectations argument.

41. Daniel P. Moynihan, *The Politics of a Guaranteed Income*, New York: Vintage Books, 1973, ch. 1, 2, and Samuel P. Huntington, "The United States," in Michel Crozier et al, *The Crisis of Democracy*, New York: New York University Press, 1975. For an analysis of the trilateral commission, see Alan Wolfe, "Capitalism Shows its Face," *The Nation*, November 29, 1975.

42. For an analysis that implicitly recognizes a shift away from Keynesianism in economic policy, see George L. Perry, "Stabilization Policy and Inflation," in Henry Owen and Charles L. Schultze, editors, *Setting National Priorities: The Next Ten Years*, Washington, D.C.: The Brookings Institution, 1976. For other discussions of the decline of Keynesianism, see, e.g., Richard X. Chase, "The Failure of American Keynesianism," *Challenge*, 19, 1 (March-April 1976), 43-51, William Fellner, "Lessons from the Failure of Demand-Management Policies: A Look at the Theoretical Foundations," *Journal of Economic Literature*, XIV, 1 (March 1976), 34-53, and The Editors of Monthly Review, "Keynesianism: Illusions and Delusions," *Monthly Review*, 28, 11 (April 1977), 1-12.

The Study of Studies: A Marxist View of Research Conducted by the State

*Capitol Kapitalistate Collective**

This paper presents a preliminary view of the nature and role of studies conducted by the federal government, and documents its analysis with case studies drawn from the authors' work experience. As professionals working in various agencies, we have frequently been involved in conducting studies, and have been led to ask: what are the broader political implications of this widespread form of state activity? By "study," we mean the research, information and data gathering, and investigation government agencies undertake in the course of performing their missions. Although the terms "state" and "government" will be used interchangeably, we recognize that government is not coextensive with the state. Though it would be useful to have a comparative analysis of how capitalist states generate and employ information, this paper will focus primarily on the U.S. experience.

At first glance, our everyday agency research activities appeared far removed from abstract Marxist theories of the state. Collective discussions helped us get beyond the myopia of our individual situations, however. We came to believe that one of the central functions of the agencies for which we worked was the production of ideology through the vehicle of research. While the critical understanding of government research presented here contributes to the larger theory of the state, it has also raised a difficult question for us. How can professionals who are so deeply involved in this process develop both an oppositional analysis, "after hours" as it were, and an oppositional practice?

We begin by sketching the growth of state-conducted studies as a companion to increasing overall state intervention, after which we propose a way to link this growth to the dynamics of capitalist development within the U.S. We then substantiate this theory of bureaucratic politics with individual cases where government agencies have conducted studies. Each case describes the study's historical origins, class bias, work organization, and outcomes. While no simple theory can account for the variety of these experiences, we conclude with a set of generalizations useful in understanding them.

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The Evolution of Studies in the Capitalist State

Intensified state intervention in late capitalist societies has spawned the widespread use of governmental research. While government-conducted or sponsored studies are not unique to the current period, their prevalence reflects strong current demands on the late capitalist state to impose order on the anarchy of the commodity exchange system. Large corporations using capital-intensive methods of production rely increasingly on market planning rather than market response. This requires detailed analysis and forecasting of social trends. As the state deepens its involvement in the fabric of capitalist society, it engages in a parallel planning process. Since government must assert that it is acting in the public interest, it tends to produce proportionately more analysis in support of its actions than does the private sector, where the pursuit of profit and accumulation needs no comparable legitimation.

Before the second World War, state research focused on providing information to the private sector to identify weaknesses that might require state intervention. In recent decades, however, the state has begun to study itself. Some government agencies now study others and many agencies study their own behavior in relation to the economy. The first instance facilitates organizational control: bureaucracy has grown absolutely and relative to the private sector, and central managers can no longer directly control this vast array of agencies. Thus, studies offer one means of imposing organizational control. In the second instance, the state studies how its actions influence the economy in order to reduce unwanted effects. As we shall see, this self-consciousness is most common in agencies like Health, Education and Welfare which pay social expenses, and least common in those like Treasury or Commerce, which promote accumulation.

The importance of state research—and our reason for studying it—extends beyond organizational control. Since planning has become central to the balance of class forces, counter-research provides a weapon in the fight against capitalism.

The structure of government and corporate bureaucracies lends great momentum to planning decisions once they are made. Only open confrontation can alter them. The consequent importance of conflict earlier in the planning process imposes constraints on the ability to mobilize opposition. Either direct confrontation must be employed, or neighborhood residents must learn the technical details of zoning rules; client groups must understand budget politics; and foreign policy dissidents must learn the language of international relations. Because the planning arena intrinsically favors the dominant side in conflicts, counter-research becomes an increasingly

important way of conducting non-violent class struggle.

The Politics of Bureaucracy

The particular features of a given bureaucracy—its history, domain, and interest groups—are crucial for understanding any individual piece of research. Studies take place within a complex political environment shaped partly by systemic pressures on the state, partly by an agency's particular patrons and clients, and partly by the special interests of bureaucrats themselves. We find it useful to distinguish between the *endogenous* interests of an agency, which relate to conflicts within the state apparatus, and its *exogenous* interests, which derive from its relation to the capitalist mode of production. Endogenous interests arise from the fact that, in a situation where the overall budget of the state is fixed by external criteria (e.g., in the federal government it is now set by a Congressional concurrent resolution), agencies are competing for funds and power. Like corporations in the private sector, they are competing for market shares; but instead of accumulating capital and maximizing profit, they are accumulating political resources that increase their income and status. However, agencies are not autonomous; their success in inter-agency competition is constrained by the limits of support they get from some empowered constituency in civil society. Agencies cannot set their own budgets; these are determined by a combination of Presidential recommendation and Congressional action. Both the President and the Congress, who ultimately control each agency's market share, respond primarily to exogenous forces, whether corporate or popular. Therefore, each agency maintains substantial public relations offices to mobilize its constituency for support, and Congressional relations offices to remind Congress of the potency of its constituency and of the service that the agency renders.

In a capitalist society, individual agencies within the state serve the interests of particular economic or political groups and/or referee the conflict between class interests. In the U.S., for instance, the Agriculture Department serves the interests of agribusiness (both large and small), not the interests of migrant farmworkers or consumers, (although agency programs like Food Stamps or the Food and Drug Administration marginally respond to the latter). Such conflicts among the interests served by an agency in civil society are reflected within the state apparatus. Exogenous interests control bureaucratic politics in another way: those agencies that have powerful and/or mobilized constituencies will be powerful regardless of their size (e.g., the Federal Reserve System).

It should be noted, though, that this agency representation ap-

proach to bureaucratic politics depends crucially on the existence of mechanisms whereby separate interests can assert their influence upon components of the state apparatus, both upon the agency and upon the representative bodies (Congress and the President) that shape the budget. In the United States, where political parties are figments of the electoral imagination, such special interest lobbying is crucial and pervasive.

We observe that various structural and ideological mechanisms are used within bureaucracies to assert control over the workers/bureaucrats in each particular bureaucratic organization. Bureaucratic politics is an aspect of that social control in the workplace. Bureaucrats are encouraged to identify themselves with the particular agency in which they work, and thus with the economic, political, and ideological interests that the agency serves. It is the agency or rather its higher level officials, who determine when staff are promoted, receive raises, etc. Likewise, for the officials at the top of an agency, while they are generally appointed from outside, so that their immediate career opportunities do not depend crucially on their performance within the agency, their overall prestige and esteem depend upon their successful representation of agency interests.

Most state studies have both exogenous and endogenous origins, reflecting the bureaucratic politics of the agency responsible. Justification of program and expansion of budget are the major endogenous motivations for studies; class interests and class conflicts are the major exogenous ones. Some of the dimensions along which studies can be characterized include their differential accessibility to various classes, their explicit recognition (or denial) of class interests, their comparative evaluation of the benefits of certain policies to different classes, and the type of relationship between the study authors within the state and competing class interests. Our case studies encompass several varieties: feasibility, evaluation, program planning, accountability and data generation studies.

Feasibility studies are generally associated with social capital expenditures by the state. Studies undertaken in connection with these activities resemble research carried out internally by corporations for purposes of aiding decision-making. Because such projects often ultimately produce something for exchange, quantification in dollar terms is a central feature and may be a principal tool of such studies. The cost/benefit analysis employed by the Army Corps of Engineers is our illustration of this type of study.

Program planning studies posit the goals of agency programs and the appropriate methodology for addressing them. Here quantification may not be important; the most significant thing about the study may be the way it perceives the problem and the techniques

for participation and distribution of services implicit in the plan. The World Health Organization systems analysis planning design is our example of this type of study.

Evaluation studies generally follow actual activity. They act in the aggregate as a constraint on the empire building tendency of bureaucracies or they may be a vehicle for the internal justification of agency work. Program evaluation studies weigh the effectiveness of past programs on the basis of some criterion, quantitative or not, in order to argue its continuation or termination. Agencies such as Labor and HEW employ such studies extensively. Our example is the sequential set of studies which the Office of Economic Opportunity (OEO) and HEW did on community health centers.

Yet other studies are directed toward the general public to bolster the government's claim that it acts in the public interest. These might be termed accountability studies, such as those carried out by the General Accounting Office, the subject of case study 4. Similar studies represent a response to public calls for government action: Civil Rights Commission, Justice and Labor Departments, for example, perform studies investigating conflicts and claims of malfunction in civil society.

A final type of study, which is generally part of the above efforts, involves data generation. It deserves separate classification because in the capitalist state data generation is often undertaken by distinct agencies such as the Census Bureau, whose work is then used in many other studies. The production of information is itself a crucial and telling function within the study sectors of the state; it reveals what is important and what is ignored. The New Income and Wealth Survey is our example of this type.

The Case Studies

Case Study 1.
Cost-Benefit Analysis: Flood Control Projects and the Army Corps of Engineers

by Len Rodberg

The attempt to address, through mechanisms of the state, problems of flood control, power generation, recreation, environmental protection, and other issues related to the use of water resources raises questions of intense inter- and intra-class concern. Any one of these activities will affect different class forces in quite different ways; some will gain, and others will lose; some will have their goals met, and others will not.

One method by which the state has attempted to resolve these conflicts during the last quarter century is to treat resource alloca-

tion questions, from flood control to national defense, as technical-managerial issues for which the right kind of technical analysis or management "tools" could provide "correct" answers, that is, "solutions" which followed "logically" from assumptions and criteria on which there was presumably common agreement. Issues could then be taken out of the political arena and made subject to the control and judgment of technical "experts." Political decision making would then be replaced by bureaucratic decision making, with technical analysis acting to legitimize the choices made by an "expert" bureaucracy with access to all the "facts." The ability of various class forces—especially the working class, with limited resources and access to technical expertise—to influence decisions is thereby sharply diminished. Consequently, political struggles are displaced from the open arena of electoral and media politics to the behind-the-scenes bureaucratic process where the methods of analysis are determined and where the balance of interagency bureaucratic power becomes the determinant of the political choices.

As a case in point, in the mid-1930s, at a time when vast new sums of state funds were being appropriated for public works projects, the Congress laid down the requirement that cost-benefit analyses must be performed on all flood control projects to determine their relative value to the nation's economic growth. Economic theory claims that, if the nation's goal is maximum economic growth, then those activities that return the greatest benefit for the least cost will contribute the most to the increase in the gross national product. Such theory, of course, does not concern itself with *who* benefits and *who* incurs the costs; it assumes simply that overall national growth is a common good.

By creating the requirement for cost-benefit analysis Congress issued one of the first attempts to impose on the state bureaucracy a disciplinary measure for the management of competing capitalist interests. (The recently enacted Congressional budgetary procedure is the latest attempt to set up a management process for the state.) What Congress saw clearly was that the individual agencies participating in water control projects (especially the Army Corps of Engineers) and the Congress itself would have a limitless number of water projects to contend with. Congress further recognized that each project would receive the vigorous backing of locally based capitalist interests, thus creating a situation of unwieldy competition. By utilizing the cost-benefit criteria Congress could then employ a rationalizing procedure whereby the decision to fund any given water project would be placed within an overall budgetary framework. The aim of this strategy would be to contain intra-capitalist competition and sectional rivalry in favor of the general interests of national capital as a whole.

This attempt, however, has not worked essentially because sectional economic interests remain powerful in the Congress. Early in 1977, for example, President Carter attempted to eliminate a number of water projects which he felt were of limited value while the Congress strenuously resisted his effort. As the *New York Times* pointed out, "Of the nine projects that the Senate is now trying to push through for full funding over Mr. Carter's objection, no less than eight are located in states whose Senators happen to be on the Appropriations Committee (seven of them on the public works subcommittee) which gives a pretty good idea of the criterion of judgment used by the Senate in making its evaluation."

Not only has the Congress tended to ignore cost-benefit analyses in order to serve better the interests of sectional capital, but it has done so for good reason. One staff member of the Senate Interior Committee described to a Nader researcher that cost-benefit studies are "worthless and phony." These studies are manipulated to give answers which particular agencies of the state—supported by, and giving support to, particular fractions and groupings of capital—wish to derive. Thus, cost-benefit studies will include any costs and benefits that have an organized constituency. Since the 1930s, for example, flood control and electric power generation have been in this category. Local politicians, construction firms, corporate farming interests, and land and housing developers have all been strong supporters of dam construction. As most of the major flood- and electricity-producing rivers were dammed, those interests that benefited from public construction projects sought other benefits which they could ascribe to the construction of dams. Thus recreation (lakes, parkland, etc.) was added as a major benefit to be derived from these public projects. More recently, environmental protection has developed a constituency (largely middle-class), and the standards for evaluating water resource projects have been revised to permit the inclusion of an environmental protection factor. (It should be noted, though, that water resource specialists—consistent with the commodification that pervades capitalist societies—do not see environmental *preservation* as a prime value. They have to *do* something—build a levee, dam a river, change some part of the natural order. Thus, they identify the quality to be sought as environmental "enhancement"—hoping, presumably, to impute an environmental "value added" to the project.)

Cost-benefit studies have been a favorite means of evaluating state activities because they fit so well with the commodity character of the transactions that dominate social life under capitalism. Thus, if the personal anguish that follows a major flood is deeply felt but intangible, a way can be readily found to assess the property values involved, to find a quantitative surrogate that can measure this

"cost." (Some attempts to measure the "value" of a human life have been made by the more ambitious quantifiers; however, these have been too ambiguous, and too distantly related to ordinary commodity transactions, to receive very wide acceptance.) Not only is such a measure convenient and easy to determine, but it has the "advantage"—from the viewpoint of the dominant classes in the society—of placing more value on the property (and, thus, indirectly, the lives) of the wealthy than of the poor. Cost-benefit studies are not concerned with issues of equity (after all, economic growth is supposed to benefit everyone). Hence, this class bias is accepted as part of the "natural order" of the society. Likewise, as noted above, the costs and benefits generally fall on different groups of people at different times and places; the cost is borne by all the taxpayers, while the benefits accrue to particular people in particular locations.

Nevertheless, the cost-benefit technique, though ignored by Congress has widespread acceptance largely because of its apparent objectivity. Though advocated to promote rational analysis, such studies become weapons of bureaucratic political struggle. The Director of the Corps of Engineers will not advance his career in the U.S. Army by overseeing the shrinkage of the Corps, thus he will not welcome studies which tell him, for instance, that the construction of dams is less cost-efficient than various non-structural measures (e.g., land zoning) for the reduction of flood damage. Since bureaucrats learn quickly what conclusions are "acceptable," studies performed by state agencies become "briefs" in support of the agency's claim, and not necessarily analyses of the problem at hand. The authors of *Damming the West* have written that the Bureau of Reclamation "manipulates its economic analyses to justify unneeded projects, not to evaluate them—much like a drunk who uses a lamppost for support instead of illumination."

This biasing can be done in many ways. For example, intermediate variables, which will not appear in the final result, can be manipulated to condition the outcome of a report to justify the continued construction of dams, the Corps has begun computing the benefits from the control of less and less likely floods. In one case study conducted by the General Accounting Office, 62 percent of the flood control benefits arose from floods that are unlikely to occur more than once in a hundred years. And, with such great extensions of time, the discount rate (comparing future benefits with present costs) becomes an extremely sensitive variable. In the case examined by the GAO, the cost-benefit ratio was 0.76 if the interest rate was taken as 3¼ percent (as it was in the mid-1960s); it was 2.4 at today's rate of 7 percent. (The selection of the discount rate has not surprisingly become a key matter for political struggle, with those favoring dam construction supporting a low rate and those opposing

it urging a high rate.)

Even the identification of benefits provides a way to manipulate the quantitative outcome. For instance, when the protection of property was no longer sufficient justification for the construction of dams, because the most suitable sites had already been dammed, the Corps turned to the benefits of recreation to justify its construction projects. As a result, in recent projects recreation often provides more than one-half the claimed benefits.

The recreation benefit, of course, has to be quantified to fit within a cost-benefit framework. This has led to the concept of the "visitor-day" as the measure of recreation usage, and to a dollar-value for that day as the measure of recreation benefit. Economists will rationalize this measure as the sum which the visitor is prepared to pay for the recreation. However, in actual (bureaucratic) fact, the dollar-value used by federal agencies in computing recreation benefit was derived by a political compromise among the several federal agencies concerned with recreation. In short, the value could not be so high as to lead recreation benefits to overwhelm the other benefits of dam-building (and thereby make the whole calculation look ridiculous), but it could not be so low as to fail to provide the additional boost for dam-building that the Corps required.

Thus the analyses are distorted from the start by the fact that they are performed by the very agencies whose behavior they are supposed to constrain. (Since it is "expertise" that is valued in this study-based approach to decision making, the conduct of the studies is naturally assigned to the agencies with the most "expertise," i.e. the ones carrying out the activity to be studied!) The result is that these studies carry inherent defects which reflect the class interests they are intended to support. From this perspective, one might say that the Congress—representing a different array of class interests—is correct to ignore the results of such studies. However, national capital—which most needs overall budgetary rationalization—is poorly served by this entire process.

Case Study 2.
The Use of Systems Analysis in Health Planning: World Health Organization Planning for Maternal and Child Health Services in Algeria

by Meredeth Turshen

This case study will show the inherent bias of the methodology known as systems analysis by presenting a case study of its use in health planning. Although it is used by U.S. agencies as well as international bodies, because of my personal experience, I will discuss the version used by the World Health Organization (WHO) to

formulate maternal and child health care programs and describe its application in Algeria.

Definition of Terms

Systems analysis perceives natural or man-made entities as systems of interacting parts, examining how the interrelationships among the parts operate, how they are managed, and how information flows through the system to facilitate management. It permits the use of a common logic and vocabulary across organizational and disciplinary lines. As applied to the health sector, the systems approach is a potential improvement over the old "medical model," i.e., the perception of medical services based on the precepts of clinical and scientific medicine.

The systems approach was first taught at business schools; its application to the management of large corporations is obvious. Only very recently has systems analysis been borrowed by medical administrators; it enabled hospital administrators to view the hospital as a system, with the promise of rationalizing its management and making its operation more efficient. The application of systems analysis to a national health service is, to us, far more problematic, since the approach does not give explicit attention to questions of power and class relations (though, of course, these relations *are* built into the method). Although it purports to address all variables, not only the biological and technical, that affect health intervention programs, systems analysis, in fact, does not take political issues of class conflict into account.

WHO Project Formulation

In 1972 a team of systems analysts at WHO, then applying management techniques to single-disease programs like tuberculosis control, was assigned the task of designing a methodology that could be used by government planners in underdeveloped countries to formulate maternal and child health care and family planning projects. The resulting family health project formulation manual, drafted by an interdisciplinary team of systems analysts and medical professionals, contained a series of exercises to be completed in sequence. At each stage, planners were encouraged—as in all systems analysis projects—to quantify, measure, and set targets, ostensibly to help spell out concrete programs and to aid in any later evaluation.

Briefly, the method was as follows: data collecting, creating an initial problem outline, and writing terms of reference; reviewing current policies and programs, and estimating future resources; analyzing the health, socio-economic, and demographic situation;

selecting critical problems and estimating their future magnitude; setting objectives and targets; identifying and ranking potential obstacles; selecting the most feasible strategies, estimating their costs, and assessing the adequacy of future available resources.

The most glaring omission in this apparently rational program is the absence of any mechanism for popular participation in program planning or evaluation. The use of systems analysis encourages planning at the top and the imposition of programs on the people. This presents an insurmountable obstacle in socialist countries that believe problems can be solved only with the active support of the people and will succeed only when they are controlled by the people.

Equally important is the relapse, in actually conducting the analysis, into traditional medical categories of age, sex, and vulnerability when it comes down to criteria for planning disease control programs. This technical victory of the medical perspective is inappropriate in democratic countries with political goals of equality and equity. If the lot of the poorest people most in need of services is to be improved, they must be identified by means of a class analysis.

These are only some of the ways in which the WHO health planning methodology is biased. Its consistent preference for status-quo-preserving technological solutions is best demonstrated by turning to the case study of its application in Algeria.

Maternal and Child Health in Algeria

Two health indicators will situate Algeria in an international context. The infant mortality rate is 180 per 1000 live births; by comparison, in Cuba it is 40 per 1000 and in Sweden, 9.6. Life expectancy at birth is 50 years; in the advanced capitalist countries, it is typically over 65.

Algeria's health infrastructure is relatively developed in comparison with the rest of Africa. Algeria possesses 35,000 hospital beds and 1400 dispensaries, polyclinics, and health centers. But this infrastructure, inherited from the colonial period, is very unevenly distributed over the country. In addition, the number of health workers is inadequate to meet the population's needs, and it is also very unevenly distributed.

Algeria won independence from French colonial rule at the end of a seven-year struggle. The war inspired a progressive and anti-imperialist perspective that combined the desire to recover national identity with a goal of economic development for the satisfaction of human needs. Since this could only be accomplished under public auspices, state control of the economy has progressed rapidly. Banks, mines, oil and natural gas reserves were nationalized successively after 1965, and national commercial societies created to control the critical

industrial, service, and foreign trade sectors. And last year the National Charter for Socialism was adopted, representing the ideological and institutional consolidation of the country's social achievements.

In the health sector, mass health campaigns against the major communicable diseases were organized and carried out. Medical education was made available to children of the working class, and the emphasis in training shifted from clinical and hospital medicine to practical and public health work. However, until 1974, no national health planning was undertaken.

This was the situation in 1976 when the WHO systems analysis team was invited to assist the Algerian National Institute for Public Health in developing a maternal and child health/family planning program (MCH/FP). Two WHO consultants worked with a team of ten Algerians. They ended up producing, not a MCH/FP program for Algeria, but only a written exercise in the use of the WHO methodology. They found it necessary to simplify the WHO methodology, so the more difficult problems were temporarily put aside. (Of course, the final program could not ignore any basic problem, no matter how complicated, so the whole exercise—if it were to be of any use—would have to be repeated.) Also, because the methodology was so complex, the exercise required six to eight weeks of full-time work, necessarily reducing the number of people who could participate in actual program planning.

Such a closed procedure—inherent in the highly-technical systems analysis approach—can be contrasted to the process for adopting the Algerian National Charter for Socialism, which involved widespread debate in villages and towns, farms and factories, health centers and hospitals, leading to significant alterations in the original draft. The Algerians recognized that, in developing a health program, it was essential to involve a large number of representatives of both the population to be served and the service personnel. However, the complicated WHO methodology allowed no meaningful participation of these larger groups in the drafting process. In effect, it widened the gulf between the national staff and the Algerian population.

One of the attractions of systems methodology, and a reason for WHO's use of it, was its potential for aiding the coordination and integration of services. This received lip service in the WHO exercise; various ministries were duly consulted at the outset. But the intention was missed, even if the letter was followed, for coordination remained a formality at the national level, and never affected the regional or local levels at all.

The methodology is at fault here in two ways, in terms of political process and technical dependence. Planning at the top rarely results in integration at the bottom; the vested interests in each discipline

are too great to be relinquished. Only external political control can accomplish this. Popular participation in planning and a consensus that the technocrats serve but do not control the planning process are both missing from the WHO methodology. Built-in rigidity is the result.

One of the innovations of the WHO methodology was the frank acknowledgement of obstacles; the Algerians, with democratic candor, left no stones unturned in their search for bottlenecks and blockages. But the accomplishment stops at the description; nowhere do the programs suggested address these obstacles in a constructive manner. To compensate for anticipated difficulties, target objectives were simply reduced. The obstacles were not removed; they were accepted as immutable.

Once again, the systems methodology is at fault, since—in spite of its lip-service to a system-wide outlook—it does not allow for digressions into the solution of problems, especially if they fall outside what is traditionally delimited as the health sector. If, for example, the lack of a road is the obstacle to the extension of rural health services, there is no inviolate reason why health workers should not engage in road building, or even why road building should not be part of the training of health workers in remote rural areas.

But, as mentioned earlier, the WHO method uses medical criteria in setting program objectives. It was not possible to adapt the systems approach to the Algerian situation in which a class analysis would have been more appropriate and would have enabled the government to reach its desired goal of equity. The closest that the WHO method could come was to divide the country into geographic regions and to note that the inhabitants of the steppe and the desert were, on the whole, worse off than those of the coastal plain. This ignores the fact that, within each region, people are differentiated by income and wealth, and it is well known that access to and use of health services follow class lines. (That is, those persons most in need of health services usually benefit least from them unless a conscious effort is made to reach the poor.)

The product of the WHO exercise is addressed primarily to health service personnel, not to the Algerian users of health services. This institutional bias results in the central task being defined as improving the performance of health services, usually through some management technique or new technology. This is not to say that such adjustments are not useful or even necessary, but only that, often, the major problems remain untouched by such "interior decoration."

The fundamental health problem of mothers and children in Algeria is unquestionably malnutrition. The strategy outlined in the MCH/FP document amounts to a technological fix: the national production and distribution of an artificial baby food called "super-

amine," in spite of the fact that experience has convincingly demonstrated that such a technological approach is more likely to increase the problem than reduce it. The introduction of baby foods results in the earlier curtailment of breast-feeding and in the spread of malnutrition and diarrhea associated with bottle-feeding in circumstances of poverty, poor sanitation, and illiteracy, such as those which prevail in Algeria.

No cost accounting was made of "superamine." No one knows how much money has been spent on its development and production, nor how much on imported baby milks and weaning foods manufactured by multinational corporations such as Nestle. (The demand for these products increased fourfold after the introduction of "superamine" in Algeria.) However, it may well be large enough to have made a *real* impact on malnutrition if invested in the productive sector to create jobs, or to produce more food and reduce the need for expensive imports. The fact that a social problem requiring a social service for its solution was turned into a consumer demand for a commodity is not unrelated to the capitalist origins of systems analysis.

The WHO methodology (and other applications of systems analysis as well) tends—in spite of its much-touted ability to stretch the boundaries of analysis—to reinforce the status quo. This is to be expected of a method which is developed by the technological servants of capital for use by those at the top of capital's hierarchic order. It is to be expected as well, in the case of the WHO, of an international organization which cannot recommend the radical changes that the solution to fundamental problems like malnutrition often entails. These organizations are dominated by the capitalist countries which are committed to the maintenance of a stable world order based on the current distribution of power. The ultimate solution of problems like malnutrition depends on radical changes in social and economic institutions, changes that the capitalist powers will resist.

Case Study 3.
Program Evaluation Studies: The Office of Economic Opportunity Neighborhood Health Centers

by Cathy Schoen

During the Office of Economic Opportunity's (OEO) short life (1964-1972), the agency—child of the 1960's civil rights protests and Johnson Administration's Great Society attempts to mollify demands for social and economic equality—initiated a neighborhood health center program on a pilot basis. These centers were to be more than medical care delivery programs; they were also supposed to improve health in impoverished communities by attacking the major cause of the people's poor health—poverty. Because OEO's unofficial mandate was to contain and deflect social protests while carrying out its official role of creating "economic opportunity," the first (and majority) of project grants went to communities/neighborhoods in which riots, demonstrations, and other protests by poor (and often black) residents threatened to reach and destroy more stable and affluent neighborhoods.

The OEO workers, many of them veterans of Civil Rights marches and struggles, saw health centers as vehicles for both needed health services and some local power. Community control, training for local residents and environmental health services (liberally interpreted to include food, transportation and health-related services such as nutrition, counseling, transportation) were all items of the OEO list of legitimate health center activities.

The OEO health center model was evaluated first by a consulting firm with OEO funds and then by the Department of Health, Education and Welfare. An analysis of those evaluation studies shows that they can only be as convincing and acceptable to established bureaucrats as are the political, economic and social foundations on which they are based. Where evaluation criteria and goals fundamentally conflict with (or cause conflict in) existing class relations, no amount of success stories can protect the program.

The concept of community control over anything, let alone health care, offended many within the project-grants bureaucracy and threatened many local power groups within affected communities. To mollify established interests somewhat, OEO billed the health centers as "demonstrations" of a "new" concept rather than bona fide new directions in federal health care policy. As demonstrations, the centers were freer to experiment and to deviate from previous federal health care delivery programs; they were also, however, vulnerable to closer scrutiny, evaluation and possible termination, as we shall see. In theory, a successful demonstration could lead to legislation instituting Neighborhood Health Centers (NCHs) as an official federal health program. Accordingly, OEO saw evaluation as a mechanism for legitimizing their program.

In this brief overview of the series of evaluation studies of NHCs which followed the first demonstration projects, we illustrate the manipulation of social science evaluative analysis and the limited power of such analysis in determining the fate of programs that potentially threaten—even to a small extent—the ideological and structural foundations of monopoly capitalism.

Evaluation Studies of OEO NHCs

OEO gave its centers a fairly broad mandate to attack the cycle of poverty and ill health as they saw fit in each neighborhood. In guidelines that stressed the delivery of comprehensive primary health care and community involvement by NHC directors and employees, OEO made clear that it saw health care centers as more than traditional medical care providers. Health center activists were encouraged to use health care as an organizing device and as a means of increasing the political power of the poor in their neighborhoods.

To evaluate these health centers, OEO contracted with private consulting firms. After giving the centers such a broad and controversial mandate, OEO needed the aura of objectivity that no in-house evaluative study could have created. Thus, they gave clear indications to the consultants that any appraisal of the effectiveness and social value of the program had to examine the overall impact of the centers on health, on community access to care, and on the community in general. For example, one OEO request for proposals outlined five specific areas to be addressed:

> success of NHCs in providing comprehensive health care to the poor;
>
> patient reaction to the care received at the NHCs;
>
> degree of implementation of comprehensive and continuous family care;
>
> functional and organizational comparison of NHCs; and
>
> anti-poverty consequences of NHC services.

The ensuing evaluation studies responded to the spirit of the OEO requests and intentions. The studies strove to ascertain the response of the community to the centers, the number of people reached and affected by the presence of the centers, and the ability of the centers to tie together a previously fragmented and unresponsive health care system to meet some of the community's pressing health care needs. Below is a summary of the comments of one group of evaluators regarding the effectiveness of 21 health care centers after several years of operation:

> On the average, the Centers have reached about 2/3 of the eligible individuals in the target areas. . .
> Users consider the Center responsive to the human personal needs of the patients. . .
> The centers have been successful in making available to their patients a wide range of comprehensive services. . .
> The organizational characteristics which were found to be related to better Center performance include several that are relatively unique to the OEO Neighborhood Health Center program, namely, high influence of groups internal to the target population, high influence of Center users, above average outreach resources or outreach operations, and a high degree of consumer-staff orientation to the needs of the community. Other Center characteristics related to better performance include: lower patient load, with associated higher budget per active registrant; fewer constraints due to patient eligibility, as measured by percent of population registered and number of times registration was closed, and high degree of Center maturity/stability.

Note that the only reference to costs and productivity—the standard economic evaluative criteria—praised the low patient load and higher budget per patient as conducive to better performance as a health care center.

Although this and other studies of the NHCs were favorable, the one piece of information that made headlines was that the centers were expensive. Further studies looked closely at the actual costs and found that they were high only at first glance. Once the range of services and savings in hospital days were accounted for, the centers appeared to be cost-competitive with more traditional delivery systems.

In 1967 HEW began its own health center program, supposedly modeled after the successful OEO demonstration. The HEW projects, however, emphasized a comparatively narrow medical definition of health care and dropped altogether the OEO emphasis on community employment, training and organizing opportunities. The OEO demonstration was ended in 1970 and the NHCs were transferred intact to HEW rather than terminated. But the Nixon and Ford Administrations were opposed to federal involvement in the delivery of health care services (or any other potentially profitable commodity). Thus the Bureau of Community Health (the HEW agency that oversees health center grants) was directed to cut back and gradually eliminate community health centers. To do so without some legitimate reason, however, might have strengthened and unified Congressional and community support for the health centers. To legitimize the desired policy action, evaluation studies were once more called for, this time to be performed by HEW as part of its regular evaluation of ongoing projects.

The evaluation criteria applied by HEW reflected the purpose of the evaluators. Physician visits per hour, dollars per visit, and costs per patient per year were compared with similar measures from the offices of private physicians. HEW made no real attempt to adjust these standards to the much wider range of services provided by the neighborhood health centers; nor did the evaluations attempt to assess the impact of the centers on the communities' health or economic status. Instead, HEW's evaluations emphasized the centers' ability to become financially self-supporting medical practices

removed from the federal budget. Even the General Accounting Office, in a cautious study, criticized self-sufficiency as an impossible goal as long as centers were located in high poverty areas.

The HEW evaluation found, not surprisingly, that the centers were an expensive way to deliver medical care. Armed with "proof" of inefficiency, HEW instituted new directives designed to terminate the center program altogether, despite an agreement that Elliot Richardson, then Secretary of HEW, signed with Donald R. Rumsfeld, Director of OEO, to guarantee the future of the neighborhood health centers. Centers were pressed to pursue efficient management practices by hiring trained personnel; by meeting productivity standards stated in terms of patients per physician hour, ratio of non-medical staff to medical staff, percent of costs going for direct health care (versus social services), and by charging patients fees wherever possible. Failure to meet these standards would result in termination of grant funds.

Efficiency, self-sufficiency, and a narrow definition of health care drastically reduced the scope and threat of community health centers to existing medical systems and local power structures. No longer could centers actively recruit and train community residents to work; no longer could centers openly supply needed health-related social services to community members and receive funds for their efforts; no longer could new centers openly flaunt the establishment medical sector and hope to receive a grant; no longer could centers expand their primary care health services to include the preventive and public health services of local county health departments. In short, Neighborhood Health Centers were no longer a source of political and economic power.

In summary, the contrast between the effectiveness of the two phases of health center evaluation illustrate both the limits and power of "objective" evaluative criteria and social science methodology in influencing and supporting government projects. Evaluative studies are as limited or as powerful as their support of the foundations and central concepts of capitalism. When broad studies of program effectiveness in delivering care and improving health supported and praised the health centers, they were disregarded, suppressed and/or distorted. Such centers were contrary to overriding ideological and structural beliefs in the efficiency and propriety of private markets and profit making. When much narrower studies criticized the centers for high costs, they were heeded and used to legitimize changed directives, cutbacks, and the eventual transformation of the program.

Case Study 4.
Accounting and Accountability Studies: The General Accounting Office

by Ann Markusen

The General Accounting Office produces no services and administers no programs. Its sole mission is to act as Congress' watchdog on the executive branch of government: the entire product of the agency is in the form of reports to Congress. In this brief overview, the agency's existence and product will be linked to changes in the structure of 20th century capitalism and the state.

GAO was set up in 1921 in an act which also established the Bureau of the Budget and introduced comprehensive state budgeting. Before 1921, state expenditures were the sum of separate appropriations passed by Congress, each embodying the pet projects of legislators and the interests they served. The monopolization of the private sector required the imposition of discipline on total state expenditure. The Budget Act accomplished this by centralizing budget making authority in the Presidency. Henceforth the President would initiate and structure the budget, and Congress would then revise and pass it. GAO was a concession to Congress (particularly the Senate) for its loss of power; via GAO Congress would oversee the expenditure of state funds by auditing the executive branch.

GAO was endowed with an unusually independent structure at its birth. It is headed by a controller who is nominated by the President, appointed for a 14 year term and is accountable to Congress. The agency is staffed almost entirely by "lifers" who do not move in and out, either to other agencies or to the private sector.

Given its explicit watchdog mission, its unusual structural independence, with power to set evaluative criteria, and its lack of direct links to the ruling class, why then does the agency fail to challenge the state's supportive stance toward the capitalist system?

Despite its apparent independence, the agency must appear before Congress each year for its appropriation. In an ultimate sense, Congress is the agency's client, and a consciousness of the need to please Congress permeates GAO's work. Congressional goodwill is built by doing special-interest muckraking for individual members, and by exposing executive branch incompetence or disregard of Congressional intent for Congress as a whole. Sometimes, though, the two clash. For example, a study of Air Force rationale for closing an Upper Peninsula air base in Michigan, conducted at the request of a local Congressman, must tread gently between criticizing the Air Force for underestimating the local economic impact and supporting the Air Force for reducing inefficient expenditures.

The GAO is also limited to an oversight function. The agency is

not allowed to question the amount of an appropriation or the quality of legislation, only the implementation of acts. It cannot, for example, investigate Congress itself, nor any "product" of Congress. Traditionally, GAO's role has been conceived as that of accountant, verifying the books of the state. The fundamental body of practice for GAO is still cost accounting, which replicates corporate practices developed as a way of monitoring the profits and property of complex monopolies. Cost accounting does not evaluate the usefulness of the product, only whether the money is spent as intended. The practice accepts the market determination of wages and prices and looks only for the grossest fraud. This structural limiting mechanism thus rests on a pervasively bourgeois ideology.

The progressive era municipal reform movement introduced public accounting prior to the Federal Budget Act as a way to clean up the worst local graft. Effectively, it employs some state workers to spy on others in order to ensure that bureaucrats do not cash in their political power for private gain. Public accounting thus represents a centralizing function for the capitalist class. Individual members and corporations may engage in graft, and some overall discipline is needed to limit the potentially voracious appetite of the state sector. Cost accounting provides a method for disciplining state agents and prevents them from constituting themselves as a class equal to private capitalists, subordinating them as state workers to the ends of the capitalist class as a whole. Efficiency (so defined) becomes the sole concern of accounting practices in the state sector. The introduction of accounting guarantees capital as a whole that no individual capitalist can steal outright from the state, but that all can make a profit on government contracts without raising questions of distribution or worthiness of the product, and that all can benefit from state capital and legitimation activities.

But these structural limitations are not sufficient to explain the disappointing product of the watchdog agency. In fact, the limitation of the agency's mission to accounting methods is currently changing. The companions to the Congressional leash are the ideological blinders: methods used to pursue evaluation of State activity in general, adopted from bourgeois business and social science sources. An explicit understanding of the production and promulgation of ideology is thus necessary to decipher the operation of GAO.

GAO's ideology is inculcated by the educational institutions which prepare its professional staff and by the occupational structure the agency presents to them. But it is not enough to merely be supplied with trained personnel whose techniques are borrowed from the academy and from capital itself. The techniques become entrenched and can flourish because the agency has no "politics," which is to say that it accepts the characterization of bourgeois political science that

the government operates in the interests of the people and that whatever Congress decides is the manifestation of the people's will. Since there are no class interests, but only the "public interest," there is no possibility that a conflictual or explicitly class oriented analysis will be done. The lifetime bureaucratic isolation of employees from private sector work experience nourishes this self-conception.

This can be illustrated with a story recounted by Gutman and Willner. Stepping beyond its traditional auditing approach, GAO in 1971 decided to investigate the relationship between MITRE, a private nonprofit research and development outfit, and the Defense Department by surveying selected contracts. They wanted to "ascertain the degree of customer satisfaction, accomplishment of project goals and ultimate use of the project." GAO found the relationship between MITRE and DOD to be closer than it ought to be; since it approached "joint project management," customer satisfaction could no longer be used as a reliable independent measure of contractor performance. Since GAO "lacked the expertise to offer any other measures, it shelved the project, issuing no final report." In other words, the only criterion GAO had was the view of the government as customer, not as capital's partner in the business of generating defense industry profits.

GAO pressures the bureaucracy to follow corporate rationalization procedures by threatening to expose them. It can also investigate failure to achieve legislative intent, but here the poverty of criteria deprives the GAO of the cogent criticisms which can be brought to bear with cost accounting. Thus the state of ideology shapes studies of State effectiveness.

How is it that an agency of 5000 people, lifers whose only material dependency is on GAO, and who study the federal government day in and day out, reproduce so faithfully a capitalist system—supporting ideology in their work? The perpetuation of ideology happens in several ways. First of all, the staff of GAO come to it from universities and professional schools where accounting and social science ideology is produced. Professional identification is strongly encouraged.

Secondly, the leadership of GAO has traditionally devolved upon someone who has participated in producing ruling class ideology. The present Comptroller, Elmer Staats, was one of the initiators, in the 1960's, of the periodic off-the-record exchanges between high level corporate and government officials on basic issues, a project funded by the Carnegie Foundation and now housed in the Brookings Institution. Such conscious construction of ideology prepares one to choose issues deftly, to advance divisions and subordinates, and to set the ideological tone which will bring oneself and the agency credit.

If the internalization of the needs of the system does not occur smoothly, structural pressures are brought to bear through Congress. This happens infrequently, because Congress is reluctant to bare its control (undermining the independent watchdog image) and because the agency ordinarily wants to avoid outright conflict with its patron. Two recent cases will illuminate this structural discipline.

The first concerns the actions of Comptroller General Joseph Campbell, who in the 1950 and 1960's issued devastating exposés of war profiteering and wasteful construction. Many congressional members were highly upset at the documentation and the criticism of porkbarrelling implied. Finally, in 1965, Rep. Holifield's (D-Cal.) Government Operations Committee held hearings on the conduct of GAO, opening them with reference to: "the great concern that has been shown in industry circles and recently in DOD over the difficult and awkward situations created by GAO audit reports." As an outcome of the hearings GAO agreed to a list of conditions including an agreement to stop using company names in the reports and an effort to be more "constructive."

The second instance involves the recent competition over the location of the new Congressional Budget Office (CBO). In this case, the failure to modernize its ideology fast enough cost the agency an expansion. Several studies in the 1960's had castigated GAO for its narrow accounting focus and suggested that the agency undertake broader policy evaluation. The agency was slow to respond. In the struggle between the Democratic Congress and President Nixon, Congress needed a research wing that would evaluate and sometimes take issue with executive branch studies, particularly with respect to budget and macroeconomic policy. GAO was an obvious place to locate this function, since its origins were budgetary. Instead, the role went to a newly created Congressional Budget Office, headed and staffed mainly by economists (now numbering over 200). A structural and ideological interpretation of this would be that GAO had remained relatively resistant in the past to highly quantitative investigations of the type current in economic ideology. GAO frequently stated in its reports that meaningful criteria for judging a policy or program did not exist, that data were non-existent or bad, and that accounting standards required accuracy, not "guesstimates," impossible to achieve in a given case. Economic ideology, on the other hand, is quite ready to construct an elaborate quantitative analysis, despite its speculative nature, and to employ lengthy abstract modelling procedures, regardless of the reasonableness of the underlying propositions. If no real data exist, social scientists offer "simulation" techniques that will produce the right political answers for whomever controls access to the computer. Furthermore, economists are more willing to engage in "quick and dirty" analysis, whereas GAO adheres to a fastidious review process to ensure accuracy.

Ultimately, GAO has adopted such techniques on a limited scale, but too late to forestall creation of CBO and only under conditions of continuing internal resistance. This opposition is an example of endogenous forces shaping the conduct of studies; the mainline accountants oppose the infiltration of other professionals who would compete for their turf. Rather than add economists to each audit division, where their empirical creativity and ideological commitment to particular theoretical constructions (utility theory, marginal productivity) would be questioned, GAO set up a separate Division of Program Analysis, staffed almost entirely by economists and other social scientists. The new division is highly visible and is billed as a move toward better evaluative techniques for policy analysis, grander than the narrow accounting framework.

The conventional ideology (abetted by education and leadership) flourishes in the absence of an organized, alternative working class ideology. GAO, in particular, is completely insulated from any constituency other than Congress, so that a relatively weak mechanism is sufficient to secure the desirable cost surveillance without questioning the substance of state policy. While GAO exposés are useful for protest and struggle in the state sector, they cannot be initiated directly by a client group. Lacking responsibility for a particular government service to the population, GAO is not a bureau that offers a forum for struggle. Thus an agency with an aura of watchdog-in-the-public-interest is confined to rationalizing the production process in bureaucracy.

Case Study 5.
Data Generation: The Survey of Income and Program Participation: Health, Education and Welfare

by Grace Horowitz

HEW is in the process of planning an important new ongoing household survey of income, wealth and participation in welfare programs called the Survey of Income and Program Participation (SIPP). If carried out, as is expected, SIPP will probably replace the Current Population Survey as the major source of family and individual income distribution data in the United States.

This section analyzes the SIPP planning effort as an example of a data collection program, and as an activity that is essential to advanced capitalism generally and the welfare system in particular. I will show that data items, target populations, and survey methodology, selected apparently on the basis of "scientific" criteria, coincide with the interests of the capitalist class. The SIPP effort reflects

HEW's need to legitimize the welfare system and control the welfare population.

Presumably, data collection would be quite different if carried out in a different social system or by a different social class. In a socialist society, the data items and target populations selected would be those needed for the building of socialism, and specific information needed for economic planning would be gathered. Another way to look at the data collection process is to ask the question: suppose (by some miracle) radical social scientists could seize control of the multi-million dollar data collection process, what kinds of data would we want? In an income and wealth survey we would want, among other items, detailed data on income and wealth sources of the top one or two percent of the population who own most of the wealth and possess most of the power. SIPP, in fact, will focus its data collection effort on the poor, those people who are currently or potentially eligible for welfare benefits, and for comparative purposes, SIPP will include that segment of the population HEW calls "the middle class majority."

Class Analysis

In order to determine why the major income survey will concentrate on every segment of the population except the most wealthy, we must develop a class analysis to understand the purpose that data collection serves in a capitalist society. A class analysis of SIPP requires consideration of the following questions: Who asked for the survey in the first place? What is wanted from it? Who is paying for the survey? Who conducts the survey? And finally, who benefits from it?

HEW asked for SIPP; HEW is paying for it; and HEW gets the data months before any outsiders do. HEW needs new information for several reasons. In the last few years welfare expenditures have soared and no one has been able to predict annual caseloads. As a response to the crisis in welfare spending, President Carter has introduced major welfare reform legislation. HEW has long found the existing income base, derived from the Current Population Survey, inadequate for forecasting changes in welfare expenditures resulting from various welfare reform proposals or changes in economic conditions. SIPP will provide far more detailed data on income sources and amounts, demographic characteristics (marital status, age of children, etc.) and ownership of certain assets like homes, cars and savings accounts. These are all major eligibility criteria for welfare assistance. Using these data in its new Transfer Income Model (TRIM), HEW hopes to be able to forecast changes in welfare expenditures resulting from various welfare reform proposals or from changes in caseloads

due to changes in the rate of unemployment or other economic conditions. Academic bourgeois economists also asked for the survey. They want "better data" on a wide range of items including greater accuracy in wealth distribution data, particularly at the upper end of the socio-economic spectrum.

The Bureau of the Census carries out almost all government surveys and works closely with sponsoring agencies in developing questionnaires, field testing methods, etc. The actual planning effort for the SIPP survey is being conducted by both HEW civil servants and visiting academicians. These civil servants and academicians include professional economists, sociologists, statisticians, and public administrators, who consult for HEW, or who work as temporary or term employees hoping to eventually return to the academy. High-level officials and decision makers in HEW, the Census Bureau and, most importantly, the Office of Management and Budget (OMB) maintain control over the professionals who work on the development of the survey. All government surveys, including questionnaire forms, must receive prior approval from OMB, which is mandated to consider whether the survey meets the related needs of other government agencies.

When employed by HEW I worked on a study to prepare for the collection of wealth data items. As originally planned, the study was to include a complete literature search, an analysis of all other wealth surveys, and a preliminary selection of actual data items. I was told that the study should be exhaustive in its consideration of every possible wealth data item because SIPP might perform a major national survey of wealth, only the second in U.S. history and the first since the pioneering Survey of Financial Characteristics of Consumers (SFCC) fielded by the Board of Governors of the Federal Reserve System in 1962.

Except for the fact that the topic and scope were defined for me (a severe occupational hazard for government employees), the research project was similar to other scholarly research, with one additional category of inquiry: "data needs of other users." In order of priority, the survey must first provide the data needs of the sponsoring agency, in this case, HEW; then other federal government agencies; and finally other data users such as academic and private associations, subject, of course, to budgetary constraints. This simple statement of priorities will determine the substance of SIPP.

In the course of my research, I learned that bourgeois social scientists in the field of survey methodology are well aware of the fact that the most inaccurate and incomplete data on wealth holdings are for the top one or two percent of the population. In the SFCC only 7 percent of respondents with incomes below $3,000 refused to give financial data. Over half of all respondents with incomes above

$100,000 refused to cooperate. (A good example of class consciousness in operation.) State and local bond holdings reported on the SFCC were 60 percent of control totals; federal securities were 55 percent. From this it is clear that new techniques of record-checking would be most useful for the top wealth holders.

I learned very quickly that such data inadequacies were of little concern to anyone in the federal government; neither HEW nor any other federal government agencies nor Congress had any interest in collecting data on the rich. A tax on wealth is not on the Congressional agenda this session. The Internal Revenue Service is not interested in better data on wealth distribution to use for estate tax reform. HEW has no interest whatever in wealth redistribution.

In the normal workings of government, then, surveys will serve the needs of federal agencies whose structure and function reflect capitalist interests. Although SIPP is not consciously designed to exclude data on the holdings of the wealthy, no federal agency has requested that data nor do any need it. HEW does, however, need much better data on the poor, and it has limited funds for such surveys. HEW bureaucrats also perceive data on the rich as being of interest to academicians only. As no other agency has pushed for data on the rich, OMB, mandated to ensure that surveys serve the interests of various agencies, has not taken the initiative in requesting such data.

Therefore, although many important questions of survey design are yet undecided, I predict that SIPP will contain detailed questions on exactly those asset items included in program eligibility criteria. In order to provide the necessary detail HEW desires, that segment of the population potentially elegible for welfare will be oversampled. SIPP will concentrate its major efforts on getting accurate program data items on the assets of the poor. Responses of the high and middle income groups regarding home and automobile ownsership, savings and checking accounts, and one or two other items will also be collected. There will be no record checks and no detailed questions on the various kinds of securities, trusts, and investments owned only by the most wealthy Americans.

HEW intends to use the asset data along with information on income and program participation in order to do a better job of managing the welfare system. The study, if it goes according to plan, will help legitimize the asset portion of the survey by "proving" that those data items and population focus were chosen because they best served the actual needs of data users.

The study will help HEW prove that it can serve the poor while keeping welfare costs under control, and at the same time serve the needs of science by providing better data. The study legitimizes the survey; the survey ligitimizes HEW welfare programs; and the programs help legitimize the capitalist system.

Tentative Generalizations from Our Case Studies

Although each of the above examples of government studies was highly colored by its particular sponsoring agency, we should like to offer the following generalizations about the role of studies in the state.

1) Studies are frequently prompted by a real or potential conflict embedded in production forces and social relations under capitalism. For example, the Commerce Department undertakes a study of sugar tariffs anticipating conflict between subsets of capitalist producers—the sugar producers and buyers like Coca Cola. Or, an expansion of capitalist production involving state supplied infrastructure, such as roads, may require a justification or feasibility study.
2) Studies are not always undertaken in the interests of the capitalist class. Some studies support particular segments of capital against others. Some support the hegemony of capital as a whole without broad support from particular quarters of the capitalist class. Still others are undertaken as a result of working class pressure (e.g., the Labor Department). Yet other studies help oppositional groups mobilize their forces, as in the case of environmental impact statements. However, state studies, in general, produce results that are compatible with the capitalist system and frequently divert or undercut the demands of an oppositional group prompting them.
3) Some studies are wholly for internal purposes, intended to serve endogenous bureaucratic interests, such as its own expansion or the further complication and restriction of the political process to insulate bureaucracy from direct working class action.
4) Studies are advocatory by their nature. They are intended to legitimize a certain predetermined action or produce a palatable compromise between conflicting forces, or indicate the most effective way of achieving a certain class goal. The choice of objectives, terms, data, criteria, and forum for presentation all betray the advocacy of certain groups.
5) Studies rely primarily on the labor time of professionals, whose technical training and ideology are assets to the agency setting the task. Studies may involve bureaucratic conflict if professionals challenge their superiors on the nature of the task. Exogenous forces may provoke conflict if professionals are torn between careerist motivation and identification with clients.
6) Studies typically employ language and analytical constructs that render them inaccessible to some groups. Limited access is accompanied by restricted forums in which agencies disseminate study results. Even when not restricted, however, the use of bureaucratic style and technical jargon is deliberate; gobblede-

gook mystifies certain groups and parades as complicated analysis beyond the grasp of ordinary citizens.

7) The type of studies carried on by any particular agency reflects the historical evolution of that agency as well as contemporary forces. Frequently, as in the Corps, GAO and OEO cases cited above, a crisis or reordering of conflict in civil society will require a change in technique employed in agency studies.

As a whole, studies appear to be an important tool in maintaining the capitalist system. The state attempts to pacify angry unemployed workers or family farmers or welfare recipients with promises that their grievances will be studied, and their supporters in other groups can be deflected from their cause by compelling and sophisticated arguments. From the state's point of view, such ideological warfare is far more desirable than police power employed directly. Furthermore, the perpetrators of such propaganda are not always the obvious mouthpieces of the capitalist class; sometimes they are the young professional, the educated 'objective' researchers.

Studies, furthermore, perpetuate the basic ideology of capitalist society. For example, the bias toward quantitative evaluation reinforces the dominance of exchange values as a common denominator of life and experience under the capitalist system. At the same time, studies often reveal the alienation of knowledge and understanding in advanced capitalist society. The specialization of labor has bred segregation between and within classes, in both workplaces and communities, to such an extent that knowledge of the real world is inaccessible through personal experience and must be learned through the ideological channels provided by society—the press, educational institutions, the state. This paucity of unalienated experience and understanding allows hegemonic interests to make knowledge a production process in which professionals are employed as workers to produce facts, ideas, and information. The content is controlled through power over professional labor, much the same as all labor power is controlled. In general, the product of such studies is not objective truth scientifically arrived at, but ideological propaganda. These studies are the means by which the alienation of people from their own reality is extended.

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Footnotes will be generated upon request. Address enquiries to:

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Setting National Priorities: A Critical Review

*San Francisco Bay Area Kapitalistate Group**

Beginning in 1970, the Brookings Institution has published an annual series of volumes analyzing the federal government budget. Each annual study bore the same title, *Setting National Priorities*, with a subtitle referring to the particular year. The volume published in 1976, however, did not analyze the budget for fiscal year 1976-77. Instead, the book was titled *Setting National Priorities: The Next Ten Years*.

The basic assumption underlying this volume is that "the American political system, with all its faults, has been a marvelously effective tool for providing both freedom and governance" (p. 13). However, since 1965 this belief has been sharply eroded partly because of failures (Vietnam and Watergate) and partly because of semi-successes (the Great Society and detente) that failed to fulfill exaggerated expectations. "Skepticism about government's ability has been accompanied by suspicion about government's intentions" (p. 1). Therefore, the task Brookings sets for itself in this volume is to clearly distinguish between what the government can and cannot accomplish in responding to problems which fall within its domain.

The broader scope of the 1976 study coincided with a Presidential election and the likely return of the Democratic Party to the White House. After the election, when many of the Brookings people moved into the new Administration, and many of their policies showed up in Administration proposals, we saw the 1976 edition of *Setting National Priorities* as an important volume to study. In addition to being a statement of current liberal public policy, it seemed to provide some clues to the likely direction of the Carter Administration. We then decided to do a collective analysis of the book, outlining the implications it draws for the future of cold war liberalism, technocratic administration and the political order in the United States.

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* Members of the group are Jens Christiansen, David Gold, James Hawley, Michael Kimmel, Clarence Lo, John Mollenkopf, Patricia Morgan, James O'Connor, Patrick O'Donnell, Kay Trimberger, and Alan Wolfe. We would like to thank a former member, Madeline Landau, who contributed to earlier stages of the project. An earlier version of this paper was circulated among all active *Kapitalistate* groups. We received helpful comments and suggestions from the *Kapitalistate* groups in Washington, D.C. and at the University of Warwick, Coventry, England.

Setting National Priorities contains a major statement by one of America's most prominent elite advisory groups. Since Brookings has been one of the principal sources for the formulation of liberal ideas and programs for half a century and has had substantial influence over successive Democratic administrations, it is important to summarize the remarkable changes that the Institution has undergone in the past several years. In many respects, the changes at Brookings reflect the profound changes in American liberalism. Perhaps even its demise.

The Brookings Institution was founded in 1927, with the merger of several smaller research institutes. The 1920s was a period glorifying scientific management, particularly in business and municipal reform. The founder, Robert Brookings, was a St. Louis capitalist who advanced these technocratic ideologies and was dismayed at the lack of technical expertise in the federal government. Robert Brookings' new institution was set up to advance these policies on the federal level.

Although the institution began as a graduate school and research organization, its reputation was soon established primarily as a major source of social science research. In the 1930s, for instance, Brookings established what is still a prominent view of the sources of the depression, analyzing the limited consumption potential of the economy in the 1920s. In the late 1930s and during World War II, Brookings, along with other organizations such as the Committee for Economic Development, the National Planning Association, and various government agencies, was a location for policy formation for post-Depression and post-War economic development. Keynesian economics, in the form domesticated for U.S. use, was implemented largely through the efforts of economists in these organizations within the government and at several key universities.

After the war, a Brookings economist, Edwin G. Nourse, was picked to head the new Council of Economic Advisers. Although not a Keynesian and not very political, his appointment represented an important precedent. From then until the present, Brookings has been closely associated with Democratic Party policy research and implementation. Many of the top Kennedy and Johnson people either came from Brookings or joined Brookings upon their departure from government. Moreover, many of the top Carter Administration people have come straight from Brookings. The image of Brookings as a Democratic Party stronghold was enhanced when the Institution appeared on the list of enemies of the Nixon administration.

Although that image has a lot of reality behind it, and many

people have participated in the two-way flow between Brookings and Democratic Administrations, there have been strong links as well to the Republican Party. Brookings people served in the Nixon and Ford Adminstrations and several Ford officials have joined Brookings since the recent change in Washington. In addition, the new president of Brookings has indicated there would be additional Republican recruitments, apparently in response to "complaints from friends in the business world" that the Institution is biased toward Democratic Party policies and ideas (New York *Times*, April 3, 1977: 3).

It is beyond our scope to accurately assess Brookings' importance in U.S. politics. There is no doubt, however, that Brookings is now a main source of ideas and personnel for both the executive and legislative branches. (Both the Congressional Budget Office and the Council of Economic Advisers are headed and heavily staffed by Brookings people.) Almost all of the institution's research and publication is geared toward the analysis of state policy and the work of the researchers is often given wide publicity. Many of the ideas that originate within Brookings later surface as proposals and policies of the government.

Importantly, Brookings quite self-consciously has seen itself as a major influence on state policy. In 1960, Brookings prepared a series of memoranda to aid in the transition to the Kennedy Administration, but these were not made public. Their 1968 book, *Agenda for the Nation*, was viewed as an attempt to influence the administration that was to take office in 1969. (The assumption is that they felt this new administration would be headed by Humphrey, not Nixon.) In 1968, and then annually starting in 1970, their advice and criticism was open to all in their *Setting National Priorities* series.

Besides influencing the formation of state policy, Brookings also has an important role in legitimation. The fact that a prestigious "think tank" like Brookings acts as if it has solutions to important problems is an important appearance which tends to legitimate state policies. More substantively, Brookings brings together public officials with business leaders and academics, allowing them to be educated in the latest directions in state policy. Attempting to strengthen Brookings' ties to the business community, the new president of Brookings, Bruce MacLaury, has begun to organize summer seminars for businessmen around the content of *Setting National Priorities*, hire economists with close ties to the business community, censure left-leaning Brookings reports, and increase funding from business.

Brookings' recent turn to the right is symptomatic of a wider malady—the contemporary failure of cold war liberal policies. By cold war liberalism we mean increasing government social and mili-

tary spending in order to expand both domestic and international aggregate demand. This supposedly leads to higher employment and economic growth which in turn fosters the further expansion of state programs. The domestic upheavals and the protracted war in Vietnam left liberal programs, policies, and ideology in shambles. Even before the Nixon presidency, numerous liberals had begun to retreat from the high hopes and expectations of the Kennedy and early Johnson Administrations. Some joined in the passage of the Green Amendment, which reduced popular participation in federal programs, and the Safe Streets Act, which initiated the shift from reform to repression. When the Nixon Administration came to power, the cold war liberals often complained about specific aspects of Nixon's policies and yet acquiesced in the overall drift of his efforts.

In 1976, when it looked like the presidency would once again be in the hands of a Democrat, many prominent liberal theorists and practitioners came forward to offer their ideas, skills, and services to the new Administration; but by then they had abandoned their own earlier liberal tenets, had accepted the counterrevolution, and were seeking to carry it forward in a smoother, more effective manner. In response to the economic, fiscal, and social crises currently plaguing American capitalism, these former liberals seem to have shed the last vestiges of their previous ideology and programs.

"Things have changed," (p. 323) as Charles Schultze expresses it. This is the most revealing sentence in the Brookings analysis, for liberals have been reluctant for a considerable period of time to recognize that changing conditions might make some of their approaches irrelevant. First, the U.S. capacity to respond to world crisis is no longer certain. While this is the basis for a revision of foreign policy, it also has important domestic repercussions. ("Foreign policy has almost disappeared as a distinct and specialized realm," Graham Allison and Peter Szanton point out in their chapter. p. 228) The greater interdependence in the world makes it harder for the U.S. to consider domestic policies in isolation from the rest of the world. Second, the U.S. capacity to respond to domestic pressures for reform is also no longer certain. The question of how far welfare state and government spending should go must, in Schultze's analysis, be reassessed. Just as we cannot fight all foreign enemies, we also cannot fight every social problem. Finally, because at the moment it is not clear which way the U.S. will go—because there is no consensus uniting foreign and domestic policy on the surface—there are serious problems of legitimacy. The American population is suspicious and distrustful. Leadership must be provided so that Americans understand the need for the crucial decisions which will have to be made over the next ten years.

Phrased in this way, the book amounts to a critique of U.S. foreign and domestic policy since the 1960s. It is a call to recognize the limitations of the Democratic Party's commitment to cold war liberalism. It suggests that if one takes both the cold war and liberalism to their extremes (which Lyndon Johnson essentially tried to do) the result is that neither is achieved. What we need, therefore, is discrimination, i.e. a *selective* cold war and a *selective* New Deal. But how can policy approaches be legitimated when they are only selective in their application? This is a major problem, which deserves serious thought. In general, Brookings has no answer to it.

The extent to which Brookings has retreated from its earlier cold war liberal position is perhaps nowhere more evident than in the pages of the 1976 edition of *Setting National Priorities*. The chapters on both foreign and domestic policy reveal at least three important changes: 1. the retreat from Keynesianism as the answer to national economic and fiscal crises; 2. the abandonment of the Great Society type programs that were a key feature of earlier liberalism; and 3. a greater reliance on essentially technocratic or managerial approaches to dealing with both foreign and domestic problems. In the sections on Domestic and Foreign policy we attempt to outline the rationale for these policies, and in the concluding pages we begin to analyze their interconnectedness in relation to the bankruptcy of cold war liberal ideology.

Domestic Policy

The chapters on domestic policy follow similar organizational patterns. First, the source of recent problems in the area are outlined. This suggests that policy as usual may no longer be working, but the Brookings analysts stress the necessity to ascertain choices in a more realistic manner. Then, there are suggestions designed to reconcile various contradictions in each policy area. The suggestions, however, are not nearly extensive enough to solve the problems which are outlined. Therefore, each chapter comes across as a fairly acute statement of what the problems are, accompanied by an indirect confession that the authors really have no fundamental solutions for any of them.

Chapter seven on stabilization policy provides an excellent example of this approach. George Perry first reviews the centrality of stabilization policy since the Employment Act of 1946. Keynesian techniques at one time promised an end to all domestic problems, promising that we could have continued prosperity without high inflation. That optimism is no longer warranted: "however well demand management worked for much of the postwar period, it is painfully obvious that the conflict between high employment and

price stability has steadily worsened in recent years" (p. 272). Perry provides a chart which tells the story at a glance. In 1967 the Phillips curve trade-off came to an end for the first time since 1950. Unemployment and inflation began to rise together. This suggests an end of innocence for American fiscal and monetary policy. This also means that the whole approach has to be rethought.

Considering the way in which liberal economists heralded the new economics, one would have thought that its obituary would be more moving. Perry casually dismisses an approach which at one time promised nothing less than to save capitalism. Given how central fiscal and monetary policy was to liberal policy, it is surprising that Perry proposes little to overcome its revealed limitations: "Today's continuing inflation poses serious problems for stabilization policy," he notes (p. 309). Apparently, however, serious *solutions* pose too many political problems. Wage and price controls, perhaps the only thing that can work, are completely rejected because of the political opposition to them on the part of business and organized labor. Having rejected the only possible solution within a capitalist framework, Perry only makes stabs at a shadowy target. Wage-price guidelines are suggested, even though voluntary programs have never worked. Tax reduction is suggested, even including a reduction in the payroll tax. A proposal to use tax policy to punish employers who give wage increases (thereby bringing down the state against the working class but in an indirect fashion) is endorsed. There are some plans directed to price stability, including government stockpiling and attempts to shield U.S. prices from the effects of world markets. Taken together, the various proposals are gimmicks which do not come close to solving the problems which Perry himself recognizes. The chapter can be read as a statement that if Keynesianism does not work, liberal economists have nothing to offer in its place.

Significantly, the Brookings' approach to price stabilization has already entered into the Carter Administration in April, 1977. Charles Schultze, Chairman of the Council of Economic Advisors and former Brookings economist, presented the anti-inflation plan, or what passed for a plan, to reporters. Carter and his advisors steered clear of anything that resembled wage and price controls. Even efforts to get business and labor *voluntarily* to keep prices and wages down were severely limited. In addition, a proposal for Administration officials to engage in an industry-by-industry discussion over pending wage and price decisions was eliminated when business and labor leaders objected. The rest of the package consisted of a bundle of long-standing government commitments to restrain government spending and deficits, revise government regulations to make things easier for business, and avoid import restrictions. The *Los Angeles Times* candidly said that the anti-inflation package consisted "mainly

of policies that [Carter] or his aides had advanced before and that were in large part extensions or modifications of moves proposed or undertaken by Carter's Republican predecessor, President Ford" (4/16/77). When at the news conference Schultze was asked if he wasn't proposing an old, worn-out bag of tricks, he responded rather lamely by saying that the inflation package was a practical, effective set of responses to the problem. One advisor who had worked on the package was more forthright, saying "I personally believe it's a failure."

Schultze's chapter on federal spending (Chapter 8) is another statement of the bankruptcy of orthodox liberalism. Although he asks if the budget is out of control, his analysis makes clear that it is not the budget but people's expectations about what government can provide which is out of control. Actually, as Schultze shows, the federal budget has remained at a relatively constant share of GNP since 1955. Moreover, most of the budget can be subsumed into four categories: defense, interest on the debt, individual payments and grants-in-aid. The latter two are the major sources of growth, and much of this comes from policies requiring no new legislation. Thus, the problem lies not in current policy, but in rising expectations. The fear is that people will continue to demand things which cannot be given, thereby pushing up the state proportion of GNP. Schultze makes the point that the current proportion must be held constant. Thus, not every demand can be met: "What is needed is discrimination in separating the things the federal government can do and should do from those it either should not do or cannot do effectively" (p. 369).

The important proposition which Schultze advances here is a negative one: liberalism cannot promise as much as it used to. But there is more. It would be possible to use his analysis to this point to suggest that discrimination might mean sacrificing defense spending in favor of social welfare. Or it could mean that we need a whole new social welfare policy which would not be as wasteful as the present one. It could mean, in short, any one of a number of things if he were willing to provide some imaginative openings. But he does not. First, he accepts as fact the notion that defense cannot be cut any more than it has been. In so doing, Schultze, like Perry, refuses to accept realistic options because they present a major political challenge. Having cut off one meaningful possibility Schultze then proceeds to cut off all the others. There are no calls to reexamine the basis of social policy. There is no analysis of the political demands behind state spending policies, or the political direction of postwar America. Schultze simply accepts his role as technocrat. But since the problems are not technical but political, he excludes any method of solving them. Thus, the chapter on federal spending does not

consider the possibility that the welfare state can no longer promise people a better life. The serious legitimation problems which are implied by the analysis in this chapter are not recognized.

The same pattern is present in the chapter on Energy and the Environment by Marc Roberts and Richard Stewart. It is a good example of the trade off mentality which seems to have captivated Brookings. The chapter starts by outlining five elements which must be kept in balance: short-run economic efficiency, questions of income distribution, problems of irreversible decisions, technological questions, and foreign policy and national security matters. Having said that, the chapter then goes on to ignore most of these concerns to concentrate on one essential trade off: energy and environment. Their concern is whether further increases in energy sources will harm the environment, and if further environmental protection will lead to less energy. Actually, however, the authors do not really address the issue.

Roberts and Stewart ignore the basic political issues that are at the heart of the environmental movement—the resistance to private business control over oil and other energy sources, the opposition to the classic energy policy of the capitalist system, higher profits for energy producers, and the insistence that the question of new energy sources with its far reaching social impact requires democratic decision. Instead they suggest what could be called a "Schultzian incrementalism:" a policy incentive approach designed to obtain particular intermediate goals. For example, they suggest that electric utilities have been too concerned with reliability (alternative generators and other expensive ways of keeping the energy flowing), and should care less about customer inconvenience and more about reducing expenses. Also, they totally endorse high taxes on gas and an elimination of subsidies on cheap gas products, in line with Carter's recent pronouncements. They argue—but never prove—that this will decrease gasoline consumption. This suggestion, of course, would have no effect on demand, but would increase income maldistribution. They therefore suggest another Schultzian increment, more welfare or tax breaks to the poor. Roberts and Stewart, then, seem to be piecemeal reformers, stitching together a bit here and a bit there.

On the "conflict between the demand for energy and environmental protection goals" (pp. 451-2), they no longer suggest small reforms but major policy choices. Here they decide that the environment is crucial, the most important thing of all, but that maybe it can be sacrificed a little. "Such considerations do not justify a flat refusal to qualify or moderate present environmental standards" (p. 452). In short, they feel the government has been too strong in protecting the environment and now needs to develop "more realistic

timetables" (p. 452), and other euphemisms for killing off environmental policy. They then develop a rational model of which standards should be relaxed based on various criteria like efficiency and income distribution. Although very technocratic, this discussion is also very vague and offers little of substance.

Overall, Roberts and Stewart seem to be suggesting that the kind of hard trade offs they offer "require a level of political leadership and a degree of policy sophistication that has not been much in evidence in America in recent years" (pp. 455-56). Thus, they are doing two things: flattering politicians like Carter and telling the world how important policy sophisticates like themselves are. In other words, energy policy should be made by economists trained in public choice models.

The trade off approach also dominates the overall discussion in the chapter on income security. Here John Palmer and Joseph Minarek—writing like good liberals—argue for a compromise between equality and efficiency, the two dimensions of the trade off. The chapter "deals with the distribution of income among individuals and households," specifically: (1) preventing "involuntary disruptions in earnings;" (2) facilitating access to indispensable services like health care; (3) alleviating poverty; and (4) narrowing income differentials (p. 505).

Their proposals for reform cover three areas, social security, welfare, and taxes. Technical and administrative reforms dominate all three. With regard to taxation, they present the standard list of liberal proposals designed to impart greater progressivity, with absolutely no recognition that the problems are not technical or economic, but political. With welfare, they opt for a major overhaul, designed to simplify administration, reduce work disincentives (after admitting that such disincentives are probably minor), and shift everything toward a cash grant basis. They criticize food stamps, for example, as administratively wasteful, discriminatory against the very poor because of the cash purchase requirement, rife with potential for fraud, and so forth. Although this may be true they earlier listed food stamps as one of the programs that was instrumental in providing minimum living standards for all. The recommendations carry no recognition that, while food stamps may be administratively and economically inefficient, compared to direct cash grants, they are also more politically acceptable.

Overall, Palmer and Minarek fail to project the current economic stagnation into the future, and what effect this would have on poverty levels. They stay firmly within a business cycle framework, seeing relatively short ups and downs but no long movements. For instance they mention—but do not analyze—the problem of poverty among female-headed households. Although they recommend some

major overhauls in state policy, their analysis has strong elements of benign neglect. They seem to suggest that because progress has been made in the past, policy should now be designed to emphasize economy in government. This chapter makes clear that their recommendations are designed to make the state conform more closely with market incentives—reduce the distortions caused by state intervention as well as the delegitimation caused by the welfare mess and the "special interest" tax system.

One final example of the limits of Brookings' analysis in domestic policy is the question of governmental reorganization. The chapter on state and local government argues that because continued growth in state and local spending may not be possible in the future, the problem becomes one of holding it down now. Like Schultze, Emile Sundley, Jr., who now works in the Treasury Department, tends to ignore the political pressures behind rising state expenditure. In short, the analysis does not recognize the crisis conditions in many American communities and therefore has no proposals to offer for a national urban policy. Considering their voting support in the cities, Brookings has very little to offer a Democratic administration about urban policy. They are limited to suggesting technical details in funding proposals.

The chapter which deals with reorganization within the national government is more interesting. Graham Allison and Peter Szanton deal essentially with the question of executive power in light of Vietnam and Watergate. Their basic argument is that although those two events damaged the reputation of strong executive leadership, the U.S. position in the world still requires a strong presidency. The central question is one of organization. However, the policy making process has been so shocked by Vietnam and Watergate that a collective affirmation by specialists on the need for reorganization is required. They seem to suggest, however, that not government, but public opinion about government is the central issue behind reorganization.

The authors want to continue trends which strengthen the executive and the president. This means denigrating the power of both Congress and the Cabinet. For the former, they suggest that a "final objective is to expand the role of Congress in some areas and to enlarge the discretion of the executive in others" (p. 250). (Their analysis is similar to the proposition that since women are better housewives and men are better wage earners, harmonious relationships between them will be assured if each specialized in their stronger task.) For the Cabinet they suggest an ExCab, an executive committee of the Cabinet composed of the major secretaries. Thus, demands for funds could be kept down, because the President would coordinate requests only with this supercabinet. Even though

opposition from vested centers of power would have to be dealt with to achieve this goal, the authors do not have any ideas on how to handle this political problem. It is clear from this chapter that the authors share the Nixon quest for a neo-Hamiltonian presidency, one capable of making policy without the direct intervention of domestic constraints.

The chapters on domestic policy confirm our proposition that cold war liberalism is bankrupt. Although Brookings identifies the crucial areas of domestic policy, it also reaffirms the directions of the Nixon era, even though such a platform brings with it enormous political problems. It means altering all the major trends in domestic policy since the New Deal. It means reformulating ideology, finding a new consensus and new sources of voting support, and developing new strategies to control the working class. None of these questions are dealt with in this volume. It is obvious from this analysis that the problems for the ruling class these days are political, not technical, and that think tanks like Brookings may be simply unequipped to solve them.

Implicit in these chapters is the notion that democracy is not working. Policy, in the past, has chosen the easy path; people have not made the right decisions. Therefore they suggest that domestic strategists should now opt for technocratic concerns, not ideology, as the proper sphere of manipulation. Because they accept the capitalist mode of production, strategists are forced into a trade-off mentality. Finally, Brookings asks the public to accept these trade offs. Importantly, this new strategy requires a new consensus, but there is no new ideology around from which a new consensus could emerge.

Foreign Policy

The chapters on foreign policy can also be grouped around similar organizational themes. Current political and economic relationships are outlined as the ones that will dominate over the next ten years. The result is a laundry list of existing relationships and tensions, and current ideas for their continuation or resolution. The most interesting aspect here is what these lists include and what they leave out.

Each of the main foreign policy chapters is based upon the assumption that the United States has been and will continue to be the most powerful nation in the world. Political, economic, and military difficulties of the past decade are not seen as having lasting effects. The main force that raises potential opposition to the world standing of the U.S. is the Soviet Union and, while the tone of the analysis is softer, much of what is written here is reminiscent of the 1950s.

The relatively benign tone of these chapters is due, in large part, to selective neglect. Many potential sources of conflict are simply not

discussed. To give one particularly blatant example, the chapter on prospects for military conflict ("Peace or War" by Henry Owen) does not even mention Southeast Asia, a striking illustration of rapid amnesia. The overall sense of these chapters, that U.S. policy can be geared toward maintaining U.S. dominance, may well be the result of a choice on the part of the Brookings authors to ignore some of the most important areas of potential threats to that position.

Owen's chapter on potential military trouble spots is a good example of the laundry list approach. The presence of the Soviet Union dominates this chapter. The main potential trouble spots are the Middle East, Europe, both East and West, and North East Asia, which basically means Japan. Almost the entire Third World is ignored, an incredible omission given what has been happening in Asia, Latin America, and especially Southern Africa. Although the chapter is designed to cover only areas of possible military conflict, and not all issues of foreign policy, the implication is clear. Brookings' approach is to downplay the importance of the Third World to the United States. They may reflect a lesson learned from Vietnam, but it may also imply an alternative strategy for Third World dominance, one based more upon the market, and less upon the state.

The chapter on world economy also stresses maintaining the present position of the United States. Thus, many of the threats to that position are ignored or downplayed. Although there were numerous shocks in the last decade, Edward Fried and Phillip Trezise conclude that "the main economic forces and trends of the past quarter century are still discernable and the habit and practice of international cooperation appear to be more firmly in place for having weathered so severe a test" (p. 168). The assumption in this view is that the U.S. is still more than first among equals.

The main areas of concern in the world economy are food, oil, East-West relations, foreign investment, aid to developing countries, and international monetary reform. All of these are part of a more general interest in maintaining open and extensive world trade. The arguments for trade are very traditional—all parties benefit from the free flow of goods and services, there is no unequal exchange or relations of dominance, cartels are not likely to be long lasting, and monetary arrangements should support, and not hinder, trade. However, a nationalistic perspective appears on the issues of food and oil, and in both cases they argue that the free market is not sufficient to solve the problem. Policies are needed, for instance, to increase food output, and to organize against the pricing power of OPEC.

According to the Brookings analysts, then, the world economy will survive quite nicely if the basic principles of free trade are adhered to, the lessons of the thirties are learned, and domestic

pressure for protectionist legislation is defeated. Consistently ignored are the problems that have destabilized the capitalist world economy for decades—the continuing demands of the less developed nations for better economic conditions, the economic crises in advanced nations like England whose international position is declining, and the domestic politics of the U.S. that perpetually prevent the government from lowering tariffs, granting foreign aid, and performing other actions necessary to stabilize the world economy.

The other major foreign policy chapters have as their subject matter nuclear proliferation (by Philip J. Farley) and defense policy (by Barry Blechman and three associates). Here again, the Soviet Union dominates the line of argument. The chapter on nuclear proliferation is concerned with the probability of regional conflicts exploding into world-wide ones. Therefore, both the U.S. and the Soviet Union have a common interest in managing the growth of nuclear weapons. The main policy initiative proposed by Farley is a more vigorous effort on the part of the two Super Powers to cooperate in this task, to convince other countries that it is in their interest to forego the development of nuclear capabilities, and to reward them with other benefits, such as increased access to non-nuclear fuel.

In the chapter on defense policy the Soviet Union is much more clearly in the role of antagonist. An increase in Soviet arms production is accepted as a fact which the U.S. must respond to. The two decade long drop in U.S. military capability—measured by taking military expenditures as a percent of total government spending and as a percent of GNP—must be reversed and put as a top priority of budgetary policy. (There is a clear link between this proposal and the remainder of the federal government budget; Charles Schultze takes the coming rise in military spending as a given in his analysis of the future directions of the budget. cf chapter 8.)

The underlying substantive theme of the foreign policy chapters is that things must continue. The world economy and world political and military alignments currently favor the United States. The policies advocated by the Brookings authors are designed to keep it this way. In part, this relatively optimistic view is derived from planned amnesia—key areas of potential conflict are ignored or downplayed. But there is also the recognition that, relative to where things were in the early 1970s, the U.S. has become stronger, and the world order more solid.

Technocrats and the Political Order

The underlying theme of the main domestic chapters of *Setting National Priorities*—that things must change—appears to be the

opposite from the foreign policy chapters. The domestic political and economic scene is taken to be quite different from a decade ago and the task of government policy is to adjust to these changes. Since both themes are implicit, it is not always clear how they were derived or how they relate to each other. There are, however, some general thoughts which can be linked together.

For one thing, the Brookings analysts have abandoned Keynesianism. For roughly forty years, Keynesianism served as a theoretical framework that made liberal economic policies and programs seem feasible. The Brookings Institution, as we have mentioned, played an important part in popularizing Keynesian ideas. At its base, Keynesianism offered the hope that positive government activity, by stimulating demand, could stabilize American capitalism, insure full employment, and maintain high levels of economic growth. Yet, without ceremony or even an obituary, Keynesianism has been allowed to die. Today, the Brookings analysts (and the Carter Administration that depends upon them) repeatedly stress that the private sector must lead the recovery from the current economic crisis. Likewise, in foreign affairs the Brookings analysts have accepted that the free flow of trade must be the cornerstone of America's international economic policy. To be sure, they feel that a residual amount of state sector action is needed around petroleum and certain other commodities; but, even in those areas, they do not see the U.S. as the dynamic world leader which cold war liberalism once envisaged. In short, in a major turnabout, the Brookings analysts are now calling for the public sector to take a back seat and allow the private sector to pull America out of the economic crisis. Nowhere do they ask the question that liberals raised during the Great Depression: Is it not likely that private capital is incapable of getting us out of the crisis?

The Brookings analysts have also abandoned the Great Society type programs that were a key feature of earlier liberalism. In *Setting National Priorities* volumes published a few years ago, there was still some interest in restoring such programs. But by last year, they had been virtually forgotten. The 1976 book basically opts for a reordering of priorities within the framework established by the Nixon Administration. It is not even very clear that much reordering is possible. For example, in his budget analysis Charles Schultze suggests that no new programs are possible unless some of the existing programs are dismantled. At the same time, Schultze says that the principal existing programs, in particular defense, cannot be cut back, much less eliminated. Obviously, not much is going to change. If the creation of new social programs or the expansion of existing ones has been an earmark of liberalism, then what is now being advocated by the Brookings people can hardly be called liberal.

Most importantly, Brookings analysts have opted for an essentially technocratic or managerial approach to dealing with problems. Such an approach undoubtedly reflects their suspicions of popular electoral politics. Their emphasis on a managerial approach dovetails perfectly with the preferences of Carter and his Administration. Furthermore, they share a common distrust of Congress which still contains many old-style, New Deal liberals and responds to pluralist demands from lobbyists and the electorate.

Besides forcing many political scientists to revise their outdated textbooks, this new development raises serious questions about the representativeness and responsiveness of the executive branch to political parties and to popular pressure. The attempt to mold a plebiscitory presidency, based on a tightly organized and centralized administration, began under Richard Nixon. Although Nixon did not pull off his coup attempt, the Carter Administration—with the help of Brookings and the acquiescence of Congress—seems to be in a much better position to achieve an entirely new, streamlined, and authoritarian form of executive leadership.

It is now becoming very difficult to distinguish former liberal policy makers from their longstanding conservative antagonists. Both groups now overtly rely on the private sector to take the lead, line up behind a strong defense posture, and are suspicious of detente. In addition, both groups show indifference or even hostility toward the protection of human freedoms and the extension of popular participation. More basically, both groups show a deep-seated fear of popular upheavals and mass movements either at home or abroad. The convergence of liberalism and conservatism into a technocratic mold is exemplified by the integration of more Republicans into Brookings, and the increasing indistinguishability of the kinds of advisors and advice that are adopted by Republican and Democratic Administrations. Although some of the right wing's conservative policies still have a strongly symbolic and ideological flavor, the ex-liberals almost totally wrap their conservative policies in a pragmatic, technical language. Their stock-in-trade is peddling the idea that *they* (not politicians, not the people) can "set the national agenda," order priorities, pick the winnable battles, and move towards the solution of national and international problems. The fact that both the ideology of the old-line conservatives and the programs of the ex-liberals are teetering on the brink of total bankruptcy is a fact that both groups have kept secret mostly from themselves, though hardly from their critics.

The policy makers at Brookings have worked hard to put together a technical response to the current dilemmas of capitalist society. In so doing they have—in both foreign and domestic policy—relied heavily on a trade off or a mini/max strategy. Thus, they have laid

out a comprehensive scheme for a strategic retreat from the position which they themselves held a decade ago and which failed so badly. In this more conservative approach to handling problems, they have presented an "apolitical" agenda for policy makers. Therefore, some problems and places are de-emphasized—such as American cities, Southeast Asia, and the soaring private debts of the poorer nations. This allows them to focus attention on what they believe to be the most immediate areas of concern: nuclear proliferation, the defense budget, NATO, and the ties among the trilateral nations. Therefore, a mini/max or trade off strategy suggests that the U.S. should cut its losses and intervene selectively only where it can gain the maximum advantage. Much of this strategy has become official policy under the Carter Administration.

Setting National Priorities is a failure from the point of view of socialists, as well as liberals, but also, surprisingly, from the point of view of capitalists. The careful technocratic efforts of the Brookings analysts fall far short of an adequate response to the current crisis of capitalism. Despite the seemingly ambitious nature of their undertaking, exemplified by the book's subtitle "The Next Ten Years," their analyses are almost entirely short-run. In some areas (e.g. the budget), they look as far as five years ahead. But, for the most part, their analyses and proposals are responses to a series of immediate problems and threats. There is no long-run vision or plan in what they write. The apparent strong point of their approach, namely their focus on manageable policy options, is also their weakness. The Brookings analysts consistently avoid coming to grips with any of the real structural problems confronting America domestically or abroad.

If cold war liberalism managed to endure for several decades before falling apart, the successor which Brookings proposes will be lucky to last several years. Cold war liberalism as represented by Brookings' former self depended for its life on a mutual interdependence between a Keynesian type of domestic policy and a hegemonic, interventionist U.S. foreign and foreign economic policy. A stunning commentary on the Brookings new vision is that the cold war strategy remains intact, while the liberalism is dropped. Thus, the nature of the interdependence between the world economic and political order, and U.S. domestic policy becomes a new problematic for Carter and his Brookings advisors. Yet this problematic is not addressed, nor is even recognized by the Brookings studies. Perhaps the most important issues raised anew are the international economic and foreign policy implications of the end of Keynesianism in the U.S., Western Europe and Japan. The various proposals of the Trilateral Commission for supra-national policy coordination and/or institutionalization of national policy apparatuses remain as yet untried and unsuccessful—at most a fair weather strategy in the face

of growing protectionism, restrictions on trade and a world economy yet to recover from the deep recession of 1974-75.

These and other questions which arise from a reading of *Setting National Priorities* raise the larger political question: What is likely to be the successor (if any) to cold war liberalism? If liberals are increasingly fiscal conservatives—which implies a fundamental social conservatism—from what sources will emerge a neo-liberal alternative? Or will it emerge at all? The answer to these questions is beyond the scope of this essay, but nevertheless they remain at the heart of what ever is likely to be the political direction within the U.S. in the next ten years. A possible gap in the political spectrum on the liberal end gives the socialist left numerous possibilities which have not existed in this country for at least forty years. In place of a probing of these questions Brookings' underlying premise is that it will be possible to forge a strategy for governance that will be implemented almost entirely by a close-knit, technocratic, decision-making elite, who will raise no great expectations among the people.

In fact, the elite's success depends upon perpetrating the cynicism, apathy, powerlessness, and indifference of the people at large. The difficulty of maintaining legitimation in a capitalist society will supposedly be handled by simply avoiding problematic efforts to incorporate or integrate blocs in that society. Specific issues and problems will be solved on a piecemeal basis, according to their own agenda. The decision-makers will not undertake—or even discuss—any issues which they cannot handle.

The preceding approach rests on the naive assumption that an elite of decision-makers can administratively control and guide the process of change. Yet, as the foregoing discussion has pointed out, the Brookings analysts themselves are merely responding to earlier crises of American and world capitalism; and, far from gaining control over the dynamics of capitalist development, their own current position lets the course of development proceed unhindered and unguided. Hence, to think that they can keep the contradictions and tensions of capitalist development in check, is at best extraordinarily simplistic. Also, the strategy of the Brooking analysts rests on the assumption that there will be little or no politics to contend with. When politics rears its ugly head, the answer is either criticism or selective amnesia. Thus the Brookings analysts display fairly overt hostility towards Congress, and put forth an agenda that has no place for cities, blacks, labor or, in other words, all those groups that have classically made up the Democratic party and that recently got Carter elected President. In a sense, the Brookings analysts' apolitical, managerial approach corresponds pretty closely to the orientation of the executive branch in recent years. Both suffer a real disjunction from the political process which plays into the breakdown

of the party system as a mediator between the government and the people. (See the essay in this volume on modern political parties for a further discussion of this last point.)

To the extent that the top-down strategy of the Brookings analysts works, the distance between the government and the people will widen. This, in turn, paves the way for a major legitimation crisis in the years ahead. On the other hand, it is not altogether clear that the top-down strategy of crisis management proposed by Brookings will work very well even in the short run. Soon after Carter got into office, congressmen started criticizing the kinds of ideas he was getting from his advisors. Already in January, one congressman accused Carter of taking "bum advice" from a "bunch of conservative economists." By April, Carter had been forced to back down on his tax-rebate proposal and to accept most of Congress's pork-barrel dam projects. The chorus of criticism has now widened. Labor and black leaders, businessmen, academics, and the press are now freely criticizing many of the Administration's proposals. Eventually, the voice of discontent from the bottom—the unemployed, the minorities, the young, the urban dwellers—will once again be heard. And at that point, the carefully worked out strategy of the Brookings analysts will be revealed for what it is—the pipedream of a group of beleaguered technocrats.

Typology and Class Struggle: Critical Notes on "Modes of Class Struggle and the Capitalist State"

*Capitol Kapitalistate Group**

The following critical response to the article by Gosta Esping-Andersen, Roger Friedland, and Erik Olin Wright arose from our discussions in the Capitol Kapitalistate Group on the article itself and from our general discussion of the condition and role of modern Marxist theory in understanding and supporting political struggle. First, we note the strengths of the article, especially its effort to lead us away from imitations of bourgeois social science methodology and back towards the richer Marxist method focused on historical and dialectical approaches. The central place accorded class struggle within the historical process that shapes the state seems to be a necessary and long overdue restoration of the Marxist concept of human agency.

We take issue, however, with the methodology used by Esping-Andersen, *et al.*, especially their emphasis on constructing a typology of class struggle (198ff). While thought provoking, their typology appears to be static and undialectical, reproducing some of the methodological shortcomings of bourgeois social science. We also question the notion "modes of class struggle" and the specific interpretations of the Marxist concepts of circulation and commodification. We offer both a sketch of the problems in their scheme and suggestions for a possible focus of attention, but do not pretend to have produced an alternative framework.

Self-Conscious Theory

Esping-Andersen *et al.* could better exploit the self-conscious nature of Marxist methodology, the unique superiority of which has always lain in an ability to self-consciously see its ideological role. An emphasis on the self-conscious and dialectical nature of this methodology would both strengthen their critique of structuralist and

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instrumentalist approaches to state theory and lessen their tendency to lapse into the use of bourgeois concepts. *Real* theory stresses dialectics, with an emphasis on human beings as the subjects, not the objects, of history, and on the unity of theory and practice. At the same time it rejects the requirements of bourgeois theory, including arbitrary cause and effect, construction of static, empirically measurable categories, and the requirement of prediction. In the initial section of "Modes of Class Struggle," the characterization of instrumentalist and structuralist approaches might include a philosophical criticism of their flaws as static, not dialectical, models to accompany the author's useful perception of their resemblance to "inputs" and "outputs."

Without fully exploring this critique, we wish to point out that the instrumentalist approach, especially, incorporates the notion of cause-and-effect, not the dialectical action-and-reaction nor the unity of opposites simultaneously defining and changing each element. Structural models, in turn, incorporate the static features of conventional models, where categories have to be fixed, mutually exclusive, comprehensive, etc. Esping-Andersen *et al.* do begin to critique such stasis by emphasizing the interrelationship between history, evolution and structure, whereby institutions formed in previous struggles shape the nature of, and behavior of actors in, present struggles. However, their suggestion that we treat state structure as an object of class struggle leads to an analysis that similarly depends on static categories whose political meaning is not entirely clear.

A final point that deserves a hearing involves the lack of predictive capability in Marxist models. For bourgeois social scientists, the test of a good analysis is its ability to predict what will occur in the future. Our models cannot predict. This, however, is a strength, not a weakness, as it is grounded in the superiority of the Marxist view of the unity of theory and practice rather than the bourgeois ideology of "objective science." According to the latter, society operates in a mechanistic, unconscious way and the future is (partially) predictable on the basis of past personal and institutional behavior. Marxists understand that *conflict* is the means of determining the future and that *all* theory, by either obscuring or revealing this truth, is ideology.

The article's sections on historical change could better exploit the self-conscious character of Marxist theory by focusing more on working class participation in state struggle and the ways in which different ideologies (theories) reflect, inform, empower or mislead the participants. In general, we feel that the historical accounts in the paper underemphasize working class and community organization and opposition as forces challenging existing structures and shaping new ones. In the section on intergovernmental grants, for instance,

it seems that each structural arrangement served one or another faction of the ruling class. An alternative approach would examine the possibility that some structures were created, directly or indirectly, and ultimately used by organizations of working class people.

These critical remarks on present attempts to formulate theories and models of the state are not intended to suggest that such undertakings are not useful. On the contrary, we believe them to be essential to developing a working class understanding and ideology while waring against the liberal borrowing of theoretical constructs from bourgeois social science. This borrowing may be an unavoidable consequence of operating within the "academy" where the definition of "rigor" remains in the hands of bourgeois scientists who view dialectical discussions as fuzzy and ideological. Since we have learned and practiced in the academy, we tend to internalize its demands and unwittingly mime bourgeois analysis in our work. Consequently we must constantly remind ourselves of the power of the dialectical method and its emphasis on the interaction between theory and practice.

The Typology of "Modes of Class Struggle"

The article promises much with its title; it suggests that there are modes of class struggle, like modes of production, that allow us to dissect struggle over the state and explain changes in its form (although the term "mode" appears only sporadically in the subsequent text). The authors concede that "it is in and of itself no more than a typology" and consists of a set of categories within which a theory of class struggle and the state may be developed. The analysis, however, still suffers from some of the constraints of static and logical models and perhaps overestimates the power of its offerings. We discuss each set of categories in turn to illustrate the gist of our remarks on method and our later conclusions about political usefulness.

A. Production vs. Circulation Politics

Marx originally distinguished between the production of surplus value and the realization of surplus value in circulation in order to identify the membership of the "productive" or surplus-value producing segment of the working class. Recently, the usefulness of the concept "productive labor" has been challenged. For instance, if certain services are productive, then many functions previously considered unproductive may qualify for productive status. Thus there is extensive debate in general among Marxists about the definitions of, and boundaries between, production and circulation.

Esping-Andersen *et al.* employ a further variation of the production-circulation distinction by differentiating between *creation*—what is produced and how (production)—and *distribution*—or receipt of what is produced (circulation). This distinction, however, only imperfectly corresponds to the original definitions of production and circulation, which distinguish successive stages in the Money Capital—Commodity Capital—Money Capital process. Their definitions are in fact the exact counterpart of neoclassical definitions of allocation and distribution, which artificially separates the question of how returns to production are divided among classes from the question of what is produced and how. "Political demands that concern the value of labor power represent demands at the level of circulation. . .Political demands that concern the regulation of the labor process. . .represent demands at the level of production" (199). The labor theory of value posits that production decisions about what to produce and how to produce it are based solely on the ability to extract surplus value from workers employed in any particular process. The amount extracted can be affected by the various mechanisms Marx suggests in volume I of *Capital*: intensification, lengthening of the work day, the bargain over wages paid to the workers, and so on. The rate of surplus value depends directly on the wage level, so that struggles within the workplace or in the political arena that change the wage level can affect allocation decisions. *What* is produced, *how* it is produced and, with imperialism, *where* it is produced are all tied to the distribution of returns between capital and labor. For instance, if the push for a higher wage settlement by a union in a particular plant results in a shut down, more mechanization or a stepped-up production pace, the struggle over distribution has affected production decisons. In fact since World War II unions have collaborated in such decisions—the UMW accepted mechanization (and unemployment) and the USW accepted a no strike pledge, both in return for higher wages. At any level except the global, a change in the distribution of surplus value between wages and profits will affect production. Higher wages for U.S. workers, for example, encourage the exodus to production sites where cheaper labor exists.

Instead of distinguishing between production and circulation, which are not synonymous with allocation and distribution, and which are controversial categories to begin with, we suggest that the distinction between *public* and *private* be used. That is, there is a crucial difference between decisions about production and distribution made in the private sector and those in the public since the power and ideology in each sector are fundamentally different. The distinction between private wage-profit divisions and social wage-profit divisions allows us to see struggle in both spheres as class struggle and to compare structure and strategy in each. The Esping-

Andersen *et al.* production-distribution distinction underscores intra-class divisions. For example retired workers could gain more from "circulation" politics while their working daughters and sons would gain more from "production" politics. It is clearer and simpler to see these differences as stakes in the public and private sectors which, not being necessarily contradictory, can be a basis for unity.

B. Commodified vs. Non-Commodified Production

Similarly, we find the distinction between commodified demands and non-commodified demands imprecise and politically unclear. This distinction requires a sharper defense of both its meaningfulness and its boundaries. We detect an implicit suggestion that the authors generally view the state as a distribution rather than a production mechanism and that this serves as the source of these categories. However, the state also engages in production for both use and exchange. The conditions under which workers produce and the distribution of use value to members of society partially determine the significance of a production activity. Esping-Andersen *et al.* recognize the difficulties here: "Obviously, many state activities represent mixed cases" (199) and "if such production is still organized on exchange value criteria, then we have a case of noncommodified production state activity" (202). Unfortunately they do not fully explain "exchange value criteria" or "use value criteria," a more crucial question than whether production is for use or exchange.

The political implications of this distinction are also unclear. There are numerous cases of noncommodified forms of production which are not unequivocally in the interests of the working class. Housework, when tied to the oppression of women in the home, is non-commodified production not in the interests of the working class as a whole. Similarly, any form of noncommodified production that benefits only a segment of the working class at the expense of others (as well as one that benefits the capitalist class alone) is clearly not in the interests of the working class. Finally, even programs which are universal (e.g. a free national health system) may not be in the interests of the working class if they are forced to support the entire tax burden for it. Questions of work relations within the noncommodified production process, of distribution of use values produced, and of the financing (tax or otherwise) scheme for it must be part of a distinction of this sort if it is to be politically useful. A recurrent weakness in many reformist demands is the short-sightedness that results from following an oversimplified distinction such as non-commodified vs. commodified production.

A more precise formulation is necessary if we are to gain political guidance from it. We assert that the concepts of social profit and

social wage are more useful to identify state activity as basically supporting either the ruling or the working class. All aspects of state policy—how it's financed, how it's organized, how it's distributed—can be summed up in such concepts so that the net reproductivity of a specific state activity can be assessed.

The concepts of social wage and social profit are potentially measurable, just as Marx's profit and wage are. They offer a common statement of the aggregate result of state activity. We define them as follows. Social profit is that amount of net surplus value that is extracted from workers via the complex structures of capitalism as a result of state policy or expenditure. Note that this frees us from the O'Connor emphasis on taxes and expenditures as the bulk of the state sector—a nonbudgetary regulation can be equally as "reproductive." Social wage is the amount of net additions to the retained value of labor time that workers can wrest from capitalist property owners through conflict in the state arena. Any state activity can be scrutinized for its net impact on capital and labor by adding up the total effects of changes in prices, in real wages, in taxes, in real services received and finally in changes in productivity that result.

The notions of social wage and social profit could be used to describe aspects of any state production activity or policy. The distinctions of social wage and social profit would summarize the net outcome of struggles in the public sector. Thus a struggle over health care would balance the incidence of costs for it (including waste) with the receipt of service in either the public or the private sector. A better informed position for the working class might result from this process. Workers could then compare health care in the two sectors. In the private sector, health care of a certain quality (including prevention) now costs them so much of their labor time, as mediated through the wage system. Publicly provided health care of a comparable or better quality would cost them more or less of their labor time, depending on how public health is organized and mediated through the tax structure. This approach seems considerably more accurate and sophisticated than demanding "commodified" health care.

C. Reproductive and Unreproductive Politics

This distinction is fundamentally different from the previous two in that it does not consist of a distinction between two abstract, mutually exclusive categories but resembles a true dialectic where the precise dividing line is not important but where the distinction illuminates the struggle between capital and labor. As the authors state, "this final dimension of political demands is perhaps the least tangible yet the most important" (199). It is intangible precisely because it is not a logical duality, but a dimension where conflict

over a particular feature takes place. Thus it can capture the essence of class struggle.[1]

It is a strong beginning for the analysis of class conflict within the state since a particular demand (e.g. national health service) can be viewed as politically both reproductive and unreproductive, depending on the outcome of the struggle over it. A clear political mission, then, for labor is to push for state sector policies and production that are unreproductive in their nature. The distinction is nonetheless not fully conceptualized in the article.

We have not yet worked out the analytic dimensions of the social wage-social profit schema and are unable to pursue them here. We would like to encourage Esping-Andersen, Friedland and Wright, whose article has pioneered the integration of class struggle into the analysis of the state, to join us in the construction of a theory that is analytically similar to, and as potent as, Marx's theory of the capitalist sphere of production. We are interested in pursuing the social profit-social wage dimension as an initial step. In doing so, we want to emphasize that the qualitative aspects of state ideological reproduction are equally in need of investigation. Furthermore, the existence of the state as a distinct institution with human actors who may have separate material interests and motivations cannot be ignored. The examination of the interests of state managers and workers, the formation of their consciousness, and their ability to manipulate state structure and class struggle to their own ends is the third major inquiry that our current reality presses upon us.

Footnote

1. The following chart portrays the difference between the first two categories and the third, illustrating the methodological advantages of the latter.

Distinction	*Statement*	*Pictogram**
Production/ Circulation	a state action, 'M' is either 'P' or 'C'	Production | Circulation
Commodity/ Noncommodity	a state action, 'M', is either 'C' or 'Nc'	Commodity | Noncommodity
Reproductive/ Nonreproductive	a state action, 'M', is the object of struggle between capital and labor over the social profit or social wage rate	Social Wage ↔ Social Profit

*Boxes represent categorical slots that are supposed to be mutually exclusive but are not antagonistic or the necessary object of class struggle. In none of the cases is the boundary between the two complete, but only in the third is it the object of class struggle and dependent on the dynamics of that struggle.

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