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FOCUS ISSUE: THE URBAN CRISIS AND THE CAPITALIST STATE

Including: Castells on The Wild City, Hill on Fiscal Crisis and Political Struggle, Clarke and Ginsburg on The Political Economy of Housing, Boulder Kapitalistate Group on Hegel and the State; Anderson, Friedland and Wright on Modes of Class Struggle and the State

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Members of the Bay Area Kapitalistate group who have struggled with this issue are Sue Bessmer, Jens Christiansen, David Gold, Margaret Fay, Roger Friedland, Mike Kimmel, Clarence Lo, John Mollenkopf, Jim O'Connor, Kay Trimberger, Alan Wolfe, and Erik Wright.

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THE WILD CITY

By Manuel Castells, *Ecole des Hautes Etudes en Sciences Sociales, Paris*

In my understanding of the U.S. urban problems I have used extensively my conversations with several friends, among them: Michael Aiken, Robert Alford, Robert Cohen, Nancy Di Tomaso, Roger Friedland, Ron Lawson, John Mollenkopf, Janice Perlman, Bill Tabb, Marvin Surkin, Elliot Sclar, Glenn Yago, and, particularly, David Harvey. I thank all of them and I apologize in advance for my mistakes; I hope they will help me to rectify the erroneous interpretations. My understanding of the U.S. urban crisis relied also on some direct observations and information gathered during my ten month stay in 1975, including trips to Los Angeles, San Francisco-Berkeley, New York, Boston-Cambridge, Madison, Chicago, Baltimore and Washington, D.C.

Finally, I am grateful to Janet Burton (UCSC) for her help in searching several crucial documents and to Pat Patterson for taking care of the typing and reproduction of the paper, as well as to the staff of the Interdisciplinary Graduate Program in Sociology, University of California at Santa Cruz, for its extremely effective support in the research work presented here.

INTRODUCTION: BEYOND THE MYTHS OF THE URBAN CRISIS

"There was an urban crisis at one time," said William Dille 3d, Deputy Assistant Secretary of Policy Development at the Department of Housing and Urban Development (1). But now, according to President Ford's aides, "the urban crisis of the 60's is over."

What the officials wanted to express was that the black ghettos were under control in spite of the recession. As right-wing ideologist Daniel Moynihan declared in the Congress, there is not an urban problem but a Negro problem (2).

Is that really true? Is the urban crisis just the ideological expression used by the ruling class to "naturalize" (through an implicit ecological causation) the current social contradictions(3)?

This is the most current understanding of the political elite. So, Senator Ribicoff, opening the famous Congressional "Ribicoff hearings" on urban problems in 1966 put it in unambiguous terms(4):

"To say that the city is the central problem of American life is simply to know that increasingly the cities are American life; just as ur-

ban living is becoming the condition of man across the world. . . . The city is not just housing and stores. It is not just education and employment, parks and theaters, banks and shops. It is a place where men should be able to live in dignity and security and harmony, where the great achievements of modern civilization and the ageless pleasures afforded by natural beauty should be available to all."

The popular mood is similar. A survey conducted by Wilson and Banfield on a sample of homeowners in Boston in 1967 in order to identify what the "urban problems" were for the people, concluded that(5):

"The conventional urban problems—housing, transportation, pollution, urban renewal and the like—were a major concern of only eighteen percent of those questioned and these were expressed disproportionately by the wealthier, better educated respondents. . . . The issue which concerned more respondents than any other was variously stated—crime, violence, rebellious youth, racial tension, public immorality, delinquency. However stated, the common theme seemed to be a concern for improper behavior in public places."

Nevertheless, while the urban crisis of the 60's remained largely associated with poverty and racial discrimination and with the social programs designed to control blacks and unemployed, the urban crisis of the 1970's has progressively developed rather different connotations:

—The urban crisis has been used to speak of *the crisis of some key urban services*, like housing, transportation, welfare, health, education, etc., characterized by an advanced degree of socialized management and a decisive role of the state intervention(6).

—The urban crisis is also *the fiscal crisis of the cities*, the inability of the local governments to provide enough resources to cover the required public facilities because of the increasing gap between the fiscal resources and the public needs and demands(7).

—The urban crisis is, at another level, the development of *urban movements and conflicts* rising up from the grass-roots community organizations and directed towards urban stakes, that is towards the delivery and management of particular means of socialized consumption (8).

—And, currently, the urban crisis is also the impact of the *structural and economic crisis* on the organization of the cities and on the evolution of social services(9).

Is the multiplicity of meanings of the urban crisis an ideological effect? It is, if by this we would mean that the roots of the different levels of crisis that we have cited are produced by a particular form of spatial organization. But if the crude use of the term "urban crisis" is an ideological artifact, the association between the different connotative levels is not an arbitrary one. It is a biased reading of actual connections experienced in social practice.

In fact, *our hypothesis is that the U.S. urban crisis is the crisis of a particular form of urban structure that plays a major role in the U.S. process of capitalist accumulation, in the organization of socialized consumption and in the reproduction of the social order.* Since the urban role is per-

formed at multiple levels, so is the crisis, its connections and its effects. This is the unifying perspective that will underlie our exploration of the multidimensionality of the urban crisis.

1 *The U.S. model of capitalist accumulation and the U.S. pattern of urban structure: economic dualism, class domination, and spatial segregation.*

The specificity of the U.S. urban structure since World War II—underlying the crisis of American cities—results from the historical articulation of the processes of *metropolitanization, suburbanization, and social-political fragmentation*(10).*

A) *Metropolitanization*: concentration of the population and activities in some major areas at an accelerated rate. Such population concentration follows from the process of uneven development and from the concentration of capital (means of production and labor) in the monopolistic stage of capitalism. At the periphery, regional economies and agriculture are devastated/re-structured by the penetration of their markets and the transformations in productivity under the hegemony of financial capital. Mass migration follows. In the dominant urban centers, the combined effect of externalities, transportation networks, urban markets and concentration of the management units and of the institutions of circulation of capital concentrate workers, means of production, means of consumption and organizations. These major cities are soon called metropolitan areas as an expression of their dominance over the "hinterland," that is, over the entire society.

B) *Suburbanization*:(13) the process of selective decentralization and spatial sprawl of population and activities within the metropolitan areas, starting at a large scale after World War II, accelerating during the 50's and maintaining its trend in the 60's. This is a selective process in that the new suburban population has a higher social status. There is a double differentiation of economic activity. On the one hand, business activities and major administrative services remain in the urban core while manufacturing and retail trade tend to decentralize their location. On the other hand, within the industrial and commercial sectors large-scale monopolistic plants and shopping centers go to the suburbs, leaving in the central cities two very different types of firms: a small number of technologically advanced activities and luxury shops; the mainstream of industrial and service activities of the so-called "competitive sector" (backward) as well as the marginal activities known as the components of the "irregular economy."

In the U.S. urban structure(14), this process is a self-reinforcing one. The immigration of poor blacks expelled from the agricultural south has been concentrated in the inner cities(15). The exodus of the upper and middle income groups attracts trade and service activities to the suburbs. "Competitive sector" jobs locate in geographical proximity to the low-income workers residing in central cities. Service and industrial employment locate in terms of the transportation system for suburban workers. The ecological patterns of residence will be increasingly differentiated (16): yard-surrounded suburban single family houses versus increasingly ob-

solete inner city apartment dwellings. The cultural style, rooted mostly in the social class and family practices, will be symbolically reinforced by the social-spatial distance and by the environmental imagery. The two worlds will increasingly ignore each other until they will develop reciprocal fears, myths, and prejudices, often articulated to racial and class barriers(17). The segregated school will become a major instrument of self-definition and perpetuation of the two separate and hierarchically organized universes(18).

The suburbanization process has been facilitated by major technological changes in transportation, in the mass production of housing and in the increasing spatial freedom of the plants and services in terms of the functional requirements for their location. Suburbanization is not a consequence of the automobile. On the contrary, the massive auto-highway transportation system and the new locational patterns of residence and employment express the new stage of capitalist accumulation and have been made possible primarily by the policies of the state designed to serve this purpose(19). Let us summarize briefly the specific connections between capital accumulation, state policies, and suburbanization.

The recovery of U.S. capitalism after the Great Depression of the thirties was made possible by the war and three major post-war economic trends (20): a) the internalization of capital and the increase of the rate of exploitation on a world scale under U.S. hegemony, as a direct consequence of the economic and political situation of each country after World War II. b) the rapid expansion of new profitable outlets through the development of mass consumption. c) the decisive structural intervention of the state in the process of accumulation, in the creation of general conditions for capitalist production and in the socialization of costs of social investment and the reproduction of labor power. As a simultaneous cause and consequence of this accelerated capitalist growth, the stability of the social relationships of exploitation was achieved through the combined use of economic integration and political repression of the mainstream of the working class.

How do these trends relate themselves to the process of suburbanization? On the one hand, the increasing profits of monopoly capital allowed the expansion of material production and of the investment in new technology and transportation facilities that led to the decentralization of larger plants. On the other hand, the economic growth allowed a less than proportional raise of the workers' wages and gave some of them a prospective job stability, increasing their purchasing power and their financial reliability. The requirement for immediate and massive new outlets was met just in time by the sudden expansion of mass production of new housing, highway-auto transportation and all complementary public facilities. In twenty years, America practically built up a new set of cities, contiguous to the preexisting metropolises. The reason that improved housing conditions were realized through new suburban settlements was that land was much cheaper in the urban fringe, that mass production of housing with light building materials required new construction and that the whole impact on the economy was considerably higher, particularly if we consider the implied necessity of a decentralized individual transportation

system(21). Under these conditions of production and relying on a system of easy installment credit, the construction and auto industry could draw into their market a substantial proportion of the middle-class American families, later including in this new world a sector of the working class.

Nevertheless, the decisive element in the feasibility of this economic, social, and spatial strategy was the role of the state, particularly of the Federal government, introducing key mechanisms for the production of housing and highways, in a form subordinated to the interests of monopoly capital. In the case of housing, as the most recent U.S. government's report on housing writes(22):

In the 1930's Congress made two fundamental policy decisions which remain basically intact to this day. The first was the complete restructuring of the private home financing system through the creation of the Federal Housing Administration (mortgage insurance); the Federal Home Loan Bank Board and Bank System (savings and loan industry); institutions like the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation (insurance on deposits of commercial banks, mutual savings banks, and savings and loan associations); and finally, the Federal National Mortgage Association (secondary mortgage market). Creation of these institutions, resulting in the acceptability of long-term, low down payment, fully amortizing mortgage and a system to provide a large flow of capital into the mortgage market, are probably the most significant achievements of the Federal Government in the housing area.

With the provision of a mortgage system that provided risk-free credit for financial capital, the state overcame the major obstacle to the profitable mass production of housing within capitalism: the absence of a reliable home ownership market. Once the government undertook the risk of mortgage foreclosures, the middle-class families could afford to enter the market, starting the process that allowed the relative modernization of the building industry and the lowering of costs which further enlarged the suburban market. In addition, the government issued (during the past forty years) a number of fiscal measures to protect real estate investors and to favor home ownership(23).

Concerning the development of the *highway-auto transportation system*, three elements have to be considered(24): a) the deliberate destruction by the auto corporations (under the tolerance of the state and federal authorities) of alternative means of transportation, namely by acquiring the streetcar and railway companies and dismantling them. . . (25) b) the government paid ninety percent of highway construction and it has spent, in 1973, sixty times more in this category than in urban collective transportation for the whole country (26). c) the residential and industrial sprawl was necessarily connected to the highway-auto transiting the organization of autonomous state-based agencies. The Federal government paid ninety percent of the highway construction and it has spent, in 1973, sixty times more in this category than in the urban collective transportation for the whole country(26). c) the residential and industrial sprawl was necessarily connected to the highway-auto transportation, and in that sense the capitalist interests and the state policies

created a set of mutually reinforcing trends. The auto, and therefore the highway, *became a need*.

The role of the suburbs in the process of capitalist accumulation was not limited only to providing outlets for the capital directly invested in their production. The whole suburban social form became an extremely effective *apparatus of individualized commodity consumption*.

Shopping centers and supermarkets were made possible by suburban sprawl. A new set of leisure activities (from the drive-in to the private swimming pool) was linked to suburbanization. But even more important was the role of the suburban single-family house as the perfect design for maximizing capitalist consumption. Every household had to be self-sufficient, from the refrigerator to the TV, including the garden machinery, the do-it-yourself instruments, the electro-domestic equipment, etc.

At the same time, the suburban model of consumption had a very clear impact on the *reproduction of the dominant social relationships*. Because the (legally owned) domestic world, was in fact borrowed, it could be kept only on the assumption of a permanent pre-programmed job situation. Any major deviation or failure could be sanctioned by the threats to (job-dependent) financial reliability. The mass consumption was also mass dependency upon the economic *and cultural* rules of the financial institutions.

The social relationships in the suburban neighborhood also expressed the values of individualism, conformism and social integration, reducing the world to the nuclear family and the social desires to the maximization of individual consumption.

Without discussing here the alternative hypotheses about the suburbs being produced by the combination of technological possibilities and of subjective values towards suburbanism, three remarks must suffice: a) Peoples' consciousness and values are produced by their practice, a practice determined by their place in the social relationships of production and consumption(27). b) It is true that there is a "return to nature" dream linked to the myth of recovering, at least in the evening, the autonomy of the petty commodity and peasant production from which salaried labor power was historically drawn. c) This myth is as strong in Europe as in the U.S. and nevertheless the suburban pattern *has not been the same*. In this sense the U.S. is *unique* in the world. Obviously the suburbs have grown everywhere with the expansion of the metropolitan areas, but the pattern of social segregation is not the same (with the non-U.S. central cities having frequently a higher social status on the average). Suburban owner-occupied housing is much less diffused outside the U.S. and the automobile is not the major mode of urban transportation. Indeed, this is not a matter of "inferior level of development": the "suburban-like-U.S. pattern" is being reversed in Paris in the last ten years after having increased in some extent in the early sixties(28). This is not to claim the irreducible specificity of each society but to show how the process of U.S. suburbanization was determined and shaped by a particular pattern of capitalist development at a particular critical stage characterized by the decisive intervention of the state(29).

The other face of the process of suburbanization was the new role played by the central cities in the process of accumulation and in the reproduction of the labor power. There is a major differentiation between the Central Business District (CBD) and the central cities at large(30). The CBD kept the major directional and organization economic functions, as well as a number of luxurious commercial activities and several major cultural and symbolic institutions, while losing a large proportion of the retail trade and many residents. The central cities lost jobs especially in large-size manufacturing plants and a significant residential proportion of the middle-class as well as monopoly workers. On the other hand, central cities received increasing numbers of black and poor white immigrants, mostly from the southern depressed areas, as a consequence of the mechanization of agriculture and of the destruction of the backward regional economies(31). The central cities became the location, at the same time, of the "competitive sector" activities, of the corresponding low skilled and low-paid segment of the labor market, of the surplus population (unemployed and underemployed), and of the discriminated ethnic minorities. Therefore, the central cities organized consumption on an entirely different basis than the suburbs. The housing market, in particular, was supposed to work according to a "filtering down" theory. Namely, the upper strata of central city residents (excluding from our analysis the top elite, mostly concentrated in self-defended high-society ghettos) left their urban dwellings for their new suburban homes. This allowed the middle-strata to occupy the vacated houses, freeing their standard housing for the bottom level that could leave their slums to the newcomers. In fact, such a theory never corresponded to reality, since its basic assumption was the extension of upward income mobility to the whole population(32). Given a process of uneven development, the low and middle strata of the inner city were not able to afford the level of rents or interest payments necessary to jump to the following housing level. In addition, the racial discrimination operated against any actual access of the minorities to an equivalent standard of living, imposing a "race overprice."(33) The result for inner city housing was that to maintain profit levels, the landlords combined lower rents with overcrowding and lack of maintenance. Some neighborhoods were *nevertheless* well-maintained on the base of ownership through savings and loan associations linked to non-monopolistic financial markets, mostly ethnically (white)-based(34).

The fixed assets of the inner-city residents were reduced in value(35): what was occasion of profit for capital in the suburbs was cause of impoverishment for the inner-city white working class, of indebtedness for the suburban middle class and of deterioration of living conditions for the slum dwellers. The reduction of the economic base of the central city revenues also reduced the public services needed by the social groups that could not afford commodified consumption. Thus, the process of suburban expansion was, at the same time, the process of the central city decay. Both were produced by the dominant capitalist interests which differentially affected the different social class segments(36).

C) The specific model of the post-war U.S. urban structure is completed by the functioning of a third major trend: *the political fragmentation of*

autonomous local governments, and their role in the maintenance of the social residential segregation and the corresponding organization of consumption(37).

"Separate and unequal," the communities of the metropolitan areas have transformed the Jeffersonian ideal of grass-roots local democracy into a barbed-wire wall of municipal regulation which prevents redistribution of income through the public delivery of goods and services(38). An interesting analysis by Richard Child Hill on a large number of metropolitan areas shows a close relationship between the level of metropolitan income inequality and social status, and local government resource inequality(39). This reflects both the major cleavage between central cities and their suburbs, and intra-suburban stratification. So, the more low income residents are dependent on socialized consumption, the less the local government, major agency of provision of public facilities, has the resources to meet those needs and demands. Thus, not only are exploited people trapped in the labor market, but, in addition, public institutions are *structurally regressive* concerning the mechanisms of redistribution. Furthermore, fragmentation becomes a social and racial barrier that connects cultural prejudices to real estate interests. The school system plays a major role in channeling expectations of generational social mobility within each particular stratum and reproducing the whole system, economically and ideologically(40). The wage-earning population is split so that each social position is crystallized in physical and social space, in consumption of services, in organizational networks and in local government institutions. Future conflicts are channeled towards intra-city competition among equally exploited residents for a structurally limited pie. The suburban local governments enforce this situation through all kind of discriminatory land-use regulations: large-lot zoning, minimum house size requirements, exclusion of multiple dwellings, obstacles to non-reliable building permits, etc.

Thus, class-based metropolitan inequality is derived from uneven capitalist development. Expressed in the unequal social composition of the urban structure, it is ultimately preserved and reinforced by the state through the institutional arrangement of local governments and the class-determined fragmentation of the metropolitan areas.

The U.S. urban development pattern individualizes and commodifies profitable consumption, while simultaneously deteriorating non-profitable socialized consumption. At the same time the institutional mechanisms for the preservation of the social order are structurally provided.

The coherence and the elegance of this model appeared as neat, well ordered, and impeccable as the uniforms of the guards who stand behind the smiling facade of the advertising society.

The new metropolitan world seemed able to go on and on

2. *The social contradictions of the model of urban development and the attempts at regulation through urban policies.* [41].

The new dynamic stability attained by the capitalist model of suburban growth did not last very long. Several structurally implicit contradictions within the model have expanded at an accelerated rate.

Urban crisis have been generated by the contradictions inherent in a) *the corporate business and political elite response to the decay of central cities*; and b) *the loss of social control over the minorities and the lower working class of the inner city*(43).

a) The first process had three major consequences that were highly dysfunctional for dominant interests: i) deterioration of municipal services and the social environment threatened the existence of the Central Business District. Yet the preservation of the CBD was essential because of the ecological requirements for concentration of some directional functions; and because of the need to maintain the value fixed capital investments and real estate interests held by large corporations; ii) threat to functions of centrality, at the level of the symbolic dominance, cultural institutions and "higher circles" residence and leisure that had to be preserved; iii) potential erosion of political influence over the oldest white ethnic working class which had to be maintained as a base of institutional power, yet which required a city fiscally able to provide a minimum level of services and jobs.

To counter these consequences, it was crucial to restore the city's fiscal viability. The central city moved inexorably towards a gap between shrinking local property tax revenues on the one hand, and expanding expenditures on the other. Corporate strategy involved giving up most of the central city, to concentrate on a program of *downtown redevelopment*, combining urban renewal, real estate initiatives and easy access to the wealthy outer suburban ring through new highways reaching into the urban core over ghetto roofs. This strategy required the mobilization of the dominant forces of the largest cities around a program which articulated specific capitalist interests, local political elites and the federal government. As Mollenkopf has shown in a critical paper, during the 1950's "pro-growth coalitions" formed to elect several strong mayors to implement and to legitimize this downtown redevelopment program (Daley in Chicago, Alioto in San Francisco, Lindsay in New York, White in Boston, etc.) (43a).

The strategy's success was contingent on its articulation with urban renewal programs. Using the provisions of the 1949 Housing Act, this program accelerated in the sixties, Federally financed (44). This downtown program, carried out in cities like Boston, Newark, Baltimore, and Los Angeles, was predominantly aimed at attracting commercial and corporate interests in order to increase the tax base, to preserve the centrality functions, and to protect the CBD against the surrounding ghettos. The program, with current costs of \$8.2 billion in direct outlays and \$22.5 billion in local government bonded debt, together with the highway program displaced over 250,000 *families* per year. These families were generally not relocated and received compensatory payments averaging \$80, or less than one percent of the direct federal outlays. The results are two-fold. On the one hand, the downtown districts have been partially "saved," the deterioration of the municipal budgets was slowed and some central functions (for instance, some urban universities) were preserved. On the other hand, a number of communities were disrupted, a mass of sound housing stock was destroyed without equivalent replacement, the dis-

placed families suffered serious difficulties and the central city housing and public services situation worsened(45).

No wonder that urban renewal was under grass-roots attack and that a number of urban struggles started as a reaction to the program(46). In that sense, the partial economic benefits that corporate and elite interests received from pro-growth policies were counteracted by the ensuing problem of maintaining the social order. These problems were exacerbated by another parallel set of expanding contradictions.

b) The inner city residents were submitted not only to the urban bulldozer but increasing unemployment and inflation. "Poverty" suddenly became a reality that nobody could ignore. The very serious depression of 1957-58, which developed once the economic stimuli of the Korean War had been spent, particularly struck the "competitive sector" workers and the newcomers to the large cities. Without collective political challenge to their situation, many inner city dwellers, particularly the youth, reacted individually. So-called "crime in the streets" rose dramatically. Neighborhood gangs spread in the ghetto. The city's social order was seriously threatened(47).

At the same time the civil rights movements, launched by Black people in the south with white liberal support in the northeastern cities, had started to transform the consciousness of the uprooted black immigrants. The ghetto organizations became more militant.

Those tendencies contributed to a new strategy of the federal political elite on the behalf of the ruling class. The late fifties (particularly the 1957-58 depression and the Soviet Sputnik) directed the attention of the American dominant interests to the need to introduce some regulatory mechanisms at the social level. Labor unions reacted to the crisis by threatening to revise their support for labor-saving technological improvements. While a fraction of American capital, and most of the political personnel wanted to pursue the trend that had been so successful during the fifties, adding more repression if necessary, the most class-conscious faction of the establishment supported a new reformist strategy in order to preserve the most precious advantage of U.S. capital: the stability of the exploitative social order. To them this "new frontier" appeared useful and without political danger. Internally, the McCarthy period had eliminated any possible alternative from the Left. The socialist forces had been isolated, discredited and dismantled. The unions had either been coopted or repressed. The ideological order had been secured by the combined effect of the cold war, the hot (Korean) war and of the economic boom. Externally, the nuclear equilibrium limited the possibility of defeating the Soviet Union: the "peaceful coexistence" that followed permitted greater maneuverability and rendered the continuous mobilization of conservative myths superfluous. In sum, in the late fifties the most enlightened sector of the ruling class realized that the model of development required social reform for which they had the requisite political strength. The purpose: to enlarge their social base, to increase their political and ideological legitimization, and to modernize the economy by rectifying mechanisms of over-exploitation that were only required by backward sectors of capital. One of the major objectives of this reformist strategy was to provide

mechanisms of black integration, or at least to give symbolic channels to prevent a mass-based social revolt. Furthermore, the specific political instruments that had to be used by the reformist wing required a mobilization of the black vote (particularly in the northern cities) in order to compensate for the loss of the right-wing democrat vote in the south(48). In fact, Kennedy won the key vote of Chicago in 1960 by relying on the black vote. If it is true that the ghettos traditionally voted democrat, what was new in 1960 was the exceptional turn-out of blacks voting for Kennedy. Yet, the rationality of this strategy did not convince a significant proportion of the American rulers. Its implementation was not a "structural necessity" but the result of a political struggle (the 1960 Nixon-Kennedy election) that gave a narrow victory to the man that was at the same time the candidate of the Establishment and the hope of the over-exploited against short-sighted "middle America."

The "New Frontier policies" and the "Great Society" programs were aimed at two major targets (49): a) the implementation of "civil rights," particularly against legal discrimination in the South; b) the reduction of the consequences of uneven development by establishing special services and benefits for "the poor," trying at the same time to maintain social order. On both sides, the central cities became the natural battleground for the new reformers. A pioneer program, New York City's East Side Mobilization for Youth, "discovered" that the best way to prevent juvenile delinquency was to organize the young people in order to obtain their collective demands on jobs, services, and revenues The only "trouble" being that the program became increasingly contradictory with the social order that had generated it. Also, War on Poverty programs undertaken through the Office of Economic Opportunity had to be complemented, at the grass-roots level, with the Community Action Program which tried to organize and to mobilize neighborhood residents to put pressure on the bureaucracies in order to obtain the required services(50). How is it possible that some bureaucracies were pushing other bureaucracies? Because they were different bureaucracies: it was clear, at the *Federal level*, that all efforts of even modest social reform would be absorbed by the interests vested in the *local government bureaucracies* unless some controlled grass-roots pressure could be organized. Such control was eventually lost, not because of the naive idealism of the reformers (as some conservative bureaucrats think(51)) but because of a set of contradictions internal and external to the reformist programs. Internally, how to mobilize people without convincing them? And how to convince and be trusted without engaging in some actual economic or institutional reform? And how to do this without hurting the particularistic interests of the locally established cliques? Externally, the expansion of the Great Society programs was historically connected to five major disruptive trends in the crucial period of the sixties: 1) the uprising of black people and the development of a black movement; 2) the Viet Nam War that absorbed more and more public resources, preventing the Federal government from matching the expectations provoked by the social programs; 3) student revolt and the major breakdowns in the capitalist ideology with the emergence of the counter-culture as a symptom of

the legitimacy crisis; 4) the development of neighborhood struggles that opposed the "pro-growth coalition;" 5) the inflationary process that undermined standards of living and faith in the market mechanisms, turning people towards the issue of service delivery.

The interaction of the "urban programs," designed to improve social peace, with these various trends initially transformed the programs into disruptive mechanisms. In a second phase, this led to their dismantlement (started by Johnson in 1967-68 and accelerated by Nixon) and the use of massive repression in the inner city, under the newly reinforced control of local bureaucracies.

Thus, both urban renewal and urban social programs, policies designed to improve the economic situation and the social stability of the decaying inner city accelerated the social conflicts as expressed by community mobilizations in the neighborhoods and by mass disruptions in the ghettos. Combined with the problems arising within the services themselves, these led to a new, more dangerous form of urban crisis that exploded in the 1970's.

3. Dimensions and processes of the current U.S. urban crisis.

The failure of the urban policies to handle the problems generated by uneven urban-suburban development and the maturation of the contradictions underlying the production and delivery of services precipitated during the sixties a multidimensional crisis that violently shook the urban structure and endangered its crucial function in the process of accumulation and segregated consumption. This crisis developed along several different lines that, although interrelated, will be better understood considered separately.

3.1. The breakdown of social order in the inner city.

The most direct and most disruptive expression of the urban crisis was a series of different phenomena that broke suddenly and radically the reproduction of the social order. The breakdown rooted in central city social order was in the social structure of exploitation and the political and ideological experiences of oppression. Nevertheless, since the central city was, on the one hand a material apparatus for the directional functions of the economy and of the society, and on the other hand, a form of organization of the labor power in the stagnant economic sector, the revolt of the over-exploited against the symbols and practices of the rulers, was expressed through the material base and organizational supports of the inner city's every day life.

This major disruption of the dominant social order took several forms that, *without being equivalents*, all expressed the rejection of a given situation and produced a similar impact on the functioning and structure of the central city. The most important forms of breakdowns of social control were the following:

A) *The rapid increase of so-called "crime"* and particularly of "crime in the streets" that was clearly linked to an individual reaction against

structural oppression coupled with the absence of a stable mass-based political alternative(52). "Crime" is not only explained by "deprivation." For example, in the 1930's depression crime rates actually *went down* and only went up again in the late fifties and early sixties. In the current depression crime rates are higher still (+20 percent in 1974/1975). This implies that the collective movement that during the thirties forced the government to launch the New Deal was viewed by most urban dwellers as an adequate response and a hopeful trend. Today the inner city concentrates the structurally unemployed and lacks an effective channel for mass action. But we also observe that the most rapid crime rate increase was during the sixties, when in fact, until 1966 the economic situation was improving on the average. So it seems that the major factor has been the collapse of the system of social control by the family, the school, or the southern communities from where many inner city dwellers came. Not only was urban crime a challenge to the social order but it became a way of living, economically and culturally, for a large sector of inner ghetto youth that had no chance outside the irregular economy to which some forms of crime are structurally connected.

B) On a totally different dimension, another source of challenge to the established social-spatial division of labor and consumption was *the development of community organizations and urban protest movements* that defied the logic of functioning and delivery of specific services as well as the legitimacy of traditional local authorities(53). The most widespread urban movements were mobilizations against urban renewal in order to protect the neighborhood from demolition or to obtain adequate relocation and compensation. Given urban renewal's direct threat, the mobilizations were at the same time relatively easy to develop but defensive and limited in their scope. Nevertheless, after several years of experience, the movements progressively shifted towards demands for comprehensive neighborhood planning forcing a new approach to urban redevelopment.

The *rent strikes*, as analyzed by Michael Lipsky (54), particularly in New York, in St. Louis, in Philadelphia, in Chicago, etc., marked a new period where the "filtering down" process was blocked by requirements of adequate repairs and by demands for controlled rents according to some public standards instead of at the landlord's will (55). All social services (health and education in particular) as well as social welfare were subject to assault by central city residents. Frances Piven and Richard Cloward have shown how, in fact, the spectacular increase in the welfare roles during the sixties was not due to the increasing *needs* (that already existed) but to the increasing *demands* (56). Thus, urban protest was not the effect of an urbanization process, but the grass roots attempt to overcome the segregated model of collective consumption, an expression of the loss of social control from the combined impact of the internal contradictions of urban services and of generalized unrest in the American society.

The poor and black mobilizations were paralleled by Alinsky-type *community organizations* trying to develop middle class citizens' participation and control over the local governments and social services. Bailey(57) has shown how this very moderate populist approach

developed mostly where middle-class groups found "poor people types of problems," that is where the inner-city crisis struck the remaining middle-class dwellers. Thus, in spite of their ideological conservatism and pragmatic approach, the Alinsky experiences were a real threat (as opposed to the opinion expressed by Bailey) to the social order, since they were channeling groups towards protests that were generally supportive of local institutions. Certainly, their localism and economicism kept them within the mainstream of the consumer movement but their growing influence was a factor pushing in the direction of a multi-class movement that could have been developed on a more conflictual base in a different political context. In summary, while limited, localistic and strictly economic, the urban movements during the sixties clearly limited the over-exploitation implicit in the until-then predominant pattern of urban development.

C) Nevertheless, the most significant factor in the breakdown of the social order in the cities during the sixties were the *riots*, mostly in the black ghettos. After the explosions of Harlem (1964) and Watts (1965) they were generalized in the famous hot summer of 1967, in 1968 as a mass response to the murder of Martin Luther King, and followed in 1969, 1970 and 1971 in a very important number of less publicized riots (58). Certainly, the riots are not "urban movements" in the sense that they were not exclusively linked to a protest related to the living conditions in the inner city. They were a form of general protest and struggle of the black people against the general conditions of their oppression. After many debates and empirical research on the courses of riots, the best statistical systematic analysis, carried out by Spilerman(59) shows that the only variables significantly correlated with the occurrence and intensity of riots were the size of the black population in the city (the larger the black population, the more riots) and the region (the northern cities have higher probabilities). Statistically speaking, the riots were strongly linked to the large inner-city ghettos of the largest metropolitan areas. This can be interpreted either in organizational terms (the largest possible base for sustained mass organization) or in terms of the specific effects of the segregated organization of work, services and everyday life, as expressed in the largest ghettos. The hypotheses are complementary. The riots were mass protests against the racist society, including one of its dimensions, the specific pattern of racial segregation in the ghetto and its effects on the delivery of services and jobs (60).

If the Black movement, in its different expressions, could not overcome its isolation and if its vast radical component was destroyed by repression, the struggles of the sixties forced the state, at the federal and at the local level, to a major re-examination of the use of central cities as a reservation for ethnic minorities. Access of blacks to local governments and to the state agencies was given in increasing proportion, most and better services were distributed (at least for a period) and more public jobs were available for inner-city residents. Very often this was part of a process of cooptation of the community leaders to disorganize the grass-roots but nevertheless the overall effects produced a decisive breach in the social logic dominating the urban services and local governments. So, the mobilization and protest from the grass-roots, at the same time,

obtained tangible social benefits, challenged the structural logic and eventually precipitated the crisis of the urban services.

3.2. *The crisis in the system of production and distribution of the means of collective consumption* (61).

The crisis of the post-war pattern of urban development also reflects an increasing inability to keep the segregated delivery of urban services functioning smoothly. The most significant examples include housing, transportation and education.

A) The crisis of the *housing market*, particularly acute in the central cities of large metropolitan areas, is revealed in a total failure of the "filtering down" theory, the relative deterioration of the resources of the poor, the rising level of property taxes and maintenance costs, depreciation of the housing stock by the overall decay of the city, overcrowding and lack of maintenance.

Many landlords faced declining purchasing power and profitability (62). The incomes of a large proportion of central city families were insufficient to provide landlords with acceptable profit margins and meet maintenance costs. Thus many families: 1) overcrowded small dwellings, accelerating the rate of deterioration, 2) *abandoned housing units* in the quest for cheaper housing, 3) launched rent strikes and either were evicted or the landlord abandoned the house to deterioration and subsequent renewal and compensation.

On the other hand, many central city landlords faced increasing costs and property taxes, could not obtain higher rents because of the low income of tenants, and could not sell because of tenant resistance and lack of buyers. So, they stopped repair and maintenance. Later on, they stopped paying property taxes, obtaining super-profit during the two or more years before the city could legally take over the house (63). Since the cost of demolition was high and without profitable purpose, the empty houses were quickly occupied by squatters, and very often by drug addict communities and inner city gangs. Violence, prejudice, actual assaults, and wide-spread fear contributed to the abandonment of the entire sector by the neighbors, creating a process of contagion that literally produced no-man's land zones in large parts of the cities. This trend is developing very fast in the U.S. Some official figures for 1973 (64) estimated ("conservatively") 100,000 units abandoned in New York City, 30,000 in Philadelphia, 12,000 in Baltimore, 10,000 in St. Louis, etc. The process of abandonment has been going on in New York for the last eight years at a rate of 50,000 housing units each year, which (with corrections for demolition and adding previously abandoned stock) gives an estimate of between 400,000 and 450,000 abandoned apartments.

B) The crisis in central city housing stock is paralleled by a crisis in the *mechanisms of production and distribution of suburban housing*, reflected in creeping inflation and the instability of financial markets (65). Financial intermediaries are decisive in the families' ability to purchase a home. The major contradiction is manifested in increasing individual, corporate and state debt in general, and residential debt in particular. Residential debt as a proportion of total debt rose from 9.5 percent in 1947 to 23.7

percent in 1972. More and more resources have to be devoted to pay the past debt. With the skyrocketing of interest rates and stagnation of real income the cost of new suburban housing threatens a financial collapse that could start an explosive chain of reactions.

Housing investments are becoming more and more risky and therefore the leading financial institutions are retreating from the mortgage-holding market. In the process the Federal government has assumed an increasing share of the debt, avoiding a mass of foreclosures in the suburbs and in the central cities. Increasing government debt and thus inflation were crucial for maintaining the demand for housing between 1968 and 1972.

But there are major unresolved contradictions linked to this process. Either interest rates grow faster than inflation, and families will be increasingly unable to pay them, or inflation speeds up and financial institutions will refuse to make unprofitable investments. The Federal government intervenes, but is increasingly unable to stop inflationary expenditures and simultaneously meet other priorities.

C) *The pattern of transportation* in the dual model of urban-suburban structure produced several contradictions during the sixties (67). The most important was the differential speed of residential sprawl and decentralization of activities in the CBD. The undersupported public transportation network became increasingly over-crowded and deteriorated and the new urban highways were not enough to support the amount of peak-hour traffic. An increasing proportion of central land was devoted to parking lots and the downtown streets were more and more submerged by the traffic. Federally backed use of the automobile created a permanent financial crisis in public transit and reinforced the downgrading of the service, thus expanding a vicious circle (68).

Urban crises have been generated by the contradictions inherent in a) downtown-redevelopment interests that required renewed public support for mass-transit in order to make the facilities they were building more accessible; b) the inner-city residents who had problems driving in the city and were disadvantaged in their travels to suburban work places. As a response, the Federal government started a new program funding eighty percent of city projects proposing mass transit development (69). The most important initiative under this new provision was the BART system in the San Francisco Bay Area. But as several analysts have shown, this experience, as well as the general trend in other on-going mass-transit programs, have favored middle class suburban residents commuting to work in the central business district rather than the increasingly isolated city residents or the mass of workers commuting from the working class suburbs.

But the model came under attack from the suburbs as well. Car maintenance costs increase and a significant proportion of the suburban population cannot drive. A study conducted by the Berkeley Institute of Urban Research estimated the proportion of those deprived of daily access to the car in the San Francisco area as thirty percent of the population *over 16*. Also, the measures to protect the environment against pollution have emphasized the critique of the automobile, mobilizing one dimension of the suburban model (living "within Nature") against

another (traveling by car).

Ultimately, the oil crisis is producing a major breakdown in the perspectives of unlimited car-based transportation. With the 55 mph speed limit on the highways, commuting time increases substantially and the absurdity of extra large super powerful cars running slowly in 12-lane express highways is starting to strike many North American minds.

D) Another key mechanism in the class model of urban structure that is currently crumbling is the *school system*. We will not refer here to the whole complex set of contradictions concerning education, but exclusively to its role in the reproduction of the system of urban segregation through the "separate and unequal" rule. The autonomy of the school districts over the functioning of their schools has come under attack from the grass-roots and from the institutions at the same time. The neighborhood movements, particularly in the minority sectors of the city, have developed a campaign asking for *community control* over the school, namely for the mobilization of the parents in order to improve the quality of the service and to break down the differential class logic of the educational bureaucracies in the inner city schools. Without challenging segregation, this movement opposes the effects of segregation on services calling into question the structural inequality in the distribution of public resources (70).

On the other hand, the impact of mass protest and liberal pressures on the institutional system led to a potentially explosive trend: the *busing* of school children among different school districts in order to keep a racial balance and to avoid segregation (71). This measure is one way to bypass the vicious circle between the social status determined by the quality of education and the equality of education determined, through residential segregation, by social status. Some cities have court-ordered two-way busing in order to improve integration in the schools. While the upper and middle-class do not care too much, being "protected" in the suburbs or having the possibility of sending their children to private schools, the white working-class neighborhoods have reacted strongly (rioting and demonstrating in Boston, Louisville, etc.) against what they consider a threat against the social chances of their children or even their physical security.

The system of "educational vouchers" to families who can use them in the school of their choice, each school receiving funding proportionately to the demand is an attempt to make the schools work through the market mechanisms. Experiences in California do not seem very convincing either in terms of efficiency or equality since the mechanisms of reciprocal selection by schools and parents work to keep in general the same social recruitment.

What is clear through this process of contradiction and conflict over school segregation is that the U.S. urban model is being shaken not only in its daily functioning but also in its mechanisms of self-reproduction.

E) Similar problems appear in other basic public services, such as health, garbage-collection, welfare, etc. Analysis of these service areas would provide additional evidence about the general breakdown of the organization of the means of collective consumption settled during the expanding period that followed World War II

The most striking effects of these trends are undoubtedly *the growing abandonment and physical destruction of large sectors of the central cities, particularly in the ghettos*. Baltimore's Pennsylvania Avenue, Boston's West Point, St. Louis' Pruitt and Igoe, etc. are symbols of the potential massive destruction that could happen if the current pattern is not reversed. The most famous example is the South Bronx District in New York, where 600,000 people live. The process of abandonment, the deterioration of real estate values and the loss of control by the system, have induced the landlords to stimulate fires in order to obtain some payment from the insurance companies. In other cases it is just to obtain plumbing and some building materials. They pay children to start the fires: \$3 to \$10 each. There were 12,300 fires in South Bronx in 1974, with more than one-third proved intentional, ten every night! And that is not a unique district: Brownsville-Brooklyn, Bushwick, etc. are also burning. Zones of New York appeared as if they had been bombed. And among the ruins, the structurally unemployed, and kids without schools, sit and chat waiting to see what is coming next.

The crisis of urban services and the breakdown of the social order at the individual and at the collective level had a major impact on the management of the urban system itself striking deeply the state apparatus and its internal operations: this is what emerged openly as the urban crisis of the seventies (72).

3.3 *The crisis of the local level of the state apparatus in the large central cities* [73].

The most visible effect of the impact of the urban contradictions and conflict on the state apparatus is the *fiscal crisis of the central cities*. This is the direct expression of the articulation of the different processes that I have described. The fiscal crisis of the central cities is a particularly acute expression of the fiscal crisis of the state: the increasing gap between expenditures and revenues through the process of socialization of costs and privatization of profits. The crisis is even more acute in the local governments of large central cities because they express the contradictory expansion of the "service sector." (74)

On the one hand, corporate capital must build directional centers which require concentration of service workers and public facilities. On the other hand, in order to maintain the social order, the state must absorb the surplus population and provide welfare and public services to the large fraction of structurally exploited population, mostly concentrated in the inner cities. During the fifties, the accumulation requirements had the top priority and local finance started to recover. During the sixties the mass protest in the inner cities forced some redistribution through social expenses as well as the provision of jobs.

The increasing number of *municipal workers* triggered a process of escalating demands and economic struggles that was favored by the absence of established bargaining patterns in the public sector. Teachers, municipal service workers, public health workers, sanitation workers, firemen, and policemen have been among the most militant strikers and union organizing sectors of American labor. They have improved their

position substantially even if they are yet behind the level of wages in the private monopoly sector. *The entire set of labor relationships has been disrupted in the local public sector*, creating inflationary trends in the cost of labor-intensive services. The city did not react by raising new taxes on the corporations, who were the most expensive municipal-service consumers, but by raising taxes on central city residents and trying to oppose between them tax-payers, the welfare consuming poor, and municipal workers. In spite of renewed fiscal effort and higher public service fares, the city had to increase public debt, issue municipal bonds, and count on the expected future revenues in order to equilibrate the budget. This is what happened to New York City in 1974-75, provoking a world famous fiscal crisis that will become a test of the U.S. policies to handle the economic crisis in general (75).

During the 1950's the New York City budget expanded at an annual rate of approximately six percent. Since 1965, after pressures from communities and workers started, the budget increased at an annual rate of fifteen percent. One-eighth of New Yorkers are on welfare. New York maintains the largest system of public hospitals, of subsidized mass transit, of welfare payments, of free-tuition universities, of cultural facilities, etc. Nevertheless, the "bankruptcy" of New York City is not a consequence of the "excessive" services and jobs distributed as the elite circles have tried to argue. It is the combined result of corporate rejection of increased taxes that could pay for the social services and, even more important, the decision of the financial community to discipline the New York City social welfare policy.

If the case of New York City is perhaps the most extreme example of the tendency implicit in the whole evolution of the urban contradictions, most central cities face similar problems. In Cleveland, the ratio of the city's debt service to its current budget expenditures is 17.9 percent, even higher than New York. In Milwaukee, this ratio (indicator of potential imbalance) is 15.2 percent in spite of the very high local taxes. Detroit also has a structural deficit and laid off fifteen percent of its municipal workers in 1975. Buffalo has a debt service to operating budget ratio of \$17 million to \$229 million. Boston reduced its municipal work force by ten percent in 1975, particularly in the health sector. San Francisco faced in September 1975 a strike of firemen and police that forced the mayor to keep their jobs and to raise their salaries, provoking the indignation of the financial community and submitting the mayor to embittered attacks to be on the path towards very serious fiscal crisis.

The potential consequences of the urban fiscal crisis are very serious because they could threaten the already unstable *political legitimacy of the local governments*. Let us explain this important point.

The municipal reformers of the thirties replaced the pork-barrel and patronage policies of the political machines by the urban development schemes of the city managers. They risked the loss of the person-to-person ties that had founded machine control of inner-city neighborhoods. The pressures from the grass-roots during the sixties forced open local bureaucracies to the poor and to the ethnic minorities. If "all out busi-

ness" policies predominate, the local governments of the largest cities are going to be increasingly isolated from the different conflicting social interests and are going to lose all the past sources of legitimacy, either in terms of clientele, in terms of management or in terms of specific interests being served. First line of the revision of the social policies of the sixties, the cities are actually under the cross fire of the business interests claiming restraint and the workers and consumers refusing to carry the burden of a crisis which is not theirs. Thus the state apparatus in the central cities, besides supporting increasing contradictions at the level of fiscal policies and being shaken by demands for services, jobs and wages, is also losing political control over the social conflicts growing up from the urban issues.

3.4. *The crisis of the model of urban development.*

The post-war pattern of urban development itself is now at stake. The converging trends of the social conflicts, the crisis of services and the economic and political crackdown of social governments have put into question the urban-suburban structure that emerged as a powerful factor in the process of capitalist accumulation and segregated commodity consumption. Actually, even the trend of metropolitanization is now being reversed. For the first time in U.S. urban history, between 1970 and 1973 five of the eight major metropolitan areas have *decreased* instead of increasing in size. The New York metropolitan area had a net decrease of 305,000 inhabitants. The decrease in Chicago was 124,000; for Philadelphia 75,000; for Detroit 114,000; Los Angeles in 1972-73 showed a net out-migration of 119,000. Boston (+0.4 percent) and San Francisco (+0.5 percent) remained stable after their growth during the sixties. Only Washington grew, by one percent, largely because of federal government employment.

A new and major contradiction arises. If the flight of activities and residences continues towards the non-metropolitan areas (which gained 4.2 percent population in 1970-73) the depression of the large cities will accelerate. But the large metropolitan areas remain organizational forms of major economic and political interests of the ruling class, as well as the dwelling of a large proportion of American people. The new urban form arising from the current crisis will be largely a function of urban social movements and political conflicts.

4. *Policies for the Urban Crisis, Grass-Roots Movements and the Political Process.*

There is no alternative model to the crumbling pattern of urban-suburban development within the parameters of the unrestrained dominance of corporate capitalist interests. The almost perfect functionality of this urban form, at the same time, for the accumulation of capital, the organization of centralized management, the stimulation of commodity consumption, the differential reproduction of labor power and the maintenance of social order, explains why the dominant capitalist interests will tend, in all circumstances, to respond to the multi-level crisis by

mechanisms that, ultimately, will reestablish the already-proven model with slight modifications. There has been some speculation about the lack of interest of corporate capital in maintaining the central cities, but this is pure science fiction. As Roger Friedland says:

Such a scenario is highly unlikely, given the importance of the big city vote for national elections, the continued concentration of corporate and financial headquarters in the major central cities, and the economic imperative of maintaining the value of public infrastructure and private construction in the central cities. . . . The value of central city properties is the bedrock upon which the residential, commercial, and municipal loans are based. Thus the viability of the financial institutions of this country and ultimately the nation's capital market itself are dependent on maintaining the value of central city properties (76).

But then, how are corporate interests to handle the growing contradictions shown by our analysis? The virtue and shortcoming of U.S. capitalism is its pragmatism. Instead of launching big national projects—"à la française"—urban policy makers tried specific successive solutions to the specific problems following the moment and intensity of their appearance. The "trouble" with this piecemeal approach is that eventually it triggers new contradictions and conflicts less and less susceptible to control.

Thus, the opposition to urban renewal did not stop the program which actually expanded during the seventies under new forces and accelerated in some cities, like Los Angeles. The failure of the Great Society programs in controlling the social order led to a total revision of the strategy and progressive dismantlement of the programs since 1968, at the same time that new laws were approved and massive funds were devoted to the reinforcement of repressive policies. The Model Cities program, for instance, was a transitional measure with emphasis given to the problems of coordination and to demonstration effects, rejecting explicitly the idea of autonomous community mobilization, the whole under the supervision of local authorities whose power was restored. With Nixon's revenue-sharing policy in 1972, the change of direction in social and political terms was completed. By cutting off the funding of the programs and by replacing them by a distribution of federal tax-raised funds to states and local governments, the dominant interests succeeded, with a single movement, in by-passing the excessively reformist federal agencies, reducing considerably the social welfare expenditures and the redistribution of services, and elevating the burden of political responsibility over the shoulders of the local authorities.

In the U.S., local authorities are more socially conservative than the federal government, since they are embedded in the network of socially dominant interests in each city, rarely representative of grass-roots needs and demands. The analysis of the first two years of the revenue-sharing program shows that in half of the cases the money was not spent but used to reduce local taxes. Concerning the funds actually used, the two more important areas were law enforcement (police) and education, which are the usual responsibility of local authorities. Less than three percent was spent on welfare or some kind of special social pro-

gram. In most larger cities there was no expenditure at all in activities that could replace the cancelled federal programs (77).

Using repression more than integration in handling the central-city problem, the next step was to reorganize the productivity of services in the public sector and to coordinate more effectively at the technical and economic level the socially and politically fragmented metropolis. But in order to improve productivity and to mobilize resources to increase the functionality of the metropolis without affecting either the major privileges of corporations or the established political network, it necessitated cutting off social services, reducing wages, and increasing fares. This was to deny the sixties, to reorganize the model of metropolitan accumulation with tougher policies and tightened controls.

The implementation of this hard line in urban policies is not going to be easy since the heritage of the sixties is not only more services and higher public wages but also more experience of struggle and organization at the grass-roots level. In fact, the evolution of urban structure and of urban services in the U.S. will depend upon the contradictory interaction between the capitalist-oriented hard-line urban policies and the mass response that could emerge from city dwellers.

In that sense, more recent information seems to point towards a surpassing of the shortcomings of community movements during the sixties (78). These were stalled by two major problems, almost inevitable in the early period of their development: a) their localism, defining themselves more in terms of their neighborhood and/or ethnicity than in regard to some specific issues; b) partly as a consequence of the latter trend, their *social* and *political isolation*, at the same time with respect to other groups and in relation to the political system.

Making alliances (and then winning allies) and penetrating the political system (and then winning positions in the network of power) seem to be the major requirements for the shift from grass-roots pressure to grass-roots power in the shaping of the urban policies. Contrary to Cloward and Piven's insightful analysis, the problem with the 1960's protest movements was not their integration by the system and the loss of their spontaneity, but, on the contrary, their insufficient level of organization and their role as political outsiders. Thus, the results were the absence of any cumulative mass movement, the inability to insure the advantages obtained in urban services, and their political isolation, opening the way to their repression and dismantlement (79).

The lessons were well learned to a large extent. The 1970's urban movement grew up mostly around particular issues, organizing a large sector of people not on the grounds of their spatial togetherness, but on the base of their common interests and in a long-run perspective: tenants' unions, mass-transit riders' committees, schools' parents and teachers, public utilities users, etc., spread all over the country in the process of creation, step by step, of a huge decentralized network of protest-oriented mass organizations and activities (80).

This movement is extremely diversified. On the one hand, there is a proliferation of self-help activities at the level of the community: co-ops, health centers, independent schools, community radio stations, local con-

struction, local agricultural and industrial production (obviously on a very small scale), and, even black cooperative capitalism in some ghettos.

At a second level, defensive movements of resistance against the consequences of the urban policy for people (i.e., to stop urban renewal) or to fight back the attack on the quality or level of services (i.e., protests against the reduction of hospital facilities in San Francisco, unrest in the New York subway to oppose the rise of subway fares, etc.) are general to all large metropolitan areas.

At a third level, some of these movements are trying to recover the initiative along two major lines of development:

1) The transformation of a reaction into a specific demand capable of being translated into a progressive measure potentially implying a new social content for urban policy. Perhaps the best example is the evolution of the tenants movement facing the process of residential abandonment in New York. After having realized that most attempts to launch a rent strike led to abandonment by the landlord, many tenants' committees stopped their action. But after verifying that some abandoned houses were rehabilitated by the city and sold at a low price to another landlord, groups implemented a new tactic. They triggered a process of rent strikes forcing abandonment and then applied to the city for a rehabilitation grant that transformed them into cooperative owners, eventually using the rents saved through the strike for paying for the repairs. The logic of urban decay was reversed, not by urban planners but by urban movements.

2) The other developing line is the emergence of real "public facilities consumers unions" that try to respond to the deterioration of social services and to their growing weight in the family budgets by sustained economic action concerning the production, distribution, and management of collective goods and services. An example is the nation-wide campaign launched in 1975 against the rise in electricity rates by a movement of several thousand members significantly called "Just Economics."

Finally, these alternative perspectives in urban policies seem also to appear, for the first time in the last thirty years, at the level of local and state governments. Not only as "social welfare programs" within the general context of corporate interest dominated policies, but as actual priorities given to the immediate interests of the grass-roots combined with the search for an increase in the rationality of urban management. Propositions to municipalize urban land or electricity companies, to expand a public system of urban transportation, to develop community control over schools and hospitals, etc. are widespread now in cities like Madison, Wisconsin, or Austin, Texas, which are run by progressive coalitions elected with huge support and which are developing a clear social-democratic trend in urban policies. Certainly, these cities are atypical (because they are the settings of major universities) but the first conference on "Alternative State and Local Public Policies" sponsored by the Institute of Policy Studies, gathered in Madison, in June 1975, nearly 200 elected public officials from all over the country, in order to define a "populist" tendency within the public sector and to establish a permanent system of exchange of experience and resources.

Even if this trend is not yet so visible in the large cities' local institutions, it represents the mobilization of a growing organized force that could eventually connect with the relatively progressive Black mayors of some big cities.

In the development of this trend of populist-oriented new urban policies, there is obviously the need of some connections with the national political process. And this is precisely one of the most significant effects of U.S. urban movements on the general system of class relationships. As Roger Friedland writes "By transforming urban daily life into national partisan issues, the large number of poor and working class people who have no meaningful connection or place in the national electoral system could be given choices that make a difference." (81)

Now, if we consider the developing trends towards urban policies from both sides (that is, on the one hand, from the point of view of monopoly capital and big city bureaucracies; on the other hand, from the point of view of a multi-class populist from a major social clash over urban policies appears clearly possible in the near future.

The exploitative and increasingly contradictory model of urban-suburban expansion that dominated metropolitan America in the last thirty years will be transformed only if the peoples forces win decisive gains in upcoming battles. But such a result would be an almost intolerable setback to the corporate interests. This explains why the Establishment has been so violent in repressing New York City and also why the dominant emphasis in current local policies is given to the development of the repressive apparatus. The aftermath of the sixties has provided an incredible mass of sophisticated weaponry for repressing mass protests in the large cities. Since it has become clear now that the costly desperate riots have been replaced by long-run oriented, permanent mass movements, the FBI has reconverted hundreds of special agents and sent them to infiltrate the grass-roots organizations. Emergency procedures and day-to-day repression have now been articulated to pave the way for a new edition of the monopoly capital pattern of urban development. The stake is important, so "they" are ready to pay a high price, even in terms of political legitimacy.

So, unless the progressive forces of the U.S. are able to develop a major movement, with enough social and political support, to rectify the dominant trend in forthcoming urban policies, what could emerge from the current urban crisis is a simplified and sharpened version of the exploitative metropolitan model with the addition of mass police repression and control and in a largely deteriorated economic setting. The suburbs will remain fragmented and isolated, the single-family homes closed over themselves, the shopping centers a bit more expensive and a lot more surveyed, the highways less maintained and more crowded, the central districts still crowded during office hours and more deserted and curfewed after 5 p.m., city services increasingly crumbling, public facilities less and less public, the surplus population more and more visible, the drug culture and individual violence necessarily expanding, gang society and high society ruling the bottom and the top in order to keep a "top and bottom" social order, the urban movements re-

pressed and discouraged and the urban planners eventually attending more international conferences in the outer, safer world. What could emerge of a failure of urban movements to undertake their present tasks is a new and sinister urban form: the Wild City.

1. Quoted by Ernest Holsendolph, "Urban Crisis of the 1960's is Over, Ford Aides Say," *The New York Times*, March 23, 1975.

2. Quoted in Charles O. Jones and Layne D. Hoppe, *The Urban Crisis in America*, Washington National Press, Washington, 1969.

3. See, for example, M. Castells, "Urban Sociology and Urban Politics," *Comparative Urban Research*, 6, 1975.

4. *The Ribicoff Hearings*, U.S. Congress, 1966, p.25.

5. See James Q. Wilson, "The Urban Unease," *The Public Interest*, Summer 1968, pp. 26-27.

6. See: Alan Gartner and Frank Riessman, *The Service Society and the Consumer Vanguard*, Harper and Row, New York, 1974. And Also: Paul Jacobs, *Prelude to Riot. A view of urban America from the bottom*, Vintage Books, New York, 1966.

7. See: Daniel R. Fusfeld, "The Basic Economics of the Urban and Racial Crisis," Conference Papers of the Union for Radical Political Economics, December 1968. And also Barbara Bergeman, "The Urban Crisis," *American Economic Review*, Sept. 1969.

8. See: John Mollenkopf, *Growth Defied: Community Organization and the Struggle Over Urban Development in America*, forthcoming book on the base of a 1973 Harvard Ph.D. dissertation, the best research that we know on urban movements in the U.S. Also, the useful reader: Robert H. Connery (ed.), *Urban Riots: Violence and Social Change*, Vintage Books, New York, 1969. And the now classic article by Michael Lipsky, "Protest as a Political Resource," *American Political Science Review*, LXII, N.4, December 1968.

9. City Bureau of the San Francisco Socialist Coalition, "Cities in Crisis," Package on the Economic Crisis of the Union of Radical Political Economists, 1975.

10. For some data concerning the basic information on the characteristic functions and transformation of the process of metropolitan growth and urban structure in the United States, see Leo Schnore, *The Urban Scene*, The Free Press, Glencoe, Ill., 1965; Beverly Duncan and Stanley Lieberman, *Metropolis and Region in Transition*, Sage Publications, Beverly Hills, Ca., 1970; Sylvia F. Fava and Noel P. Gist, *Urban Society*, Thomas Y. Crowell, New York, 1975; Leonard E. Goodall, *The American Metropolis*, Charles E. Merrill, Columbus, Ohio, 1968; Amos H. Hawley and Basil G. Zimmer, *The Metropolitan Community*, Sage Publications, Beverly Hills, Ca., 1970; Jeffrey K. Hadden and Edgar F. Borgatta, *American Cities: Their Social Characteristics*, Rand McNally Co., Chicago, 1965, etc. For a well informed presentation of the historical evolution on American cities, see: Charles N. Glaab, *The American City. A documentary history*, The Dorsey Press, Homewood, Ill., 1963.

11. For this crucial point on the urban analysis in the U.S., see the forthcoming paper by David Gordon, "Toward a Critique of Capitalopolis: Capitalism and Urban Development in the U.S.," 1975, for which we had the chance to discuss personally.

12. The specificity of Los Angeles can be better understood by consulting the insightful monograph by Robert M. Fogelson, *The Fragmented Metropolis, Los Angeles, 1850-1930*, Harvard University Press, Cambridge, Mass., 1967.

13. The best source of data, bibliography and interpretations on the suburbanization process is the reader edited by Louis H. Masotti and Jeffrey K. Hadden, *The Urbanization of the Suburbs, Urban Affairs Annual Reviews*, Sage, Beverly Hills, Ca., 1973. Elliott Sclar (Brandeis Univ.) is finishing an important book on the subject: we have benefitted from one discussion on the topic as well as of a chapter ("Levels on Entrapment"). For additional references on the topic, until 1971, we suggest consulting: Timothy Schiltz and William Mofitt, "Inner City-Outer City Relationships in Metropolitan Areas: A Bibliographic Essay," *Urban Affairs Quarterly*, Vol. 7, 1, Sept. 1971.

14. See: Bennett Harrison, *Urban Economic Development: Suburbanization, Minority Opportunity and the Condition of Central City*, The Urban Institute, Washington, D.C., 1974.

15. See: Ira Katznelson, *Black Men, White Cities, Race, Politics and Migration in the United States, 1900-30 and Britain 1948-68*, Oxford University Press, London, 1973, for an explanation of the mechanisms although the period studied is not exactly the same.

16. See: Leo Schnore, *Class and Race in Cities and Suburbs*, Markham, Chicago, 1972.

17. Reminder: Herbert J. Gans, *The Urban Villagers: Group and Class in the Life of Italian Americans*, Free Press of Glencoe, New York, 1962; *The Levittowners, Ways of Life and Politics in a New Suburban Community*, Pantheon Books, NY, 1967; "Urbanism and Suburbanism as Ways of Life," in Arnold M. Rose (ed.), *Human Behavior and Social Processes*, Houghton Mifflin, Boston, 1962.

18. See: Reynolds Farley and Alma F. Taeuber, *Racial Segregation in the Public Schools*, Institute for Research on Poverty, University of Wisconsin, Madison, May 1972, mimeo.

19. See the different analyses contained in Robert H. Haveman and Robert D. Hamrin (editors), *The Political Economy of Federal Policy*, Harper and Row, New York, 1973. And for the specific and crucial point on transportation: George M. Smerk, *Urban Transportation. The Federal Role*, Indiana University Press, Bloomington, 1965.

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21. For an outline of the interaction between these three levels (the process of capital accumulation, the process of urbanization and the State) see the fundamental paper by David Harvey, "The Political Economy of Urbanization in Advanced Capitalist Societies. The Case of the United States," *Urban Affairs Annual Review*, Sage Publications, 1975.

22. The most important source of data on housing for the U.S.: *Housing in the Seventies*, Hearings on Housing and Community Development Legislation, 1973, Part 3, House of Representatives Subcommittee on Banking and Currency, 93rd Congress, First Session, Government Printing Office, Washington, D.C., 1973.

23. A clear description of the financial mechanisms of the housing market is: Rogert Starr, *Housing and the Money Market*, Basic Books, New York, 1975.

24. We are looking forward to the development of research by Glenn Yago (Sociology Department, University of Wisconsin, Madison) on "State policy, corporate planning and transportation needs: the development of the U.S. Urban Ground Transportation System." We have learned many things about U.S. transportation through our discussions.

25. Glenn Yago, "How Did We Get to the Way We Are Going?", General Motors and Public Transportation," University of Wisconsin, Sociology Department, Madison, 1974, mimeo.

26. See George M. Smerk, *op. cit.*, 1965: and especially the readings included in the chapter on "The Politics of Transportation" in Stephen M. David and Paul E. Peterson (editors), *Urban Politics and Public Policy: The City in Crisis*, Praeger Publishers, New York, 1973.

27. See: Francis Godard, "De la notion de besoin au concept de pratique de classe," *La Pensee* (Paris), n. 166, December 1972: and also: Edmond Preteceille, "Besoins sociaux et socialisation de la consommation," *La Pensee*, n. 180, March-April, 1975.

28. See: M. Freyssinet and T. Regazzola, *Segregation urbaine et déplacement sociaux*, Centre de Sociologies Urbaine, Paris, 1970; and Christian Topalov, "Politique Monopoliste et propriete du logement," *Economie-et-Politique*, March, 1974.

29. Leo Schnore has insisted several times on the dependency of the social patterns of the cities upon the specificity of the historical processes and stages. For a re-assessment of this perspective, see: Leo F. Schnore (editor), *The New Urban History*, John Wiley, New York, 1975.

30. The best available source of data and references on the problem of the central city in the U.S. and its social and economic interactions is the study prepared by the Congressional Research Service for the Subcommittee on Housing and Urban Affairs, United States Senate: The Central City Problem and Urban Renewal Policy, 93rd Congress, Government Printing Office, Washington, D.C., 1973. See also for a detailed analysis of the functioning of the irregular economy, William Tabb, *The Economy of the Black Ghetto*, NY, 1970.

31. See: Karl E. Taeuber and Alma F. Taeuber, *Negroes in Cities: Residential Segregation and Neighborhood Change*, Aldine Publishing Co., Chicago, 1965.

32. See: "The Central City Problem," *op. cit.*, 1973, p. 103.

33. See: Stanley H. Masters, "The Effect of Housing Segregation on Black-White Income Differentials," Institute for Research on Poverty, Univ. of Wisconsin, Madison, 1972, mimeo.

34. See David Harvey, *op. cit.*, 1975.
35. Elliott Sclar, *op. cit.*, 1975.
36. See: "Exploitative Transfers in the Metropolis," Part I, of the interesting reader edited by Kenneth E. Boulding, Martin Pfaff and Anita Pfaff, *Transfers in an Urbanized Economy, The Grants Economics of Income Distribution*, Wadsworth Publishing Co., Belmont, Ca., 1973.
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38. See the now classic analysis on the subject by Norton E. Long, "Political Science and the City," in Leo F. Schnore and Henry Fagin (editors), *Urban Research and Policy Planning, Urban Affairs Annual Review*, Vol. 1, Sage, Beverly Hills, Ca., 1967.
39. Richard Child Hill, "Separate and Unequal: Governmental Inequality in the Metropolis," *American Political Science Review*, Dec. 1974.
40. See: Alan K. Campbell and Philip Meranto, "The Metropolitan Education Dilemma: Matching Resources to Needs," in Marilyn Gittell (ed.) *Educating an Urban Population*, Sage Publications, Beverly Hills, Ca., 1967; and also, James S. Coleman et al., *Equality and Educational Opportunity*, U.S. Government Printing Office, Washington, D.C., 1966.
41. For a useful reader on the evolution and social meaning of the urban policies see: Stephen M. David and Paul E. Peterson (editors), *Urban Politics and Public Policy: the City in Crisis*, Praeger Publ., NY, 1973. Also, for a more traditional view, J. Wilson (ed.), *City Politics and Public Policy*, John Wiley, NY, 1968.
42. We have largely relied on the excellent analysis of the relationships between urban structure, urban politics and urban policies by John Mollenkopf, "The Post-War Politics of Urban Development," to be published (1975) by *Politics and Society* and by *Espaces et Societés*.
43. The most comprehensive research that we know on American urban renewal has now been almost completed by Roger Friedland (Sociology Department, University of Wisconsin, Madison, Ph.D. Dissertation, 1975). I have used Friedland's comments and information to up-date my own research on American urban renewal, written in 1969 ("La renovation urbaine aux U.S.A.," *Espaces et Societés*, n. 1, 1970).
44. In my quoted article (1970) there are many bibliographical and data references to support this statement. Friedland's thesis will expand both theoretically and empirically the basic assumptions of the radical critique on U.S. urban renewal.
45. See, for instance, Chester Hartman's *Yerba Buena*, 1974, on the popular resistance against urban renewal in San Francisco. Mollenkopf studies also several struggles on urban renewal (book quoted, 1976).
46. See: Report by the President's Commission on Law Enforcement and Administration of Justice, *The Challenge of Crime in a Free Society*, Avon Books, New York, 1968.
47. Frances Fox Piven, "The Great Society as Political Strategy," in Richard A. Cloward and Frances F. Piven, *The Politics of Turmoil*, Pantheon Books, New York, 1974.
48. For a more detailed interpretation, see our forthcoming paper: Michael Aiken and Manuel Castells, "From the Great Society Dreams to the Inner-City Nightmares," 1975.
49. Basic references on the subject are: Peter Marris and Martin Rein, *Dilemmas of Social Reform*, Routledge and Kegan Paul, London, 1970 (it is better to consult this second edition); Daniel P. Moynihan, *Maximum Feasible Misunderstanding*, Free Press, New York, 1969; Frances F. Piven and Richard A. Cloward, *Regulating the Poor*, Vintage Book, 1971; same authors: *Op. cit.*, 1974; Roland L. Warren, Stephen M. Rose, Ann F. Bergunder, *The Structure of Urban Reform*, Lexington Books, Lexington, Mass., 1974.
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52. See: Norman Fainstein and Susan Fainstein, *Urban Political Movements*, Prentice Hall, Englewood Cliffs, N.J., 1974; and also: John Mollenkopf, "On the causes and consequences of neighborhood political mobilization", paper delivered at the meeting of American Political Science Association, New Orleans, September 1973.

53. Michael Lipsky, *Protest in City Politics. Rent Strikes, Housing and the Power of the Poor*, Rand McNally, Chicago, 1970.
54. See: John Mollenkopf and Jon Pynoos, "Property, Politics and Local Housing Policy," *Politics and Society*, Vol. 2, N. 4, 1972.
55. *Op. cit.*, 1971.
56. Robert Bailey, Jr., *Radicals in Urban Politics. The Alinsky Approach*, The University of Chicago Press, 1972.
57. The best summary and discussion of the research available on the 1960's riots is: Joe R. Feagin and Harlan Hahn, *Ghetto Revolts, The Politics of Violence in American Cities*, Macmillan Co., New York, 1973. For an excellent case study of the development of Black Movement in Detroit, see: Marvin Surkin, *I do mind dying. A study on Urban Revolution*, St. Martin's Press, NY, 1975.
58. See Seymour Spilerman, "The Causes of Racial Disturbances: A Comparison of Alternative Explanations," *American Sociological Review*, 35, August 1970; "The Causes of Racial Disturbances: Tests of An Explanation," *American Sociological Review*, June, 1971.
59. The connection between the black movement as a social protest movement and the open housing movement as a service-reform movement has been shown in detail by a case study on Milwaukee carried on by a working-group of my University of Wisconsin's seminar on urban politics: Ron Blascoe, Kim Burns, David Gillespie, Greg Martin, and Linda Wills, *Milwaukee Open Housing and the Grass Roots*, University of Wisconsin, Madison, Sociology Department, August 1975.
60. For a general documentation see: David Gordon (editor), *Problems in Political Economy: An Urban Perspective*, Heath, Lexington, Mass., 1971. And also: J. Pynoos, R. Schafer and C. Hartman (eds.), *Housing Urban America*, Aldine Pub. Co., Chicago, 1973.
61. See: The Central City Problem, *Op. cit.*, 1973, Part I, Section 6.
62. See the insightful study of George Sternlieb and Robert W. Burchell, *Residential Abandonment. The Tenement Landlord Revisited*, Center for Urban Policy Research, Rutgers University, New Brunswick, N.J., 1973. The study is centered on Newark but the analysis has a more general scope.
63. "The Central City Problem," *Op. cit.*, 1973, p. 107.
64. See David Harvey, *Op. cit.*, 1975.
65. See: Wilfred Owen, *The Metropolitan Transportation Problem*, Doubleday Anchor Books, New York, 1966.
66. See: Michael N. Danielson, *Federal-Metropolitan Politics and the Commuter Crisis*, Columbia Univ. Press, New York, 1965.
67. James F. Veatch, "Federal and Local Urban Transportation Policy," *Urban Affairs Quarterly*, Vol. 10, n. 4, June 1975.
68. See Norman I. Fainstein and Susan S. Fainstein, *The Future of Community Control*, Bureau of Social Applied Research, Columbia University, New York, Sept. 1974, mimeo.
69. I have relied on the very detailed summary research paper done by a working group of my University of Wisconsin's seminar on urban politics: Mary A. Evans, Alfonso Thurman, Anthony Edoh, and Augusto Figueroa, *Busing and Urban Segregation: the Continuing Struggle*, University of Wisconsin, Sociology, Madison, August 1975.
70. See: J. David Greenstone and Paul E. Peterson, *Race and Authority in Urban Politics. Community Participation and the War on Poverty*, Russell Sage Foundation, New York, 1973.
71. In addition to my own observations and data-gathering, I have used two excellent papers on the urban crisis within a largely shared perspective of concrete Marxist analysis of urban contradictions: Richard Child Hill, "Black Struggle and the Urban Fiscal Crisis," Conference on Urban Political Economy, New York, Feb. 1975, mimeo; and Roger Friedland, "Big Apple and the Urban Orchard," Berkeley, August 1975, typed paper.
72. See: William J. Baumol, "Macroeconomics of Unbalanced Growth: the Anatomy of the Urban Crisis," *The American Economic Review*, June 1967. Also: George Sternlieb, "The City as Sandbox," *The Public Interest*, Fall 1971. And Alexander Ganz, "The City-Sandbox, Reservation or Dynamo?", *Public Policy*, 21, Winter 1973. Also, the recent careful statistical analysis of the determinants of central city decay by Franklin D. Wilson, *The Organizational Components of Expanding Metropolitan Systems*, Center for Demography and Ecology, University of Wisconsin, Madison, July 1975.

75. I have used, besides reading the New York Times and speaking with some friends in New York (particularly Marvin Surkin, Allan Wolfe, Robert Cohen, Bill Tabb, Ron Lawson, etc.), the well documented paper done by one of my students at the University of Wisconsin: Joel Devine, Working Paper on the Urban Fiscal Crisis, A Case study: New York City, Madison, August 1975.

76. Roger Friedland, *op. cit.*, 1975.

77. See: M. Aiken and M. Castells, *op. cit.*, 1975.

78. See: Ira Katznelson, "Community Conflict and Capitalist Development," Paper delivered at the Annual Meeting of the American Political Science Association, San Francisco, Sept. 1975.

79. I have trusted (and perhaps misunderstood) information provided personally by John Mollenkopf, Roger Friedland, Janice Perlman, Ira Katznelson, Marvin Surkin, and Ron Lawson. Also, I have done in some cases, a bit of "tourist participant observation."

81. Roger Friedland, *op. cit.*, 1975.

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"This process is obviously *differential* in the sense that each metropolitan area grew up at a different time and is the expression of: first, a particular form of capitalist production and distribution, and later, of a particular mode of succession and combination of the different activities (11). Given the level of generality of our analysis and its particular focus on the social breakdowns emerging in the largest metropolitan areas we will not differentiate the types of metropolitan areas. But any attempt to explain the particular spatial patterns or economic structure of American cities should deal previously with this problem to avoid generalizations of all the aspects of the urban crisis to all large cities. Here we deal with the "cities in crisis," namely the largest and oldest metropolitan areas. The Californian and Southern large metropolitan areas will share *some* of the problems here analyzed (particularly the racial discrimination and its consequences as well as the crisis of "social services") but the interplay between these contradictions and the urban structure will follow only partially the analysis presented here. Instead of complicating our synthesis excessively we prefer: a) To outline a general historical model that seems empirically valid for the oldest metropolis; b) To leave as an open question the validity of the analysis for the newest metropolis (particularly Los Angeles (12), Houston and Atlanta); c) To point, nevertheless, to the fact that major elements of the general model described (for instance, the social-political fragmentation, distribution of sources, etc.) would apply *also* to these situations; d) To suggest the urgent need for some analyses that, in addition to the work of typologizing the cities, could relate the variations in the urban structure to the specific forms of "urban crisis" existing there.

How W. H. F. flows from this

FISCAL CRISIS AND POLITICAL STRUGGLE IN THE DECAYING U.S. CENTRAL CITY

Richard Child Hill*

Typical outline
subsections
Summary of findings
Conclusions

My purpose in this working paper is to schematically outline the connections between the fiscal crisis facing many central cities, corresponding political struggles, and possible trajectories of urban change in the United States. A full treatment of these relationships would require locating the central city in the overall anatomy and physiology of urbanization and specifying the dynamic interconnections between urbanization and the developing capitalist political economy. My focus in this paper, however, will be limited to decaying central cities. Space limitations also necessitate the neglect of supporting documentation for key points in my argument. I have treated the topics under consideration here in more depth in a series of papers in progress (1).

1. CAPITAL ACCUMULATION AND URBANIZATION.

The city is forged upon the hearth of a given mode of production and is shaped with a given set of technological instruments. In a capitalist society, urbanization and the structure and functioning of cities is rooted in the production, reproduction, circulation and overall organization of the capital accumulation process. Since the process of capital accumulation unfolds in a spatially structured environment, urbanism may be viewed as the particular geographical form and spatial patterning of relationships taken by the process of capital accumulation.

Capital accumulation requires: (1) fixed investment of part of the surplus product in new means of production; (2) production and distribution of articles of consumption to sustain and reproduce the labor force; (3) stimulation of an effective demand for the surplus product produced; (4) additional capital formation through ever-increasing product innovation, market penetration and economic expansion. Correspondingly, the capitalist city is a production site, a locale for the reproduction of the labor force, a market for the circulation of commodities and the realization of profit, and a control center for these complex relationships. As Castells has succinctly put the matter, the urban system may be described as the

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"structure of relations between the process of production and the process of consumption in a given geographical area, through a process of exchange and a process of management of their relations." (2)

In all of this the notion of an urban *system* must be emphasized. A particular city cannot be divorced from the encompassing political economy within which it is embedded and through which it manifests its particular functions and form. As David Harvey has argued, in a capitalist society the circulation of surplus is constantly shifting to new channels as new opportunities are explored, new technologies achieved and new resources and productive capacities are opened up. Correspondingly, the prestige and vitality of individual cities come to rest largely upon their location with respect to the geographic circulation of the surplus. Therefore,

"...the geographical pattern in the circulation of surplus can be conceived only as a moment in a process. In terms of that moment, particular cities attain positions with respect to the circulation of surplus which, at the next moment in the process are changed. Urbanism, as a general phenomenon, should not be viewed as the history of particular cities, but as the history of the system of cities within, between, and around which the surplus circulates. . .the history of particular cities is best understood in terms of the circulation of surplus value at a moment of history within a system of cities." (3)

Periods of urbanization in the United States correspond to phases in the process of capital accumulation. Each period is characterized by a dominant type of city and a particular pattern of relationships among cities within the evolving urban system (4). Of particular salience here is the structural transformation from industrial to metropolitan urban formations which is rooted in the rise and development of national and multinational business enterprises and the increasing concentration, centralization and global extension of capital. Metropolitan urbanization is characterized by the dialectical interaction between the centralization of corporate control over capital, technology and organization and the decentralization of production, employment and commerce facilitated by advances in the productive forces (particularly transportation and communication) throughout the metropolitan domain. Dominant metropolitan centers become the locus of corporate administration and control, product innovation, development and diffusion, service and quaternary employment. The rural and urban periphery becomes more differentiated and stratified as it provides the agricultural and industrial products necessary for the maintenance and expansion of metropolitan regions (5).

Patterns of uneven development rooted in the evolving system of capitalist production correspond to patterns of uneven urban development—simultaneous urban growth and decay—in the evolving metropolitan urban system. Cities in the metropolitan urban hierarchy in the United States are integrated through spatial relationships along these axes which correspond to trajectories of uneven urban development: (1) between metropoli and regional hinterlands; (2) between higher and lower metropolitan centers in the hierarchy; and (3) between each metropolitan center and its surrounding urban field (6).

The uneven development between metropolitan areas and outlying regions, as well as the concentration of impoverished segments of the labor force in aging central cities, is a spatial expression of the capital deepening strategy of economic growth forged in the early decades of this century (7). The massive sub-urban development of the urban field of aging central cities, on the other hand, is to a significant degree a product of the consumer oriented "realization" strategy developed in response to the capital deepening induced underconsumption crisis of the 1930's (8). In sum, the underdevelopment of the periphery, the redevelopment of aging central cities, and the expansion of suburbs and new metropolitan "growth centers" are all interrelated manifestations of the evolving political economy of late capitalism in the United States.

2. CAPITAL ACUMULATION, URBANIZATION AND THE STATE.

The advanced capitalist city in the United States is a more or less integrated space economy, a locus for surplus disposal and exploitation, and a mechanism for economic expansion through market penetration. Yet crucial to understanding the urban fiscal crisis is the role the city plays as a form of government, a vital component of the capitalist state. As such, the city increasingly has been delegated managerial responsibility for facilitating the process of capital accumulation and mitigating the contradictions emanating from the unremitting quest for private profit.

With the emergence and growth of monopoly capitalism, the state takes on an active, rapidly expanding and increasingly central role in the economy and society. Following the seminal work of James O'Connor (9), we can view state expenditures as having a dual character corresponding to the state's two basic and frequently contradictory functions in a capitalist society. On the one hand, social capital outlays are state expenditures required for capital *accumulation* and are indirectly productive of private profit. There are two kinds of social capital: (1) social investment (social constant capital) which consists of projects and services that increase the rate of profit; and (2) social consumption expenditures (social variable capital) consisting of projects and services that lower the reproduction costs of labor, and, other things equal, also increase the rate of profit. On the other hand, social expenses, the second category of state expenditures, consist of projects and services which are required to maintain social order. Social expenses are not even indirectly productive of capital accumulation.

O'Connor has persuasively argued that there is a reciprocal relationship between the expansion of the capitalist state and growth in the monopoly sector and total production. Urban infrastructure is ever more capital intensive and indivisible in nature. Advances in science, technology, and specialized knowledge and skills embodied in the urban labor force, spill over the boundaries of individual firms and industries. And with the urbanization and proletarianization of labor, the costs of reproducing the labor force also rise enormously as the market penetrates every sphere of family activity. Correspondingly, the state absorption of the costs of constant and variable capital rises over time and increasingly is required for profitable activity by monopoly capital.

There is also a tendency for social expenses of production to rise over time and the state is increasingly compelled to socialize these expenses. Monopoly sector productivity and productive capacity tend to expand more rapidly than the demand for labor. Unable to gain employment in the monopoly industries, and frequently facing race and sex discrimination, the unemployed, underemployed and low wage workers in competitive industries progressively concentrated in aging central cities become full or partial dependents of the state. In the process, the state, in order to ensure order and maintain legitimacy, faces mounting pressures to meet the various demands of those who must bear the costs of capital accumulation.

In sum, with the development of late capitalism, "the growth of the state sector is indispensable to the expansion of private industry. . . particularly monopoly industries. . . and the growth of monopoly capital generates increased expansion of social expenses. The greater the growth of social capital, the greater the growth of the monopoly sector. And the greater the growth of the monopoly sector, the greater the state's expenditures on the social expenses of production." (10)

3. THE URBAN FISCAL CRISIS.

As the capitalist state becomes increasingly responsible for the capital investment requisite to profitable private accumulation and expense outlays necessary to maintain social order in a class society, the contradictions inherent in capitalist development are increasingly played out in the arena of the state. Although the state has socialized more and more capital costs and absorbs more and more expenses of production, the social surplus continues to be appropriated privately. The increasing socialization of costs and the continued private appropriation of profits creates a fiscal crisis: a "structural gap" between state expenditures and state revenues. The result is a tendency for state expenditures and expenditure demands to increase more rapidly than the means of financing them resulting in economic, social and political crisis (11). Fiscal crisis becomes the state budgetary expression of class struggle in a monopoly capitalist society.

The form taken by the fiscal crisis, as well as the intensity with which it is expressed, is heavily influenced by the structure of the capitalist state as an instrument for producing goods and services requisite to maintaining private accumulation and social order. There are three basic elements of the structure of the state in the U.S. that are fundamental to understanding the dynamics of the urban fiscal crisis and its long-range implications for social change: (1) federalism; (2) the fragmentation of local government in metropolitan areas; and (3) the nature of central city government as a structure for accumulating revenue and producing and distributing goods and services.

3.a. Federalism.

In the United States the level of state expenditures, trends in state

outlays, the distribution of state expenditures by function, and methods of obtaining state revenue, vary among federal, state and local governments and between relatively autonomous units within levels of government. The largest share of the federal budget goes to outlays on social expenses in the form of military expenditures and direct money payments to the indigent, the aged and the infirm and the provision of welfare services. The federal government takes in about two-thirds of all tax dollars and retains a virtual monopoly over the more "progressive tax sources: individual and corporate income taxes and wealth inheritance taxes." (12)

While state and local governments foot a large share of the welfare bill and have developed an extensive social control apparatus, their budgets are largely devoted to social capital expenditures. In particular, local governments assume major responsibility for social capital and social consumption outlays in urban areas including schools, fire protection, sanitation, transportation facilities, industrial parks and so on. State and local governments gain the major share of their revenues from the most regressive taxes. Sales taxes are the major source of revenue for states. The property tax is the major indigenous source of revenues for local governments (13).

Given the dynamic connection between monopoly capital accumulation, urbanization and the expansion of the state, the heaviest demands for new government spending are currently being made on state and particularly local governments (14). But while the federal government has relatively great tax-raising capabilities but only limited responsibility for civilian expenditures, local governments have more circumscribed tax-raising capabilities to match their increasingly heavy expenditure demands. The result is a large and growing fiscal "imbalance" between levels of government in the United States.

3.b. Fragmentation of Local Government.

The U.S. Constitution not only divides governing responsibility among federal, state and local governments, but also between relatively autonomous units within levels—particularly at the local level of government. Metropolitan landscapes are dotted with hundreds of municipalities, school districts and other types of single and multi-purpose units of local government. The fragmented system of government at the local level, and the heavy responsibility assumed by local governments for providing social capital outlays, generate contradiction within the heart of the urbanization process itself.

First, uneven economic development among geographical areas interacts with a politically fragmented metropolis to produce uneven fiscal development among local government jurisdictions. In particular, aging central city and inner ring suburban municipalities and school districts simultaneously experience an expansion in the relative size of their resident surplus labor force and a capital and tax base outflow to the expanding suburban fringe and metropolitan centers in more dynamic regions of the country. As the tax base becomes separated from social needs, older central cities are increasingly unable to generate the revenue requisite to meeting rapidly increasing expenditure demands (15).

* Second, externalities—where the activity of any one element in an urban system generates unpriced costs or benefits upon other elements in the system—increase geometrically with the size and complexity of the urban system. Central city government investments in “human capital” spill over their boundaries as the middle class and those with specialized skills migrate in large numbers to suburbs and other metropolitan areas. Central cities also foot the bill for numerous investments in physical capital and social consumption facilities in which the technology of the service itself makes it impossible to confine the benefits within their borders. Aging central cities also confront increasing demands for social expenses as the result of the “spill-in” of the relative surplus population from declining rural areas and the obsolescence of an increasing share of their local labor force due to technological change and the international expansion of capital. These expenditures are frequently funded from taxes on central city property and labor force but redound to the benefit of the suburban fringe and the nation as a whole.

In sum, the dynamics of capital accumulation and urbanization require expanded social investment, social consumption and social expense outlays resulting in a striking increase in the role of local governments in the U.S. economy. But the geographical circulation of surplus value according to the criterion of profitability, within a state structure characterized by federalism and a fragmented system of local governments, has meant the divorce of tax base from social needs, exploitation through fiscal mercantilism, and fiscal crisis in aging central cities in the United States.

3.c. The Structure of Municipal Production.

* Since the process of capital accumulation in a monopoly capitalist society is increasingly a function of state social capital expenditures, and since local governments bear primary responsibility for these outlays, it follows that the geographical circulation of the surplus as well as the quality of life and prestige of individual cities increasingly becomes a function of the pattern and composition of city government (municipal, school district, special district) outlays. Today, aging central cities in the U.S. find themselves confronted with increasing demands for social expense outlays which are not even indirectly productive of private accumulation. They simultaneously experience fundamental barriers to accumulating revenue for social capital outlays requisite to transforming the resident labor force to labor productive of private capital accumulation. This is the general contradiction underpinning the fiscal crisis of central cities today.

This contradiction results in economic, political and social crises and the development of increasingly intense struggles among groups in the central city political arena. The form that these struggles take is shaped by the way in which the central city government is organized to produce goods and services to meet the contradictory requirements of capital accumulation. There are three dimensions of central city production that are crucial here: (1) the relations of revenue accumulation, (2) relations of production of goods and services, and (3) relations of circulation or distribution of goods and services in the city.

3.c.1. Revenue Accumulation.

A city has to accumulate revenue in order to produce goods and services. But since the city is a component of the capitalist state, its method of generating revenue is subject to three basic rules governing the relationship between the state and the accumulation process in a capitalist society. (1) Capital accumulation takes place only in private enterprises. The state cannot appropriate a surplus to reinvest in its own enterprises to produce a further surplus. However, (2) the state has both the authority and the mandate to create and sustain conditions of private accumulation. Therefore, (3) the state's ability to produce goods and services depends upon the presence and continuity of private accumulation. In the absence of private accumulation, state revenues dry up and the power of the state disintegrates (16).

Secondly, not only must local governments operate within the parameters of capitalist accumulation, but within the U.S. federalist system they have only those rights of self-government explicitly granted them by state governments. This subordinate relationship between city and state government places added constraints over municipal revenue accumulation since many state constitutions limit the scope of local fiscal authority with respect to both taxable sources and tax rates (17).

Financing current expenditures through deficit financing, the hallmark of the federal government, is prohibited to local governments. Municipalities and school districts finance the bulk of their operating expenditures from regressive property, sales and flat rate income taxes. The rapidly mounting tax burden experienced by an increasingly impoverished central city population and the seeming lack of effectiveness and efficiency of city programs has resulted in an intensifying tax revolt among local residents (18).

Central city fixed capital outlays, on the other hand, are usually financed through bond issues (i.e. through deficit financing). Legally prescribed debt limits are generally tied to the total assessed value of property which is open to political manipulation. Also, state laws frequently exempt social capital projects, like pollution control, job development, housing, water and sewage facilities, from constitutionally prescribed limits. Under increasing fiscal pressure, and without a rigid definition of capital expenditure ceilings, an increasing number of big city governments have been transferring operating expenses into the capital budget. But the result of this practice has largely been to shift the form of the fiscal crisis to increasingly large interest charges that must be paid out of operating expenses. As a result, the city's credit rating by leading bond agencies drops and the interest rate on new bond issues increases further exacerbating the fiscal dilemma (19).

In sum, as central cities deteriorate, their bond ratings fall, interest charges rise, interest payments as a percentage of current operating expenses escalate upward and they find it increasingly expensive and difficult to borrow to finance social capital demands. At the same time, an intensifying taxpayers revolt poses stiff barriers to increasing, or at times even maintaining, current operating expenditures through tax increases. The result is an increasing inability on the part of aging central cities to

generate social capital outlays to upgrade their resident labor force, attract private capital and tax base, or meet the intensifying demands for social expenses generated by an increasingly impoverished resident population.

3.c.2. Relations of Production.

Because U.S. cities operate within the parameters governing the relationship between the state and private capital accumulation in a capitalist society, forces "external" to the city have a marked influence on the central city's budget. But within this set of parameters, the internal decision-making structure of central city governments operate to exacerbate the urban fiscal crisis. There are two elements of the relations of central city production which deserve brief consideration: (1) the process of setting budget priorities, and (2) the relations between city management and city workers. Both elements exert strong pressure for expansion in central city expenditures.

City production of goods and services, in contrast to private capitalist enterprise, is not directly governed by market profitability criteria. Rather, "budget-making is a political process conducted in the political arena for political advantage." (20) From the perspective of the city council, the most important budgetary decisions involve the construction or acquisition of new social capital facilities (capital budget) rather than the annual expenditures required to maintain these facilities once in operation (operating budget). Legislators generally have pragmatic, short range interests, capital budgets are politically manipulable, new social capital projects are visible and yield immediate political pay-off. Local capital budgeting, most research reveals, is governed less by long-range planning than by traditional, legislative, pork-barrel, log-rolling politics with a built-in tendency to proliferate projects in wasteful and inefficient ways (21).

The municipal operating budget, on the other hand, tends to be governed by "incrementalism." (22) Decision-making tends to be partial, short-range and pragmatic. The politics of the operating budget primarily reflect the concerns of city agencies and a few key elected officials. Public participation is generally "too little, too late" and frequently represents little more than "democratic ritual." (23) Existing appropriations are the basis for future funding and generally are presided over by city bureaus. Previous decisions are re-examined infrequently. Budget decisions are tentative adjustments to an existing situation based on past experience and are made along the margins. All but the most immediately identifiable alternatives tend to be neglected and all but the most visible consequences tend to be ignored (24).

However, since most local government spending goes toward the salaries and benefits of the municipal labor force, well organized and knowledgeable city employee unions can exert direct and significant influence over the municipal budgetary process. During the 'sixties and early 'seventies, municipal collective bargaining and negotiated wage agreements became the rule in cities in most parts of the country and municipal employee strikes to achieve demands increased rapidly (25). In

the past few years, city employee groups have more vigorously demanded improved working conditions and wage increases to advance their level of living and protect against inflation. At the same time, local governments have been pressured by rising prices in goods and services purchased from the private sector and by increased resistance to tax increases by local residents. The result has been a collision between rising employee demands and a tightening vise on city managements ability to fund such settlements.

Union justification for wage increases and improved working conditions in state sector collective bargaining sessions has been switching from comparability data based on private sector conditions and compensation to comparability data based on conditions negotiated in local governments in other areas, threatening city managements with the specter of "limitless" spiral in the cost of municipal settlements (26). And class conflict in the state sector has yet to be institutionalized. Most states still outlaw strikes by municipal employees. Binding arbitration is anathema to city management and union alike since it shifts responsibility for settlements outside the city political arena. City unions do not as yet play a regulating role in production relations ~~because~~, in contrast to capital intensive private enterprises, labor intensive city services are not conducive to productivity increases to offset wage increases. In the absence of marked increases in productivity, and in the face of declining sources of revenue, the wage and benefit demands of municipal employees threaten to bankrupt the city.

3.c.3. Relations of Distribution.

The residential location of a social group, relative to the distribution of city investments, carries with it more or fewer city services, better or worse schools, more or less access to commercial activities, employment opportunities and so on. With increasing urbanization, social investment, social consumption and social expenses mount rapidly. As the city government's share of the total production of goods and services increases, inequality in real income among social groups in the city increases, and political struggles over the distribution of public goods and services intensifies.

Moreover, as the size of the state sector in central cities expands, the question of who gets the action becomes increasingly important and divisive as it engages the class interests of more and more people. Expansion in central city government has been, among other things, a safety valve. It has been a sponge absorbing part of the relative surplus population fostered by the dynamics of monopoly capital accumulation. A large share of the dwindling number of *new* employment opportunities in aging central cities has been in municipal and school district government. This has fostered an intensifying struggle among local residents for access to municipal employment (27).

Thus central city relations of revenue accumulation, production and distribution increasingly foster an urban politics characterized by an intensifying triadic struggle between (1) outraged taxpayers, (2) increasingly militant municipal unions, and (3) insurgent community groups. At

present these segments of the urban working class are largely locked into a mutually antagonistic set of social relationships. Taxpayers rebel against the lack of efficiency and effectiveness of municipal expenditures, the service claims of the relative surplus population and the wage and benefit demands of municipal unions. Insurgent community groups attack budget priorities, the lack of accountability of service bureaucracies and municipal unions, and the unequal distribution of city services and employment opportunities. Municipal unions castigate "community witch-hunters" and "tight-fisted" taxpayers alike. Central city politics, one observer recently noted, is akin to a bucket of crabs (28).

In summary, there seems to be a general contradiction between capital accumulation and urbanization in the United States. Capital accumulation requires urbanization but urbanization requires investment, consumption and expense outlays which market exchange cannot handle. This dramatically increases the role of state enterprise in the economy. But the structure of state production, particularly at the level of local government, is only partially complementary to private accumulation. Federalism, the fragmented system of local governments, and the structure of city government production increasingly prevent decaying central cities from accommodating to the requisites of monopoly capital accumulation or the social needs of central city residents. The result is fiscal crisis and intensifying political struggle.

4. BLACK STRUGGLE AND THE URBAN FISCAL CRISIS.

The interpretation of black urbanization, central city stagnation, and the urban fiscal crisis sets the tone and shapes the character of the struggle for black liberation in the contemporary United States. The massive migration of blacks to central cities over the past three decades has shifted the locus of black liberation struggles from regional and national civil rights strategies to political mobilization in the arena of central city government. Since a large share of the black urbanization stream has been absorbed by declining central cities, the pattern of black urban politics is intimately bound up with the dynamics of the urban fiscal crisis (29). Black political struggle in central cities has surged forward along three fronts: (1) escalating demands to improve the level and quality of city facilities and services in black neighborhoods; (2) an intensifying struggle to capture a larger share of the expanding supply of jobs in city government; (3) a simultaneous drive to obtain power in city hall—the necessary prerequisite to changing budget priorities, upgrading the quality of city services in black communities and providing black access to municipal employment.

Blacks constitute the largest share of the relative surplus population in many stagnating central cities and black urbanization has gone hand in hand with deterioration in the level and quality of city facilities and services in inner city neighborhoods. Central city social capital and social expense outlays have neither sufficed to transform the relative surplus population to labor productive of large-scale private accumulation nor have they served to foster black quiescence and allegiance to the urban political system.

Expansion in the relative size of the black population in central cities, and growth in expenditures and employment in municipal government at a time when private employment opportunities were dwindling, convinced a large share of the black community that capturing control over central city government was likely to be the most effective instrument to advance the black liberation struggle. Black power in city hall is a necessary prerequisite to changing budget priorities, redressing the imbalance in the provision of city facilities and services among neighborhoods, and providing large-scale black access to municipal employment opportunities. But this struggle met with intense resistance from central service bureaucracies, municipal unions and professional associations.

Political struggle by the black community erupted in the central city political arena several decades after the city experienced fundamental political reform. Urban reform shifted the center of the central city political system away from a ward level patronage based system to that of centralized governance, based upon presumed dedication to rational, merit-based rules of procedure. Municipal bureaucracies became the new urban machines. Monolithic, entrenched in law and tradition, and supported by the local press, middle-class civic groups and an organized clientele enjoying access under existing arrangements, this new machine structure has posed resilient barriers to black acquisition of power by traditional means.

As central cities experienced a substantial shift in the residential population from white to black, black demands that the allocation of jobs in areas of local government reflect the racial composition of the resident population have escalated. Blacks have asserted that the needs of the black community that must be met through local government services include dimensions of the black experience that can only be understood and dealt with by other blacks. This political strategy includes a denouncement of "absentee" bureau heads, city professionals, and unionized employees as outsiders, as suburbanites exploiting the central city. In a racially changing central city, territorial claims based upon the right to self-rule has been a political position that whites have had difficulty circumventing.

Black political struggle has produced important gains in many central cities. Recent research reveals that blacks continue to disproportionately occupy the lower ladders of local government employment, but they have also gained entry into higher level jobs in large numbers in many agencies and tend to be more heavily represented in municipal employment than in the private sector (30). Moreover, as central cities approach black majority status, black mayors, congress-persons, officials and commissioners are being elected in large numbers. A recent estimate suggests that some 2600 blacks hold office across the nation. Black mayors currently preside over 96 cities. And it has been estimated that within a decade black administrations will head the majority of the country's ten largest cities and one in three blacks are likely to live in cities with black administrations (31).

5. TRAJECTORIES OF URBAN CHANGE.

The aging central city has become the repository of intensifying contradictions engendered by the process of monopoly capital accumulation—contradictions best revealed in an escalating urban fiscal crisis. These central cities may well constitute the birthplace of new economic and political forms of organizing social life. The extent to which transformations in the structure of urban life correspond to the needs of the masses of currently deprived central city residents will depend, to an important extent, upon how the interconnections between political struggle and the urban fiscal crisis work themselves out. While the future of decaying central cities is uncertain, three scenarios or possible trajectories of urban change are reflected in embryo in the current dynamics of central city political economies. Each scenario encompasses a relatively distinct image of the city as well as a political agenda for antagonistic groups locked in a struggle to shape the future of urban life in the United States.

5.a. The Pariah City.

The Pariah City is a form of geographical and political apartheid—a reservation for the economically disenfranchised labor force in a monopoly capitalist society (32). Once the central location for the concentration of cheap labor in great volume, the aging central city now finds that competition from welfare payments and other social expenses keep its labor force far from cheap. In the context of a global capitalist system, the central city's traditional jobs are being absorbed by Puerto Rico, Formosa, Hong Kong, Singapore, the northern periphery of Mexico, and so on. Those in the current group of immigrants fortunate enough to "make it" soon move to the suburbs which have reached a level of population and purchasing power sufficient to the provision of amenities which once only the central city was capable of sustaining. The city emigres leave behind the "poor, the deviant, the unwanted and those who make a business or career of managing them for the rest of society." (33)

Revenue sharing constitutes the social expense payment by the outside society to the Pariah City's bureaucracies and politicians to maintain the reservation. Part of this payment goes for the subsistence of the natives, another part to the keepers, and the rest to those who manage to make a profit from the reservation. Government expenditures on welfare, housing, food stamps, medical payments and the like, serve as indirect subsidies to local businesses. The relative surplus population, the underemployed and the working poor, become a "conduit" for the transfer of state revenues to inner city slumlords, merchants, loan sharks, service professionals and the like who in turn transmit the surplus outside of the city (34).

Professional "keeping" associations make containment a business with little more concern for those confined to the reservation than is common among security guards in a prison. Social expense outlays give birth to a growing municipal bureaucracy which is sustained by the plight and misery of the poor but which yields little in the way of productive

resources to the oppressed. Rather, these increasingly expensive programs are placebos, forms of symbolic action, which "provide psychic satisfaction to the patrons of the poor, convince outsiders, especially the media, that something is being done, and indicate to the urban poor that some one up there cares." (35)

The Pariah City portends dismal prospects for the black liberation struggle. Black control of the Pariah City is a "hollow prize" indicating little more than political control over an economically sterile environment. With capital outflow and deteriorating tax base, central city black leaders experience ever increasing dependence on state and federal funds, coupled with rising indifference to the problems of the Pariah City by white-dominated state and national legislative bodies. Coopted, locked into visible public positions, but without resources to substantially alter the condition of their constituents' lives, black urban leaders "dangle on white men's strings while receiving little more than crumbs." (36) The cumulative effect is to convince potential voters and political leaders that the game is not worth the toll in personal dignity. Despair and apathy define the political culture of the Pariah City.

Such seems to be the trajectory of change in many decaying central cities in the United States. But the Pariah City is a house of cards whose imagery is created from a number of shaky assumptions. For one thing, the Pariah City is not an isolated reservation in Arizona or New Mexico. It is at the core of an increasingly complex and interdependent metropolitan system. Even as they stagnate, central cities remain important control centers housing major economic and political institutions, the mass media, and key transportation nodes. In a metropolitan society, the possibility of widespread, violent, mass rebellion by impoverished and desperate inner city residents threatens the system at its foundations.

Moreover, the fiscal crisis of aging central cities not only augurs decay in several large urban centers, but also portends strong disaccumulation tendencies in the capitalist system itself. Decaying central cities are absorbing an even larger share of the capitalist state's revenue and using this capital in ways that are both wasteful and unproductive of large-scale private accumulation. Central city fixed investments, which still constitute a sizeable share of the holdings of urban financial institutions, are threatened as well. The Pariah City is an inherently volatile form of urbanism which confronts the capitalist system with disaccumulation and mass rebellion. It is doubtful that the metropolitan apple can long flourish while its core rots.

5.b. The State Capitalist City.

"deeply analyzed for O'Connor categories" - How

The State Capitalist City is an integral unit of corporate state capitalism. It combines state, metropolitan, municipal and special district forms of organization into an urban political system governed according to principles of corporate planning. In the process the central city is integrated into a geographically, politically, and economically efficient space economy.

The State Capitalist City, and the social-industrial complex of which it

is a part, alleviates the fiscal crisis by generating rapid and sustained productivity throughout the economy (37). It increases productivity both by increasing government efficiency and by using the budget as an instrument to improve productivity and raise profits in the private sector—particularly in monopoly industries. Social expenses are transformed into social capital through massive social investment subsidies to monopoly industries. This ameliorates the material impoverishment of the relative surplus population by incorporating it into "a new stratum of indirectly productive workers: technologists, administrators, paraprofessionals, factory and office workers and others who plan, implement and control the new programs in education, health, housing, science and other spheres." (38) In sum, the State Capitalist City is a highly tuned "feedback mechanism" which continuously transforms the surplus labor force generated by monopoly capital accumulation into labor productive of further monopoly capital accumulation.

The emergence of the State Capitalist City is associated with a fundamental alteration in the relations of revenue accumulation, production and distribution of goods and services in the central city and metropolis as a whole. The inadequate handling of spillovers, inequities in service and tax levels among local governments, and the fiscal "imbalance" among levels of government are alleviated by shifting the fiscal burden and overall coordination and control of service production to higher levels of government. The property tax is largely replaced by flat rate income, sales and value added taxes levied by metropolitan and state governments. Continuously ongoing research projects and conferences are directed to the development and refinement of techniques (e.g. PPBS, operations research, cost accounting) to turn the budget into an instrument to improve efficiency and evaluate the relationship between social capital outlays and private accumulation.

The development of centralized administrative control, budgetary planning and technocratic procedures, provides the organizational means to adjust city budgetary priorities in favor of monopoly capital accumulation. Billions of dollars of state revenues flow into subsidies for new corporate "solutions" to problems of transportation, labor force development, pollution control, crime prevention, administration of prisons and the like. Social tensions in the inner city, especially among oppressed minorities, are reduced by creating jobs in the new social capital projects. Blacks are integrated into a hierarchically ordered class structure. The price of social integration is political impotence—a condition that blacks share with their white counterparts in office, factory and neighborhood.

The State Capitalist City is a top priority on the agenda of the class conscious wing of monopoly capital. It holds out the potential for reversing the strong tendencies toward disaccumulation and urban rebellion underpinning the current urban fiscal crisis. However, divisions within the capitalist class, the power of organized labor and the professional associations, the symbiotic relationship between local businesses and city hall, and the structure of the state, including federalism and a fragmented system of local government, pose formidable obstacles to the realization of the State Capitalist City.

Combination of Pariah / State Cap
(45% Physical Capital Accumulation)

The transfer of fiscal responsibility and managerial initiative to state and metropolitan forms implies the wholesale destruction of the autonomy and privileged status of suburban fiefdoms. But the fragmented system of local government is entrenched in law and tradition, and powerful suburban-rural coalitions dominate the legislatures of most state governments. Monopoly capital, in combination with the executive wing of federal and state governments, has taken steps toward regional government and regional planning. But the history of comprehensive metropolitan reform attempts to date has largely been one of failure (39).

The massive revenue accumulation required by the State Capitalist City entails a considerable increase in the tax exploitation of the organized working class and suburban white collar and professional groups. The rationalization of the relations of production and distribution of city goods and services portends the end of pork-barrel, log-rolling local politics. "Scientific Management" also rationalizes and routinizes the city's production and delivery systems at the expense of worker discretion and prerogative.

In sum, whether the fiscal crisis will be ameliorated by the State Capitalist City depends upon the extent to which enduring political coalitions can be forged between monopoly capital, the relative surplus population, and between federal and state governments—all to the expense of the organized working class, competitive capital, the professions and the suburbs.

5.c. The Socialist City.

The Socialist City forms the core of the socialist society. In the short run the development of the Socialist City involves a politics of emancipation, self-help and the development of a viable local economy. The problem for the emerging Socialist City is to devise alternatives to the market mechanism which allow for the transfer of productive power and the distribution of surplus to areas where the unfulfilled needs of its deprived and impoverished residents are so starkly apparent. Over the long haul, it involves the redefinition of social needs and the concept of surplus itself. In the mature Socialist City socially necessary labor produces socially beneficial use values for present and future residents. The surplus arises out of unalienated labor and loses its class content as city residents yield their surplus labor for socially defined and agreed upon purposes (40).

The transition to the Socialist City portends radical transformations in the relations of revenue accumulation and the production and distribution of public goods and services. Revenue accumulation is governed according to the principle of community ownership of the community's wealth. When a city owns and develops itself, the surplus produced goes to the residents. Residents come to realize that if part of the wealth created by economic activity can be channeled directly to the city treasury, the city is able to markedly expand public services and facilities. Emergent socialist relations of revenue accumulation are forged out of a series of "nonreformist reforms" chipping away at the parameters governing the capitalist state.

What are the main objects of the Socialist City? (Money, private property, etc.)

Municipal ownership of selected businesses and the generation of a city surplus through user charges on selected social capital investments help underpin the development of the Socialist City. Through eminent domain, tax foreclosure or outright purchase the emerging Socialist City acquires property in areas surrounding its social capital investments, leases it out to private business, and captures the increment in value. Pension and accrual funds provide blocks of capital for investment in community owned ventures. Public assistance recipients are encouraged to pool their money, and with the aid of low-interest city loans to develop housing, food and credit cooperatives. Jobs in the community cooperatives are created and the money stays in the community (41).

In the Socialist City the relations of production and distribution are governed by the principle of social production to meet social needs. The long-term interests of the city and the visible and compelling short-term interests of its residents coincide. Community ownership of the community's wealth, and social production to meet social needs, implies massive investments of resources in public sector activities and employment to revitalize the city and improve the quality of urban life. The emerging Socialist City implies a large-scale redistribution of wealth. But the mature Socialist City implies much more. It implies stability in the material standard of living coupled with continuous improvements in the quality of urban life—in the way in which people relate to one another and their environment through earth preserving and life sustaining forms of work and play.

In the Socialist City the market is replaced by a decentralized planning process. City-wide hearings provide continuous community representation throughout the year. Neighborhoods have the independent sources of information, staff and other resources necessary to play an autonomous part in the decision-making process. With the maturation of the Socialist City technology is demystified, all claimed economies of scale are challenged and science and technology are put in the direct service of human needs, aspirations and imagination. Various forms of "soft" technologies are developed whereby people in neighborhoods can feed, heat and transport themselves on a community basis. Soft technology "reduces stress on the environment, is low in capital demands, frugal in its use of resources and decentralizing in its social impact." (42)

The creation of the Socialist City obviously faces formidable barriers. The parameters governing the capitalist state limit redistribution and city production of goods and services to the point at which they seriously threaten the production and circulation of private profit. Incrementally induced, nonreformist reforms can chip away at capitalist parameters but the Socialist City must be generated organically by a developing socialist movement. The development of an urban based mass socialist party is currently frustrated by marked divisions within the urban working class. The mutually antagonistic relations between city workers, community groups, taxpayers (private workers) have confounded the mobilization of the central city labor force into a political coalition capable of transforming the character of city and society. Nonetheless, there are elements within the central city political arena that suggest such coalitions may be forthcoming in the future.

What are the main objects of the Socialist City? (Money, private property, etc.)

Moreover, the dependence of municipal workers on the city's budget to meet their own material needs means that the demands of organized city workers encounter increasing hostility from an overtaxed central city working class. Union demands for improved wages and working conditions, if they are to be realized, will at some point have to be tied to changes in methods of revenue accumulation and overall city budget priorities. To the extent that city workers begin demanding that their material needs and conditions of work be met by reallocating available resources and not by increasing taxes, and to the extent that they begin to challenge the priorities of state capitalist reforms, the present divisions between private and state workers and the relative surplus population will begin to narrow. Demands for public service jobs to meet community needs, supported by changes in the tax structure in favor of the working class, are potentially powerful instruments for uniting the fragmented working class.

Black political struggle has a potentially powerful role to play in the development of the Socialist City. In almost every declining central city, blacks and other oppressed minorities constitute an increasingly large share of both the municipal labor force and the relative surplus population. Black leaders are coming to power in central cities. Issues of economic impoverishment, on the one hand, and race and sex oppression on the other, may serve as a primary basis for cementing a coalition between city workers and insurgent community groups (44).

The Socialist city is the urban-political foundation for the construction of a socialist society. Powerful political organization cannot be based solely on the control of city hall, but through vertically integrated organizations that are influential from the neighborhood through the state into the Houses of Congress. The city must be the base for a system of political power that is mutually reinforcing and supportive. It is as important to have allies in the state legislature and Congress as it is to have effective organization in the city itself. This is all the more crucial due to the commanding role played by state and federal governments in the allocation of resources and programs. Without this type of vertical political integration, political and economic development of the central city will be constrained. The blackening of municipal power, the development of a continuous planning and coordinating network between black mayors, urban state legislators and the black Congressional caucus in Washington may lay part of the foundation for the multi-level political directorate

What kind of political organization is needed?

needed to support the central city and move in the direction of an urban based national party.

What is unalterably clear at this point is that "unless a vision of a better social order can be made concrete and related to present possibilities, people will struggle for what they can get within the existing system." (45) In the absence of a well articulated socialist perspective and a popularly based socialist movement, deteriorating central cities are likely to experience some version or combination of the Pariah and State Capitalist City.

FOOTNOTES

1. Richard Child Hill, "The Fiscal Crisis of the State: A Case Study of Education in Detroit" presented at Eighth World Congress of Sociology, Toronto, Canada, August 21, 1974; "Black Struggle and the Urban Fiscal Crisis," presented at the Conference on Urban Political Economy, New School for Social Research, N.Y., N.Y., February 15, 1975; "Capital Accumulation and Urbanization in the United States," presented at the Annual Meetings of the American Sociological Association, San Francisco, California, August 27, 1975.
2. Manuel Castells, "Vers une theorie sociologique de la planification urbaine," *Sociologie du Travail*, 1969, p. 423 as quoted in Brigitte Brette and Francois d'Arcy, "On Recent Urban Research in France: The Marxist View," *Comparative Urban Research*, number 6, Winter 1974-75, p. 23.
3. David Harvey, *Social Justice in the City*, (Baltimore: Johns Hopkins Press, 1973), p. 250.
4. C. F. Hill, "Capital Accumulation and Urbanization in the United States," *op. cit.*
5. Brian J. L. Berry, *Growth Centers in the American Urban System*, volume I, (Cambridge, Mass.: Ballinger Publishing Company, 1973).
6. This idea is developed in more detail in Hill, "Capital Accumulation and Urbanization in the United States," *op. cit.*
7. C. f. Stephen Hymer, "The Multinational Corporation and the Law of Uneven Development," in J.W. Bhagwati (ed.), *Economics and the World Order*, (N.Y.: World Law Fund, 1971), pp. 113-140.
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CLASS AND URBAN SOCIAL EXPENDITURES: A LOCAL THEORY OF THE STATE

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I. Introduction

A capitalist state's local and national structure results from its specific history, particularly the problems which varying degrees of capitalist development, class emergence, ethnic composition and external threats impose on state formation. Constantly shuddering and mutating in response to class conflict and capitalist crisis, the resulting structures are not fixed. They often rigidify, however, creating bottlenecks as the mode of production develops. Ultimately, they become arenas for revolutionary political conflict. In the short run, these structures shape the apparent forms of class conflict and the distribution of capitalist insecurity.

This paper will examine one particular facet of state structure: the evolution of metropolitan government and politics in the U.S. Fragmented local governments with semi-autonomous powers, it speculates, have exacerbated what we know as the urban crisis. A Marxist framework reveals the class foundations of the multiple and competing metropolitan political units (1). In particular, it will focus on the immediate reasons why New York City and other American central cities are in desperate financial shape. Since the same brink-of-bankruptcy condition does not characterize European urban governments, it is clear that the specific form that the American state takes on the local level is a very powerful force in exacerbating urban financial crisis.

II. How Bourgeois Social Science Explains U.S. Metropolitan Political Fragmentation.

The class homogeneity of suburban development and its political autonomy have challenged bourgeois social scientists because they threaten to undermine any approach which celebrates pluralism in the political process and equal competition among producing individuals. Suburbs confront even the casual observer with the class character of American society.

Political scientists and economists have both attempted to explain and applaud the existence of fragmented autonomous local governments in metropolitan areas. Political scientists have heralded the structure as a successful solution to the corruption and bureaucratic unresponsiveness of big city government, and as a nostalgic movement back toward rural

living and New England town hall politics (2). This idyllic model ignores central city political conflicts and furthermore cannot explain why successive groups of recent migrants to cities have failed to attain access to suburban democracy. The lack of a historical perspective and careful documentation of the development of separate political units cripples the strength of such an analysis.

Empirical evidence indicates that this view focuses on a trivial (and most likely fictitious) aspect of suburban political structure. Paradoxically, the political apparatus which appears to be so accessible is treated by residents of the suburban unit with apathy and indifference. Political scientists have documented the uniformity and dullness of suburban politics and ascribe it to the homogeneity of populations (3).

The bourgeois economists' approval of the multiplicity of independent metropolitan local governments echoes the political scientists' emphasis on choice and pluralism. During the 1940s and early '50s, public finance theorists could find no mechanism equivalent to the market with which to model resource allocation (4). The marketplace tool kit was salvaged in part, however, when Charles Tiebout pointed out that such pessimism was not warranted on the local level (5). The existence of multiple local governments introduces, claimed Tiebout, competition into the consumption and production of local public service packages. Customers (residents) express their preference for a particular package by voting with their feet, i.e., moving to the utility-maximizing suburban location. In Tiebout's view, local governments act as firms, forced to produce efficiently the optimum level of output by threat of resident outmigration.

The empirical evidence shows such arguments to be supple acrobatics indeed. If Tiebout's view were correct, suburban political units would demonstrate wide ranges of public service mix and welcome residents of every income and ethnic group. In fact, the most striking characteristic of suburban units is their internal homogeneity, exclusion of "other" income and ethnic groups, and a generally typical public service budget in all respects, with quality of service rising quite consistently with class composition of residents. It is more correct to view the local government not as analogous to the firm, responding to area-wide market forces of supply and demand, but as a conscious constructor of its own local market through influence on the cost and demand features of its constituency (6). Only an historical and materialist analysis can illuminate the logic behind such observed outcomes.

III. The Historical Development of Local Governance

The American federal system is unique among capitalist nations, a trait which extends especially to the form and functions of local government. Few other nations grant states or localities the degree of autonomy characteristic of the U.S. In Europe, local and regional officers are generally directly subordinate and responsible to the centralized national state.

Local public corporate bodies date back to early feudal European towns. On the continent, the rising capitalist nation states swept away urban self governance, but in Britain and the U.S. the emerging state's strength was, oddly enough, based on local partial autonomy. In England forces of

the developing nation state seized upon the antagonism between the nascent trading town and the feudal manor. After the Norman invasion of 1066, the crown granted charters to towns in order to secure their independence from local landed gentry and their fealty to the new regime. These charters set up either an oligarchical municipal corporation or a hierarchical structure administered by a justice of the peace appointed by the crown (7). These forms persisted until the 19th century in England and became the basis for the *corporate* nature of the U.S. city. As one typical city charter expresses it,

"The City of Albert Lea, a Corporation, through its Board of Directors, the City Council, presents to you citizen stockholders the ninth annual report under the Council-manager charter." (8)

English mercantile capitalists transplanted this corporate form of city government to colonial America. They deliberately planned and chartered towns as agencies for English control over mercantilist profits. Towns functioned to keep non-agricultural immigrant populations confined, prevented them from developing skills which might compete with British hegemony over trade and manufacture, and employed them as unskilled labor for mercantilist shipping activities. Entire towns, highly socially stratified and tightly controlled, operated as market centers and military and administrative command posts for the colonial empire. From these bases the English trading elite appropriated land and resources from the Native Americans, extracted agricultural and forest products from the outlying areas (especially furs, wheat and cotton), sold British manufactured goods, African slaves and West Indian rum, and secured a profitable monopoly over trade (9).

By the American revolution, sixteen corporate entities existed in the seaboard states with charters originally granted under the authority of the English crown. The new federal system not only incorporated these charters but vested state legislatures with the power to issue new city charters. Most state constitutions set up explicit provisions subordinating cities and towns to the state machinery. (Until 1850, cities remained small and were generally ignored by state legislatures.) Although this era is sometimes nostalgically seen as characterized by town meeting democracy, in reality patrician successor families to the English governors solidly controlled town government and their police forces (10).

After 1850, vigorously growing capitalist industrial production triggered the rapid development of U.S. cities. It imposed a tremendous need for social infrastructure both for new plants and to accommodate swelling populations. As a result, city governments expanded to provide water, sewers, urban transportation, etc. and simultaneously required growing revenues to finance them. At the same time, capitalist-bred unemployment and poverty heightened class conflict, crime, urban violence, and disease. Social services such as public health and professionalized police forces also became burdens on the city budget.

It was precisely as response to these growing demands on the central city that the present array of multiple, semi-autonomous political units were developed. The competitive struggle among capitalists consolidating their power in urban areas first resulted in the push for municipal home

rule, and later in the curtailment of the outward extension of city political boundaries, easy incorporation of new political units on the periphery, and the separation of tax and expenditure domains between state and local levels. By 1970, these structural arrangements had cumulatively straight-jacketed the contemporary central city.

Home Rule

Because rapid urban development had tremendously enriched those with political control, state legislatures had become breeding grounds for special interest legislation granting lucrative public sector contracts to the private political entrepreneurs. In 1970, for example, three-fourths of the pages of acts passed by the New York State legislature related to cities and villages (11). A representative of the 1867-8 New York State Constitutional Convention pointed out that "seven-eighths of all revenues are disbursed by those who hold state appointments and are in no way responsible to the people of the city. . ." (12) The Evarts Commission, set up in 1877 to investigate the city graft problem in New York, concluded that

"Cities were compelled by legislation to buy lands for parks and places because the owners wished to sell them; compelled to grade, pave and sewer streets without inhabitants and for no other purpose than to award corrupt contracts for the work." (13)

Capitalist class representatives who did not share in the spoils but had to pay for them through property taxation complained bitterly about such graft and provided the social base for the municipal "Home Rule" movement (1865-1900). Up until 1900 their efforts resulted in little more than state provisions (statutory and constitutional) limiting in small ways the absolute control by state legislatures and providing for some elective local officials. The ideological impact of their call for home rule, which was couched in terms of Jeffersonian democracy and self-determination, had a greater impact. This sentiment reflected the *laissez-faire* ideology of the times which celebrated the myth that civil society could be protected from the interference of government. In the 1880s, an academic (Yale, Harvard) named John Fiske traveled the country popularizing local rights and was "delighting audiences by tracing back town meetings of New England to the village assemblies of the early Aryans, making federalism that began with these local units the key to heaven and earth . . ." (14) But the ideological appeal of the issue tended to obscure whose interests the movement actually served.

As the complexion of these interests changed in the 20th century, the amorphous constituency favoring home rule remained. "Viewed in the light of actual legislative practice, the home rule movement is part of a broad movement to liberate the cities from organized corruption and restore control to the so-called, or self-called, good citizen." (15) These good citizens became increasingly consolidated bourgeoisie fighting management-based urban political machines. New York's Good Government movement was unified around the issue of fighting Tammany Hall in the early decades of the 20th century. The demand for home rule be-

came less important than other aspects of the municipal reform movement—the call for non-partisan elections, for civil service reform and for budgetary powers including “fair” and sufficient taxation arrangements. The great significance of the home rule provisions slowly being incorporated into state constitutions was to await the development of independent suburban political incorporation.

Suburban Autonomy

The first well-documented appearance of the independent political suburban government is that of Brookline, Massachusetts, in 1873. Sam Bass Warner, in his account of outward suburban expansion around Boston in the latter half of the 19th century, notes that the change from the tradition of central city annexation of residential areas on its periphery to independent suburban incorporation occurs abruptly when state provision of services ends suburban dependence on the city for basic public services such as water and sewer. Brookline was the first suburb to insist upon its independence:

“By the 1880s, with but one exception, no suburban town ever again seriously considered annexation. . . It was already apparent in the 1880s that to join Boston was to assume all the burdens and conflicts of a modern industrial metropolis. To remain apart was to escape, at least for a time, some of these problems.” (17)

It is significant that the political fragmentation which followed the emergence of classbound residential neighborhoods takes place only *after* new jurisdictions can get public services from a source independent of the central city. Class neighborhoods on the periphery had previously been forced to join the city to get these services. Thus, potential service autonomy appears to have been a necessary but not sufficient condition for independent political viability.

Suburban Proliferation

State laws governing local government structure facilitated the proliferation of independent suburbs by making it easy to incorporate as an independent “home rule” political entity and difficult for the larger central city to absorb peripheral growth through annexation or consolidation (18). By 1930, every state legislature in the country had adopted some form of legislation accomplishing this. In general, it put the decision to join or not to join the central city politically in the hands of the residents of the annexable area, leaving the parent who had spawned the child helpless to participate in determining their joint future. Thus, the fruit of the home rule movement, which aimed to strengthen the central city against state manipulation culminated ironically in the weakening of the city by engendering suburban parasites (19).

We have already suggested that the enabling legislation which fostered independent suburban political structure was not a historical accident nor prompted by nostalgia for the town hall meeting. The latter was merely the ideology accompanying the development. Passage of such legislation

lay with the strength of suburban-rural coalitions in state legislatures, and its motives were materialist rather than idealist. The material basis for the proliferation of independent local units of government is explored below.

IV. A Marxist Theory of U.S. Local Governments

This summary of the history of multiple local political units in the United States suggest that the phenomenon grows out of class conflicts in the political realm. Not only are they peculiar to the growth of American capitalism, they continue to be enmeshed in American capitalism’s present dynamics and contradictions, particularly the urban fiscal crisis.

The function of the state at the local level mirrors in many aspects that of the state at the national level. The primitive capitalist state operates as an effective police power that protects the institutions of the capitalist mode of production: private property and the system of wage labor. In the advanced stage of crisis-prone monopoly capitalism, the state becomes increasingly important within the production unit itself. It absorbs the surplus potential of the system by underwriting profit in the private sector, makes social investment and social consumption expenditures, and staves off social revolt by growing social expenses to pacify (and divide) the working population (20).

The state at the local level performs the same functions. It has dramatically influenced production, since many local government functions are critical to capitalist expansion. For example, local governments construct and maintain the social infrastructure for both housing and production (water, sewers, streets). The capitalist educational system, while financed by various levels, is controlled at the local level. The social expenses needed to maintain social peace (police, health, welfare) are also predominantly the domain of local government.

Sources of Local State Structure: State-building

In other capitalist states, many of these local functions were accomplished by national administrations, as national capitalist elites moved against local resistance. The reasons for America’s difference are not hard to find. The American revolution linked diverse communities against a common enemy. Each of these communities had begun independently as a transplanted culture on the colonial shores and interior, and, as we have seen, was often equipped with a distinct political charter. The establishment of the new American state, in order to secure the allegiance of the numerous culturally diverse communities who often viewed any state as an oppressor, had to make substantial concessions to decentralized political structure, resulting in the federal system.

Conflict Over Accessible Government .

The potential accessibility of local government machinery to working class populations also explains its unique structure in the U.S. Remote-

ness and scale allow capitalist interests to construct and manipulate easily the national government apparatus. For national politics, Marx's famous quip about democracy—that it is the political system where once every four years the working class is allowed to vote for one or two members of the ruling class—is appropriate. But at the local level, relatively smaller size and geographical proximity mean that government power is potentially more accessible and—in theory—responsible to the working population. In fact, many cities in the late 19th and 20th centuries were ruled by political organizations solidly rooted on the immigrants who were flowing into Eastern cities. There is some evidence that earlier (mid-19th century) political forces *in favor* of annexation and consolidated urban political structure were capitalists eager to enlist aid against Tammany Hall type governments (21).

Progressive New York Mayor Fiorello LaGuardia demonstrated the possibilities for city government opposition within the capitalist structure during the 1930s by proposing to expand public service jobs, wipe out the \$31,000,000 deficit of the city with business and public utility taxes, and expand city relief to include clothing, subsidized milk distribution and health care. LaGuardia's proposals were accompanied by statements such as "If the right to live interferes with profits, profits must necessarily give way to that right." and "the economic principles of yesterday are obsolete as the oxcart." (22)

When efforts to dilute the political power of pro-working class groups by expanding the jurisdiction did not succeed (the incorporation of the five boroughs that now make up New York City did not lessen Tammany's control as was hoped), separate jurisdictions provided an attractive alternative means for capitalist political control of the metropolis. To some extent machine politicians, but more especially socialist mayors provided militant workers a friendly police force, thus encouraging plant relocations. Socialist regimes also made inroads on upper class consumption funds, a further incentive for outward migration and suburban insulation. Accessibility, then, meant that the local political mechanism was potentially in danger of control by forces truly oppositional to capital and the class beneficiaries of capitalism.

The erosion of capitalist control over local government should not be overstated. Nationwide opposition from urban regimes did *not* materialize. The experience with "left" local government, in fact, demonstrated the difficulty units within the larger capitalist economy have when they attempt major reforms. Even if no political constraints existed, the dependence of city governments on the health of the productive sector prevents them from cutting back on substantial social infrastructure expenditures or raising taxes on the private sector. Any attempt to do this is threatened by business emigration (23).

Even progressive city administrations, therefore, are crippled in their attempts to end corporate parasitism on the public sector. Detroit, for instance, is presently governed by a progressive black mayor but recently offered Chrysler Corporation a long-run property tax break if it would simply continue to run its assembly lines. In New York, corporate hegemony is even more blatant. Because the corporate and banking sectors hold the bonds which the city cannot pay they can legitimately manipulate

the city budget to cut back social expenses, require harsh measures against public sector labor, preserve social infrastructural outlays that enhance corporate activities, and rule out substantial business tax increases as a way of solving the fiscal crisis. Occasional pro-working class city governments might redirect and increase social expenditures and lay the bill for them at the doorstep of corporate institutions, only to fuel the exodus from the city.

Preserving the Capitalist Class Consumption Fund

The capitalist consumption fund provides a third factor in shaping U.S. local government structure. At the national level, the growth of social expenses and social accumulation can be financed by deficit spending, so the burden does not cut directly into the operating capital of the private sector nor into consumption funds of the capitalist class. While diversion of money capital from the private sector to the public sector does take place, it is voluntarily transferred by capitalist institutions and owners who will earn interest on this loan of their capital. Thus, it is acceptable, even desirable.

At the local level, governments are forbidden to finance growing budgets with deficit spending. Deficit financing by state and local governments resulted in frequent bankruptcy in the early 19th century, and state and local government deficits would wreak havoc with national fiscal policy. As a result, local expenditures on social accumulation and social expenses must therefore come from sources within the constituency.

The three sources for such funds are capital, the capitalist class consumption fund, or the working class consumption fund. (The later two including amounts spent on class reproduction.) It follows that as the local public sector grows, each of these groups will attempt to enjoy the benefits of social production and expenses while escaping the costs, with political power and authority influencing the outcome. We have already seen that the fund of capital cannot be seriously threatened by incursions from the public sector. This means that the conflict is among the various classes and subclasses in the urban area. Independent local government production units decisively organize this struggle.

The historical transformation of local government from one to many separate jurisdictions within a single urban area solved the capitalist's problem of financing needed social consumption expenditures.

The Class Cultural Politics of Suburbanization

The class struggle over state spending is not simply a matter of capitalist suburbs against working class central cities as the above might suggest (24). The relatively successful differentiation of subclasses and displacement of class consciousness that has occurred in American society has made the American suburban pattern much more complex than a simple capitalist-working class dichotomy would suggest.

One of the unique features of American capitalism is its rapid development in a geographic, and to a lesser extent, political and cultural vacuum. No long tradition of institutions, both physical plant and social tra-

dition, confronted young American capitalism. Working class immigrants were less protected from the cultural ravages of capitalism than their European counterparts. They emerged as a working class in an age dominated by fresh capitalist institutions with no continuity in culture, community or politics available to them.

Robbed of communal culture, the working class sought human dignity and identity in consumption and class reproduction. Taking control over the production process—either its output or the conditions under which they labored—the American working class looked outside the workplace for the arena in which to find human achievement and experience. This search engendered particularly strong feelings about one's home, one's possessions and the success of one's children.

The rapid expansion of cities outward became a process of residential construction on the periphery where houses would be occupied by the more successful members of the urban population, and suburbs from the first reflected class segmentation (25). This segregation helped suburbanites insulate their public sector amenities from urban claims and their ability to pay from urban fiscal demands.

Suburbanization provided a key tool for submerging working class consciousness under a sea of status differentiations. Professional groups like lawyers, teachers, doctors live in relative affluence and do not identify themselves as vendors of labor power, but cluster together in suburbs which mimic upper class living patterns. They remove themselves from the classes which commit property crimes and thus don't have to pay the cost of protection; instead, they can be assured that their taxes go for a good education for their children.

The geographic component in abated class consciousness is important for blue collar workers as well. Unionized workers especially have also lost much class consciousness as their aspirations have shifted toward neighborhoods and consumption aims for themselves and their children. Job stability, home ownership, and a quality education have become paramount concerns and sources of pride for a working class otherwise robbed of participation in controlling their own lives. Working class neighborhoods and suburbs often quite militantly oppose inroads on these gains, witness the opposition to busing in such communities.

The main subgroups among class-stratified suburbs could be cited as pure capitalists (those whose major income derives from owning capital), petty bourgeois capitalists (those who own their capital but whose personal labor is necessary for making their livelihood with it), the professional class (those who have extensive training invested in them but sell their labor power), oligopolistic wage labor (those who work in the oligopoly sector, are generally unionized, and enjoy relatively high wages and job security), competitive wage labor (those who work at low wages and without job security in the competitive sector) and the reserve army of labor (those for whom employment is sporadic, composed largely of minorities and women in American society). In addition, ethnic and racial divisions within American society overlay class divisions. The result is suburbs with very distinct occupational and ethnic composition rather than pure class suburbs. In common parlance they can be referred to as

white middle class suburbs, Jewish professional class suburbs, Black working class suburbs, auto workers suburbs, Polish suburbs, rich suburbs, etc. (26)

Undoubtedly people migrated to suburbia partly as an inward-looking response to dehumanizing capitalism; in this respect it represents a movement to circumvent the loss of control and human dignity under capitalism and is not merely a determined manipulation of political structure by the capitalist class. At the same time, it reinforces current forms of class domination and intra-class antagonism.

To summarize the argument to this point, suburban differentiation in the U.S. grew out of and was shaped by class conflict over the role of local government. Based initially on the need to recruit pre-capitalist elite support for a fledgling state, this struggle was soon fueled by a many-sided struggle over industrialization. Suburbanization emerged as a key device for insulating upper class reproduction aims from working class influence and for forcing the working class to pay its own costs of reproduction and control. At the same time it played a central role in attenuating class consciousness as higher strata of workers joined the upper class in establishing enclaves.

At present, the U.S. system of autonomous suburbs continues to have a central role in preserving class privilege and attenuating class conflict. As with a political development, however, this role is self-contradictory because it threatens the central city's ability to perform *its* basic functions.

V. The Contradictory Functions of Metropolitan Political Fragmentation

Given the current urban fiscal crisis, the salient function of suburban governments is to insulate class consumption from the costs of social accumulation and social expenses in the central city, thereby forcing the poor to finance their own oppressive police force and welfare system, and to construct a public service market by employing policy tools such as zoning in which class aims for levels and types of social consumption and class reproduction (schools, parks, etc.) can be achieved by excluding high cost residents and attracting those with ample resources. At the same time, the independence of the suburban government allows it to use the same exclusionary tools to enhance the private sector functions of suburbia—the class assimilation of children by restricting their playmates and experience, the removal of class conflict from living situations, etc. But it also jeopardizes central city finances and the rational use of metropolitan space.

An example will illustrate the argument. Public safety, meaning primarily the safety of private property, is a social expense necessary under capitalist production relations. Originally a private expense, this function has shifted historically to the state sector (although there are still large numbers of private guards). Public safety accounts on the average for one third of all local public expenditures (excluding schools). Construction of separate political units responsible for public safety involved a substantial shift of the burden of this cost. The better-off classes could escape the costs of public safety which the city provided to their industrial and

mercantile properties in the central city, thus leaving the working class and the reserve army of labor (precisely the groups from whom such property was to be protected) to pay for the safety of their oppressor's property. Furthermore, non-property crime control and other poverty-related safety expenses would also be paid for by the same classes.

A second aspect of this public safety sector impact was the diminishing of class conflict involved with the segregation of classes spatially and the development of corresponding locally controlled police forces. In early U.S. cities, the rich and the poor lived quite closely together, creating a potential for violence; the splitting for suburban locations and the consequent regrouping and resistance to penetration by the lower classes diminished the exposure of different classes to each other and thus the potential for violence. When political autonomy followed residential segregation, the local police force became controllable via consensus and therefore dependable in any riot situation. (27)

In addition to escaping the tax burden for social expenses like public safety, health and welfare, suburban residents have also been able to help themselves to any number of city-financed services without contributing tax support. (28) Some of these are services associated with the daytime presence of commuters to the central city—street maintenance, traffic control, waste and pollution control, and water systems. Others are the extensive cultural and recreational facilities that the central city provides to all metropolitan residents—parks, zoos, concerts, parade facilities, libraries and museums which are only occasionally compensated for by payment of fees.

As independent suburban governments increased in number, their sophistication grew apace. Autonomous local budgets not only allowed suburban class interests to escape the social expenditures of the central city while enjoying the benefits; it also allowed them to enjoy levels of social consumption and reproduction far above those of city residents by pooling parts of their consumption fund to produce high quality public service for a limited group of recipients. It is not only an insulated high income level that creates this opportunity; it is also the ability of local governments to exclude high cost elements that would affect its production function for local public services. In terms of conventional market supply and demand schedules, this means that the supply price of a quality education is relatively lower, due to lower cost functions, and the demand level for a given quality education is higher because of higher income levels and the lack of public sector competing goods like welfare which have been eliminated by ripping them off from another jurisdiction. Each tax dollar contributed thus buys a higher quality output. This is most significant in K through 12 education systems where excluding working class and poor children, especially from minority backgrounds, from the constituency lowers the cost of providing a "good" education; no special education or compensatory programs are required. Class reproduction through the public education system is important to most suburban residents, from the professional classes on down; these groups fight jealously to keep their tax dollars out of unproductive sectors like welfare and in class reproduction sectors like education.

Similarly, excluding "crime-prone" populations and escaping aging

physical structures lowers the cost of providing public safety—police and fire services. Even changes in technology, such as the substitution of the police cruiser for the cop on the beat, put a premium on suburban location by lowering public sector costs (its cheaper to operate cruisers in suburbia than in the central city). Exclusion of high cost populations and low income residents is achieved by using policy tools such as exclusionary zoning and building codes to manipulate both the supply and demand features of the local market for social output; (29) in this sense, the local government attempts to *create* its own market for public sector output.

Far from acting as an impersonal firm trying to attract a population with an efficiently produced public service package, the local government acts in class interests to fashion the very market it serves. It is strongly partisan, for instance, about who its customers are, as opposed to the neoclassical firm, which is only interested in its customer's ability to pay the price. The local government, despite willingness to pay, excludes a household if it is poor (because then it will be apt to get a larger portion of the public output than it pays for under most local tax systems) and if it is apt to raise the costs of production. Regressive taxation, large lot zoning, strict building codes, discriminatory public service distribution schemes, and urban removal all contribute to the ability of local governments to shut out other classes and protect the public sector class consumption and reproduction aims of its constituents.

In fact, the local government's identity is not separable from that of its constituents at any particular moment. What occurs is thus the efforts, simultaneously, of suburban governments to attract residents better, not worse off, than current residents. Since better off residents can always be wooed elsewhere, the result is a tendency for rather strict internal homogeneity to develop while over the entire metropolitan area suburban jurisdictions appear highly stratified. This development relegates the poorest and least mobile elements to the central city, which is then left with the residents least able to pay and most dependent upon public sector services. The degree of urban fiscal crisis experienced recently owes much to this dynamic process.

The construction of these separate and disparate markets has been accompanied historically by the growing participation of land speculators and construction interests. Since some of the gains of this public sector manipulation can be siphoned off as rent, capitalist class production interests have become involved in supporting the existence of separate local governments and in recent years in literally constructing them along with large scale residential developments. Beginning in the 1920's it became profitable to extend the privileges of suburban public and private sector insulation to the working class, at a rent premium. (30) In fact, it has become increasingly difficult for any group to stay in the central city because of the high level of public sector taxes and low level of benefits; with few exceptions, only those who cannot escape, do not. In addition to the real attraction of suburbia for working class families, mentioned above, they have been manipulated into suburbia financially because of their dependence on the value of their homes as their only asset and security for old age. Working class suburbanization has contributed to the

public sector fragmentation of local government, often militantly defending it, and thus to the construction of a complicated network of class stratified public service units surrounding the metropolitan area. (31)

Since the advent of trucking, selective industrial and mercantile establishment have also moved to suburban jurisdictions. This movement has much to do with private sector gains to location, but taxes and public services do play an important role. Many corporations leave those portions of their operations which require extensive public investment outlays in the central city while removing those which do not to suburban locations. At the same time, to avoid paying for the social consumption expenditures of their own work force, they increasingly build plants in suburban locations but cooperate with local class consumption interests to exclude their lower paid workers from living in the same jurisdiction in which the plant pays property taxes. The existence of fragmented political jurisdictions also allows corporations to play off one jurisdiction against the other to secure preferential tax and expenditure arrangements in what public finance theorists call tax base competition.

Although suburban dispersion would have proceeded outward in stratified neighborhoods regardless of the public sector structure, it is clear that public sector incentives exacerbated the outward movement and added to the degeneration of metropolitan cohesiveness. The process is thus self-reinforcing; the existence of class neighborhoods makes possible the creation of independent political units and these in turn encourage the creation of class-segregated suburbs. The consequences for central city fiscal crisis are obvious. The deformed local version of the state, therefore, adds a spatial dimension to the capitalist crisis, since anarchy of production in the public sector weakens the fabric of the entire community. The drive outward results in the waste of public sector facilities already built and fails to incorporate public sector economies which would be emphasized in a rational, planned system.

VII. The Future of the State at the Local Level

What will happen in the future? The phenomenon we have investigated here is not a static political condition. We have seen that capitalist interests favored consolidation of political units in the mid-19th century in urban areas. We have argued that the present form of multiple units is mainly the result of one hundred years of class interests constructing and maintaining separate public service sectors. In the future, it is possible that new class interests generated by monopoly capitalism will result in still different pressures on local political structures.

Forces for Change

Despite the scare of the 1960's, it is clear that corporations are not going to leave the major American central cities because their need for elaborate administrative, financial and control functions ties them to the agglomeration of facilities downtown. Certain operations, particularly actual production facilities and warehousing, will continue to locate outside the central city, but large numbers of corporate jobs will remain in the central city. The dependence on downtown location is becoming more

apparent and leaves the corporate sector potentially more vulnerable to public sector taxation. Thus the corporate sector has sought for new ways to control the local public sector in lieu of the potency of the threat to emigrate. The likely solution has been demonstrated most dramatically by the recent events in New York City. The corporate sector, aided by the ravages of recession and inflation, has secured for itself a legitimate and dominant position in the budgetary process. To the extent that this domination succeeds and is replicated across the country, the corporate sector and upper class public sector interests have less stake in the maintenance of independent suburban political jurisdictions.

At the same time, the need for coordination and administration of national and multinational corporations has increasingly been harrassed by the existence of fragmented political units; local governments may be a big nuisance in planning expansion and location decisions. Dealings with suburban units to secure zoning changes and infrastructural commitments are often unpredictable and time-consuming. Some leaders have complained about the lack of metropolitan regional planning in recent years; such interests appear to be increasingly in favor of regionalized political structure. (32) This suggests that we may see a struggle in the future between suburban subclasses militant in their desire to preserve their local public sector autonomy and large capitalist interests pushing for planned, rationalized metropolitanwide government.

A third change is itself the dialectical result of class segregation in suburban areas: the ascendancy or threat of it by black urban populations to political power in some of the larger central cities. This development appears to have different results for urban structure between regions. In the South, urban areas like Richmond, Dada County (Florida) and Jacksonville have quickly consolidated the preexisting political units to prevent black hegemony in the central city. In the North, the ruling class interests apparently feel that black central city governments can be dealt with satisfactorily because of their dependence on private sector jobs and taxes. No structural change appears to be imminent.

A final change is an increasingly parochial and defensive attitude on the part of suburban and exurban residents who are beginning to oppose growth in their communities because of high infrastructural costs associated with it, potential overuse of facilities they enjoy, and subtle fear of incursions by other groups who might ultimately undermine the 'fabric' of the community and erode property values. Despite liberal efforts to throw out the property tax as the main financial base for municipal and educational expenditures, to force busing across district lines and to disperse low income housing into otherwise homogeneous neighborhoods, the subclass interests in suburbia seem to be solidly arrayed against erosion of the little that they have and to date have been successful in maintaining it.

As a result of these dynamics, we may see in the future another shift in class positions defending and attacking suburban independence. The likely outcome is a further hybrid: special districts for planning urban land use and constructing urban infrastructure in the interests of the business community, and the maintenance of separate political units for some local public consumption and class reproduction functions, particu-

larly public safety, education and welfare. Maintenance of separate units for the latter will mollify suburban residents for their loss of control over land use and planning.

The last fifteen years have been ones of almost unremitting urban crisis. Clearly the urban public sector is one of the important receptacles for the display of capitalist crisis. The growing pressures on the urban public sector generated by infrastructural demands of the private sector and the growing costs of industrial and reserve army peace are exacerbated in the U.S. by the structural arrangements that make local governments responsible for them, limit the financial resources available for these purposes and badly maldistribute the burdens across the political units within an urban area.

The urban crisis is not congenial for corporate capitalism, as evidenced by the regular presence of local capitalist interests on committees concerned with urban problems, e.g. Henry Ford's membership on the Detroit Renaissance Committee. But capitalist interests have made efforts to turn the crisis to their ends, culminating in the recent attempts to control the actual city budget-making process itself through formally established organs. This is a two-edged knife, however. The attempt to cut urban social expenses like welfare may heighten the class conflict within the city. Similarly, the attempt to stop wage and benefits gains by public sector workers may heighten the visibility of the struggle between capital and labor even as it affects workers in this sector. Some resolution of this will occur, most likely via greater Federal government financing of social expenses, as has been the trend since the '30's, taking the form more recently of revenue-sharing rather than federal takeover, and increased regulation of labor disputes in the public sector by ostensibly publicly-minded arbitration boards. Nevertheless, there is not likely to be a satisfactory outcome to the basic urban crisis, structural or other. In fact, urban political units may become explicit mouthpieces for class interests and arenas for class conflict, a development which argues in favor of considering community organizing as a part of a revolutionary strategy.

While there is no possibility of "solving" the urban structural problem under capitalism, community organizations' struggles within the U.S. and the experience of existing socialist states undoubtedly suggest many steps forward—for example, the neighborhood courts and housing microbrigades in Cuba.

It is clear that American democracy is subverted at the local level by a rather unique development—the cordoning off of various subclasses into political units populated by their own kind wherein constituents equally share in a public sector output that is financed equally and equally escape the costs that might be imposed by lower class participation. Central city populations are left the privilege of voting to impose the costs of social capital and class containment expenses upon themselves. This is simply, in a different form, democracy for the rich, although it involves minor gains for intermediate and upper layers of the working class. Real class differences under capitalism are obscured by a subdifferentiation of class enhanced by segregated residence and by the particular consumption and class reproduction activities that accompany that residence.

Insular suburbia has been a salient feature of urban America for a hundred years, and an important contributor to central city problems in the last thirty. This investigation has traced its relation to the capitalist mode of production and reflected on its likely fortunes in the future. If nothing else, perhaps it will stimulate further Marxist analysis of local political structures, under both socialist and capitalist modes of production, which might produce a full-bodied analysis and a strategy for urban action.

1. The class complexion of metropolitan spatial expansion under U.S. capitalism has recently received deserved re-examination. See Larry Sawers, "Urban Form and the Mode of Production", *The Review of Radical Political Economics*, Vol. 7, No. 1, Spring 1975, pp. 52-68. However, the forces that have given suburban areas their particular character do not explain the over-all political structure of U.S. urban areas; class segregated neighborhoods could and do exist within the bounds of a single political entity, particularly in the older central city, and hence did not compel the existence of politically separate suburbs.

2. Robert Wood, *Suburbia: Its People and Their Politics*, (Boston: Houghton-Mifflin, 1958). Wood's thesis is that people migrate to suburban areas for explicitly political reasons, namely in quest of the Jeffersonian ideal of grass roots democracy, as well as in search of opportunity and community.

3. Concern with the homogeneity of suburbia began with John Keats, *The Crack in the Picture Window*, (Boston: Houghton-Mifflin, 1957). See the author's dissertation, *The Economics of Social Class and Metropolitan Local Government*, Michigan State University, 1974, for a survey of suburban homogeneity studies and an empirical demonstration for the Detroit area. The dullness typifying suburban politics is documented in Wood, *op. cit.*, Chapter 5, "The Politics of Suburbia;" despite this evidence, Wood does not retract his contention that people migrate in search of political participation. Clearly, the local metropolitan political unit exists for reasons other than to facilitate grass roots democracy, obviated by the homogeneity of its residents.

4. Paul Samuelson, "The Pure Theory of Public Expenditures," *Review of Economics and Statistics*, XXXVI (November, 1954), pp. 387-89.

5. Charles M. Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy*, LXIV (October, 1956), pp. 416-24.

6. This argument is fully developed in the author's thesis in Chapter V, "Local Government as a Market Designer," *The Economics of Social Class and Metropolitan Local Movement*, Michigan State University, 1974.

7. George Harris, *Comparative Local Government*, (London: Hutchinson University Library, 1948), pp. 10-11.

8. *Ibid.*, p. 18.

9. Charles Glaab and A. Theodore Brown, *A History of Urban America*, (New York: MacMillan Co., 1967), pp. 1-6.

10. Robert Dahl, in his study of New Haven, states that patrician families governed New Haven from 1784 until 1842, and were then replaced by self-made businessmen who consistently held the mayor's office until 1900. *Who Governs?* (New Haven: Yale University Press, 1961), pp. 11-14.

11. Howard Lee McBain, *The Law and the Practice of Municipal Home Rule*, (New York: Columbia University Press, 1916), p. 8.

12. *Ibid.*, p. 40.

13. *Ibid.*, p. 9.

14. Wickman, *op. cit.*, pp. 42-3.

15. Joseph Mc Goldrick, *The Law and Practice of Municipal Home Rule, 1916-1930*. (New York: Columbia University Press, 1933), p. 3.

16. Robert Caro, *The Power Broker: Robert Moses and the Fall of New York*, (New York: Alfred E. Knopf, 1974), Ch. 5, 19, 21.

17. Sam B. Warner, Jr., *Streecar Suburbs: The Process of Growth in Boston, 1870-1900*, (New York: Atheneum, 1973), p. 164.

18. For documentation of the introduction of annexation and incorporation laws see the author's thesis, *op. cit.*, Ch. 7, and unpublished "Notes on Annexation," Dan Feshbach.

19. This is my interpretation of the home rule movement. A different view is expressed by Milton Kotler, *Neighborhood Government: The Local Foundations of Political Life*, (Indianapolis: Bobbs-Merrill Co., 1969). Kotler contends that 19th century cities practiced a form of imperialism, monopolizing regional political power, exploiting the wealth of the region by concentrating economic activity downtown, and subjugating other units to pay a disproportionate share of the costs. I think Kotler is actually referring to an earlier phenomenon and not to the suburbanization that coincides with the home rule movement.

20. The analysis of government production in terms of its relation to capitalist production and social relations is developed in James O'Connor, *The Fiscal Crisis of the State*, (New York: St. Martin's Press, 1973), especially pp. 5-8. O'Connor's categories have been adopted in this paper.

20. Dan Feshbach, in unpublished notes cited above. See also Kotler, *op. cit.*, pp. 14-20.

22. Jay Franklin, *LaGuardia*, (New York: Modern Age Books, 1937), p. 99.

23. The Survey Research Center study, *Location Decisions and Industrial Mobility in Michigan*. (Ann Arbor: University of Michigan Press, 1961) indicates that tax and service differentials tend not to be an important determinant of interstate location of new plants but are significant for intraurban location decisions.

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THE POLITICAL ECONOMY OF HOUSING

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Introduction.

The Political Economy of Housing Group has been meeting bi-monthly for the past eighteen months. It brings together people from a wide variety of backgrounds with a commitment to the development of a Marxist analysis of the housing field. While it is an intellectual forum committed to the development of an adequate analysis of developments in housing and housing policy, many of its members are engaged in one way or another in various kinds of housing and community struggles, as well as in the ideological struggle in the academic field. Hence the group is not a purely academic group, although the relation between theory and practice is as problematic here as elsewhere.

This paper arises out of the work of the group over the last eighteen months, and attempts to indicate the areas in which the group has been working. It focuses particularly on the economic dimension, since it is for a C.S.E. conference, but it should be emphasised that the group has also been very concerned with the political and ideological aspects of the question, and the relation between the different levels. A draft of the paper has been discussed in the group, but the paper remains the individual responsibility of the authors rather than a collective statement by the group.

Because this paper represents a summation of work, full reference to and acknowledgement of papers presented to the group is not made as often as it should be. Nine of the papers have now been published by the group in book form as *Political Economy and the Housing Question*, price \$1.25, including surface postage, for individuals, and \$3.25 for libraries and institutions. The book is available from 93 Woodside, London S.W.19.

C.S.E. POLITICAL ECONOMY OF HOUSING GROUP—PAPERS 1974.

1. J. Benington 'Local Government becomes Big Business.'
2. M. Mayo 'Notes on . . . (1).'
3. P. Corrigan & S. Frith—Paper on 'The Local State.'
4. M. Yarnitt 'Local Government Politics.'
5. D. Byrne & P. Bierne 'Towards a Political Economy of Housing Rent.'
6. P. Corrigan & N. Ginsburg 'Tenants Struggle & Class Struggle.'

7. I. Breughel—Discussion Note on Chapter 5 of 'Social Justice & The City' by D. Harvey.
8. S. Merrett 'Council Rents and British Capitalism.'
9. D. Webster 'Political Economy of Private Residential Development in London.'
10. D. Massey—Paper on Land Nationalisation Policies.
11. R. McCutcheon 'High Flats in Britain 1945-1971.'
12. R. Colenutt 'The Property Lobby' one page summary only.
13. M. Boddy 'Model of Housing Market Processes and Residential Location.'
14. M. Jones & R. Hill 'Political Economy of Housing Form.'
15. M. Ball 'Owner Occupation.'
16. D. Webster 'Housing Associations—A Socialist Critique.'
17. D. Byrne 'Housing Associations in the North East.'

2. Why a Political Economy of Housing?

In a capitalist society housing is a commodity, and so shares the characteristics of the commodity under capitalism analysed by Marx. However, housing is a particularly important commodity in a capitalist society for both political and theoretical reasons. Moreover, the analysis of housing raises important, and difficult, theoretical problems. At the level of the analysis of housing as a commodity three problems have particularly concerned the Political Economy of Housing Group.

a. The price of housing includes a considerable rent element; hence discussion of housing as a commodity involves the elaboration of the much neglected theory of rent.

b. Housing is a necessary, and large, component of the cost of reproduction of labour power, and yet houses are too expensive to be bought outright by members of the working class. If the working class is to be housed, therefore, some mechanisms have to evolve which make houses available to the working class and which do not take the form of outright sale. The principle mechanisms which have arisen historically have been private renting, local authority renting, and purchase on the basis of loan finance. The cost of finance constitutes a large proportion of the costs of realisation, and so an analysis of housing involves an adequate theory of interest. The Political Economy of Housing Group has been much concerned with the analysis of different forms of tenure and of the relations between them.

c. In the area of housing the contradiction between the social nature of production and the private character of appropriation became manifest early in the development of British capitalism, so that state intervention in the allocation of housing to the working class, and in the control of housing conditions, became crucial features of the housing sector. State intervention has been *direct*, through controls of standards, building by-laws, etc., and through state provision of housing, and *indirect* through regulations of the terms under which different tenure categories operate. Directly or indirectly the state now plays a major role in the regulation of

the *circulation* of houses, though its role in their *production* is very limited. In the Political Economy of Housing Group we have been particularly concerned to try to explain this state intervention. Hence an understanding of housing presupposes an adequate understanding of the state and of state intervention.

An understanding of the role of the state in this field is made very difficult by the fact that even at the economic level there is not one coherent capitalist interest. The problem is further increased when we consider the political and ideological significance of housing.

Politically housing is important because it does not simply bring the worker into contact with the supplier of the commodity in a single transaction. Instead he or she is placed in a contractual relationship with landlords, financiers, or the state itself. This is an ongoing and antagonistic relationship in which the worker encounters capital not as worker but as consumer. However, the magnitude of the cost involved and the permanent nature of the relationship means that the housing struggle has historically been a very important source of conflict under capitalism.

This immediately raises an absolutely fundamental question. The question is to what extent are housing struggles class struggles? This question is complicated by the fact that in a formal sense class and tenure categories do not overlap. Hence housing struggles generally involve not the working class as such, but private tenants or council tenants, and not the capitalist class as such, but landlords or local authorities. It has been suggested that some concept such as that of the "housing class" (1) should be introduced and that we should understand housing struggles in tenurial rather than class terms. The group rejects such an approach for a number of reasons.

Firstly, the immediate struggle between tenant and landlord over an item of consumption cannot be divorced from other conflicts in society, and particularly the dominant struggle between capitalist and worker. Just as in a particular wages struggle a worker is engaged as a specific type of worker engaged with a specific capital, so in a housing struggle the worker is engaged as a specific type of working class tenant confronting a specific capital. In each case the politically salient question is not whether the struggle is a specific struggle, but whether it can transcend its specific character and become part of a general class struggle of which conflict between landlord and tenant, as conflict between capital and labour in a particular industry, is a particular moment. The housing struggle analysed objectively is a struggle between capital and labour over the provision of housing, even if it is a struggle which is diffused both by the fragmentation of capital and by the fragmentation of the working class.

Secondly, it is clear that state policy treats tenure as being subordinate to class. The state's role is clearly seen as being one of housing the working class by one means or another, and not as being one of concern with a particular tenure category. Within tenure categories, for example, legislation affects different classes differently. Legislation affecting private tenants has generally included exemption from rent control on properties above a certain rateable value.

Where council housing is provided for "middle class" tenants, as in the Barbican scheme, it is provided on quite different terms from those which govern working class housing. Even in the owner-occupied sector we find class differences in finance. For example, the option mortgage was introduced to permit working class low-rate taxpayers to secure increased tax advantages. Local authority mortgages make it possible to secure a mortgage to buy older, and cheaper, property. Finally, working class sources of finance often tend to be different. Recent studies in depressed areas, such as Saltley in Birmingham (2) have confirmed the findings of Harvey in Baltimore (3) that the poorer working class is particularly vulnerable to the activity of fringe financiers providing loans at very high rates of interest.

Thirdly, it is clear that the significance of each kind of tenure is very different in different classes, and is a creation of the class relation between capital and labour rather than the free choice of members of the class. Hence tenure divisions tend to reflect subdivisions in class terms. Generalisation is difficult here because of regional variations, but it seems generally true that a local authority tenancy is still subjectively as well as objectively the ideal for a large proportion of the working class. For the bulk of the working class the alternatives to local authority renting are private renting at high rent in overcrowded and decrepit accommodation, or purchase of equally decrepit housing through fringe financial institutions. For various reasons local authority housing cannot accommodate certain categories of people, notably the young, the deviant, the transient, and those with large families, and it is people such as these who tend to have resources to inferior solutions.

Even the great "ideal" of owner-occupation is not a natural one. As we shall see later, it is the result of a history of state housing policy, and not, as we can be sure, a purely contingent result. During the 1920's local authority housing was in every sense the ideal, being provided at high standard for the better-off members of the working class. On L.C.C. estates at the time the largest category of tenants were in fact "clerks." It was in the 1930's, when local authority housing was increasingly restricted to the victims of slum clearance schemes, that the image began to change, and the council estate came to be seen as what it had in fact become, the depository for those who could not "do better." During the 1950's we find the same process of concentration of local authority housing on the victims of clearance, with the lowering of housing, and environmental standards, only this time the policy is directly associated with the drive to make the better-off members of the working class into owner occupiers. This drive itself had clear political motives. This again raises the question of divisions within the working class and so introduces the question of the ideological importance of housing.

Ideologically housing is extremely important, and this aspect has not been neglected by the Group. On the one hand, the nature and form of housing materially structures everyday life. (4) We have still to investigate in detail to what extent this power of housing as a material ideological force has been exploited as a political weapon in capitalism. Obvious examples are the internal construction of council housing, the lay-out and location of council estates, the fashion for high-rise, etc.

On the other hand the fragmentation of tenure categories raises the possibility of an ideological fragmentation of the class struggle. We have to ask to what extent the classic division between craft and general worker, between the "rough" and the "respectable," is perpetuated and underpinned particularly in the division between tenancy and ownership. Certainly such a motive has lain behind the sponsorship of working class owner-occupation. There also seems little doubt that the achievement of owner-occupation is of ideological importance to the white-collar worker. The political significance of such ideological divisions has not been adequately discussed in the Group so far, but it clearly has important implications for the question of the relations between housing struggles and class struggles.

This ideological fragmentation has a material foundation in the sense that higher quality housing, or housing freed from landlords or bureaucratic control, is available only to those who can afford it. Hence owner-occupation tends only to be available to the better-off members of the working class. For white-collar workers and professional people owner-occupation has been available at least since the 1930's, but for the manual working class access to owner-occupation on a large scale only came in the 1950's. In the paper which follows we shall be discussing the housing of the manual working-class, for the position of the manual worker has clearly been distinct from that of the non-manual worker for a long time. The question of the relation between white-collar and manual workers, and of the development of that relation, is not one which we shall discuss. However, it is clearly an important question which confronts those engaged in housing struggles. Professional, managerial and executive employees will be referred to as the "middle-class", without prejudice to any who would like to argue that such people are objectively proletarian.

The Political Economy of Housing Group has addressed itself in some degree to all the questions raised above. In this paper we would like first to discuss some problems in the theory of rent, as a prelude to a consideration of the role of the state in the provision of housing, which is our main concern in the paper as a whole.

3. Housing and the Theory of Rent.

Since housing constitutes a large proportion of the costs of reproduction of labour power, movements in the relative price of housing have a great significance in a capitalist society. Since a proportion of the price of a house goes straight to a landowner in payment for land, the starting point of the analysis must be the theory of rent. As yet the application of the theory to an analysis of the provision is inadequate, so we can merely outline a number of points.

The starting point of the theory of rent is the distinction between differential, absolute and monopoly rent. The distinction is an important one, for each derives from a different source. The application of the concept to housing land raises serious problems.

Marx's analysis of ground-rent in Capital related almost exclusively to

agricultural land, and this emphasis is maintained by most commentators on Marx's analysis. (6) Differential rent arises from relative advantages inherent in a particular piece of land, either in terms of its location and fertility, or in terms of the investment of different amounts of capital. Differential rent does not simply derive from the natural attributes of a piece of land, but also from the incorporation of previous improvements. This latter is important in the case of housing land, for many of the desirable features of a specific housing location are "externalities" which are the product of other investment. A developer, for example, may increase the ground rent of land for middle-class housing by himself creating desirable amenities in the neighbourhood. Differential rent, deriving solely from relative advantages of more favoured portions of land does not affect the price of the product, which is determined by the price of production of the product on least favoured piece of land. Hence differential rent represents simply a diversion of super-profit from the immediate producer to the landowner.

Absolute rent, on the other hand, derives from the barriers established by landed capital to the free entry of capital to investment in the land. Such a barrier may take the form of legislative restrictions which reflect the power of the landowning class, but in developed capitalism it more characteristically takes the form simply of the requirement on the part of the landowner of a certain minimum return before he will release his land at all. Hence, if we exclude consideration of legislative restrictions, absolute rent arises only when it is necessary to bring new land into production, and even then is only a small component of the ground-rent.

Unlike differential rent, however, absolute rent does affect the price, since it derives from the fact that capital cannot flow freely into investment in the land in order to equalise the rate of profit between capitals in the branch in question and capital in general. Hence absolute rent represents a diversion of surplus value from capital in general to landed capital.

Marx, starting from the claim that the organic composition in agriculture is below the average, so that the price of production is below the value, argues that an absolute rent arises when the price of the product lies between the price of production and the value. Hence, it would seem, absolute rent cannot arise unless the branch of production in question has a lower than average organic composition. It would seem that this is because Marx assumes that capital would only flow into land in order to equalise the rate of profit. However if capitalism is constantly expanding then capital may flow into land even if the organic composition of, in this instance agriculture, is above average. Hence Marx's claim (7) that we are dealing with monopoly rent if the price of the product exceeds its value is dubious.

Monopoly rent is determined, according to Marx, neither by the price of production, nor by the value of the commodities produced, but simply by the buyers' needs and ability to pay. Hence a monopoly rent arises where a monopoly price is secured by virtue of control of a particular type of land. Marx's example is the vineyard which produces a rare vintage. Monopoly rent is therefore earned at the expense of the consumer, and not of other capitals, except indirectly by raising the cost of reproduction

of labour power.

When we are dealing with agriculture everything is clear enough. However when we deal with housing the situation begins to get rather more difficult. The starting point of our discussions of the theory of rent was the work of Harvey. (8) Harvey concludes that finance capital has, in some not clearly specified way, conspired to create an absolute, or 'class-monopoly', rent. Harvey's own analysis is very confused, combining Marxist and marginalist concepts, his final conclusion being that the housing struggle has become a dominant moment of the class struggle, ranging 'finance capital' against the 'people.' Harvey's work does raise the important question of whether we are dealing with differential, absolute or monopoly rent in the case of housing.

Harvey argues that because locational advantages are essentially the creation of developer-financiers who create housing sub-markets of different social character, the rent accruing to them is an absolute rent. However, the question of absolute rent is not a question of differentiation between sub-markets, but a question of whether a class-monopoly in landownership prevents free access to land on the part of building capital, so that the rate of profit cannot be equalised by the free flow of capitals. The barrier mentioned by Marx, that a landowner will require *some* return to release his land at all, will make only a small addition to ground-rent. The only other barrier which has been suggested is that of planning controls. However such controls restrict the access of building capital not to land in general, but to land in particular locations. Moreover such controls are in fact not inflexible, particularly in terms of the amount of land freed for particular uses. Hence these controls do not affect land at the margin, which is the source of absolute rent, but specific pieces of land, particularly where there is conflict between alternative uses. In relation to housing the effect of such controls is to increase the available supply in inner city areas, where land is preserved for housing at the expense of commercial use, while restricting it in suburban areas, where land is preserved for farming at the expense of use for housing. These restrictions therefore affect the supply of land at different locations differentially, and so will affect the total quantity of rent appropriated by landed capital, but they do not create an absolute rent.

Although it is quite clear that the advantage of a particular location for a house is a differential advantage, there are problems in explaining ground-rent as a differential rent. In agriculture differential rent arises as a result of the relative qualities of particular pieces of land which mean that the price of production of a given commodity is different on different pieces of land. However this is not the case with the production of houses, for the price of production of a house is more or less the same in different locations. Hence the differential qualities of different pieces of land do not derive, in the case of housing land, from objective qualities of the land. Rather they derive from subjective evaluations of the desirability of a particular location on the part of the consumer. Hence the differences are essentially subjective and qualitative, rather than objective and quantitative. The key point about differential rent is that it does not affect the price of the commodity in question. House ground-rent, however, cannot be determined without reference to the demand of the consumer. It re-

presents, in essence, the premium which a consumer is compelled to pay for a house in a particular location. In this sense, then, perhaps we should regard house ground-rent as a monopoly rent, which is determined by the 'buyer's needs and ability to pay.' (9) Certainly it is only when we introduce buyers' preferences that we can explain why there is a house ground-rent at all.*

Without prejudicing the question of whether it is best to analyse ground rent as essentially a differential or as a monopoly rent, we can at least say that the ground rent cannot be determined simply by analyzing relative prices of production. If there is no barrier to the entry of capital to investment on the land, beyond the inertia of the owner, then rent derives from the differential advantages of different locations. The magnitude of the rent will be determined by the interplay of demand and supply in each location.

On the demand side the differential advantages of different locations for members of the working class derive first and foremost from their differential access to employment opportunities. Hence the demand for land in a particular location will be affected by the level of wages in the locality, the level of unemployment, access to transport and distances from places of employment. Other factors, such as access to shops or recreation facilities, levels of noise and pollution, the social character of an area, will have a secondary influence. In the last analysis, however, it is the spatial concentration of employment opportunities which determine that different locations will have different values.

On the supply side we find that the tendency under capitalism for employment opportunities to be spatially concentrated means that land within reach of mass employment opportunities is differentially located. This continuing tendency for capitalism to develop unevenly means that employment opportunities become more and more concentrated, while those seeking to live near them increase in numbers. Hence it is the unevenness of capitalist development which constantly determines that the demand for housing land in particular locations will run further and further ahead of its supply. For some time improvements in transport offset this tendency, but such an offset has long since ceased to be effective. Hence we can say that differences in rent for different pieces of land depend, in the last analysis, on the spatial concentration of economic growth under capitalism, and not, *pace* Harvey, on the scheming of 'finance capital.'

There are further complications still to be introduced, for the market for land is not one in which the rent is regularly renegotiated. Land is released by the landowner on a long lease, if it is not freehold, and the rent is more or less fixed. Hence the ground rent accruing to the landowner may bear little relation to current rentals, and the result will be that gains or losses which should, from an accounting point of view, be credited to the landowner, will in fact accrue to the builder or leaseholder. Some would argue, because of this, that a house, once constructed, should be treated as a capital improvement incorporated in the land. Marx clearly argued that such a procedure was not possible, 'particularly when the landlord and building speculators are different persons.' (10) Marx him-

self quotes the evidence of a building speculator to the effect that his profits derive largely from the increase in ground rent consequent on development, rather than the profits of his constructional activity. (11) It is important to be able to make such statements, and so to distinguish, however imperfectly, building from land.

Although there are no specific barriers to the investment of capital in land, there are nevertheless impediments to its free flow which can mean that the price of houses is inflated because of a shortage of houses, rather than a shortage of land. This shortage will persist for some time because the process of building new houses is a long-drawn out one. However such inflated prices are unlikely to persist in the long run, for there are few barriers to entry in the building industry. Hence in the long term shortages of houses, and so increases in their price, will reflect shortage of appropriate land, even if the gains accrue not to the landowner but to the leaseholder for the period of the lease.

A further consideration to be introduced is the obvious fact that when dealing with housing we deal with a market in which there is a considerable stock of houses changing hands. Hence we have, in effect, a large second hand market alongside the market for new houses. Like all second hand goods the price of an old house will be determined in relation to the price of production of a new house, and not to the historic cost of the existing house. It is therefore possible not only for land prices to increase, but also for the price of an existing house to increase and so give the owner a capital gain on the house itself. It seems empirically that prices of existing houses are indeed closely tied to prices of new houses. The relation between the two will depend on age and condition of the existing house by comparison with standards of new housing. It will also depend, obviously, on the pressure of demand. If a large proportion of the population cannot afford to buy or rent new houses, they will all be thrust into the market for existing houses, and we would expect to find the prices of old houses being maintained relative to new ones. The possibility of making capital gains on existing houses depends, therefore, on their being a relatively large proportion of the population unable to afford new housing.

In this section, although we have still not precisely clarified the theoretical problems, we have concluded that the spatial unevenness of capitalist development is the ultimate source of ground-rent, where that rent is not determined by agricultural or other uses. Moreover, we have argued, the development of capitalism will be accompanied by a tendential increase in ground rent. However ground rent is not the only component of the price of a house. It is conceivable that increasing ground rent might be compensated by a declining price of production of the housing itself.

In fact, because of the low organic composition of capital and the low rate of technical progress characteristic of both house construction and building materials industries, we would expect that the price of production of houses would rise relative to other wage goods, although it will, of course, cheapen in absolute terms. This tendency will be further exaggerated by improvements in the quality of housing which could well be so

great as to increase the price of production of houses even in absolute terms. These improvements cannot, on the whole, be attributed to consumer 'tastes,' since the bulk of working class accommodation is either at or below the legal minimum standards to which housing can be built or occupied. The action of the state to improve housing standards has been the result, firstly, of attempts to improve the standards of public health, both to improve the quality of the labour force and to protect the bourgeoisie from classless diseases. Secondly, it has been the result of working class pressure, taking the form either of 'public disorder,' or of more direct political pressure.

Hence, when we analyse the price of production of housing, we find our earlier conclusion that the price of houses will tend to rise under capitalism, confirmed. It is in the context of this steady rise in the price of one element of the cost of reproduction of labour power that we would like to situate the intervention of the state in the provision of housing for the working class.

4. Housing and the State.

In the course of the century the role of the state in the field of housing has increased enormously. Apart from state intervention in the field of housing standards, the bulk of this intervention concerns the sphere of circulation, in which the state has come either to regulate the provision of housing through legislation affecting the landlord, Building Society and Housing Association, or to intervene directly in the provision of housing. This intervention has become necessary because of the inability of capitalism to provide working class housing of an adequate standard. The state has therefore had to intervene here, as elsewhere, to prevent the growing contradiction between means and relations of production from compromising the existence of capitalism itself. This contradiction has manifested itself economically particularly in the inability of private landlords to provide acceptable working class housing at an acceptable price. Politically it has manifested itself in working class pressure to secure reductions in the price at which housing is provided to them or at least in resistance to increases in that price. As we shall see the two are intimately linked, since it is working class pressure to secure control of private rents which explains the decline of the private working class landlord.

However, in explaining state intervention we have to refer to many interests other than the working class and the landlord, and we have to refer also to considerations of a directly political, rather than economic, nature. Housing provision is a matter of concern both to the capitalist system as a whole, and to those capitalists directly involved in its provision. The relation between these various factors is a matter of great concern to the Political Economy of housing group, but also a matter which has wider theoretical interest because it raises the question of the explanation of the activity of the state in a capitalist society.

A simplistic analysis will see state intervention in the provision of housing in terms of the conflict between industrial and landed capital.

The dominance of industrial capital is indicated by the fact that the state is prepared to control the activities of landed capital in order to reduce the costs of reproduction of labour power. Such an analysis is simplistic, however, because it ignores several points which can be summed up under five headings.

Firstly, the concept of landed capital subsumes under one heading a number of rather different interests. We cannot clearly differentiate one fraction of capital which is tied to investment in the land.

On the one hand, during the century the landowner as a separate interest has declined as finance capital has increasingly penetrated land-ownership. On the other hand, it is important clearly to distinguish the landlord from the landowner. We do not know nearly enough about the landlord, and this does not appear to be a homogeneous group. One finds the traditional petit-bourgeois landlord owning a few properties alongside the large property company which combines landlord with development and other financial interests.

Secondly, this analysis leaves finance capital out of account. Again we do not know enough about the involvement of 'finance capital' in the field of housing. At one extreme we have the concerns of the City as a whole with such factors as the level of local authority borrowing or the rate of interest. At the other extreme we have a large number of small savers who invest in the building societies, or who lend money on a small scale to builders, landlords or house purchasers. In the Group we are still not at all clear about the different interests of different sub-fractions of finance capital, nor about how these may be articulated politically.

Thirdly, this analysis leaves out of account the role of the working class in determining both the fact and the form of state intervention. As we shall see, significant advances in the position of the working class as consumer of housing have coincided with other working class political achievements, while the erosion of these advances have coincided with periods of working class political weakness. Whatever the interest of industrial capital in the reduction of the cost of reproduction of labour power, it is the working class which has achieved such reductions as have been enforced by state action in the field of housing. Hence there is no direct relation between a reduction in the price of housing and a reduction in the cost of reproduction of labour power. The gains, have therefore, probably accrued to the working class rather than capital.

Fourthly, this analysis tends to be over economic in neglecting the political as well as economic concerns of capitalism, concerns which dominate the state, but of which capital itself need not be unaware. Hence, as Marx himself argued, the fact that rent represents a diversion from surplus value does not mean that the capitalist class will attack private property in land, for such an attack would significantly weaken capital itself politically by undercutting the ideological legitimation of the institution of private ownership of the means of production itself. In the same way one cannot jump from the economic interests of particular fractions of capital to the execution of state policy, for between the two lie both the political representation of different fractions of capital, and the overall responsibility of the state with the perpetuation of the capitalist system itself.

Fifthly, and to sum up the previous points, such an analysis is insufficiently concrete. State action can only be understood in a specific economic, political and ideological conjuncture through a concrete analysis of the articulation of the forces involved in that conjuncture, these forces including both classes, and fractions of the capitalist class, and more specific forces directly involved in the field in question—tenants of particular categories, local authorities, landlords, financial institutions of various kinds, etc. One of the great problems of an adequate analysis is that of relating these specific forces to the wider class forces, and so understanding how the specific struggle articulates with the class struggle as a whole. It is only at the end of such an analysis that we will be in a position to generalise about the role of industrial capital, finance capital, landed capital, or the working class in that struggle.

In the following sections we shall outline the way in which state intervention in the housing field has developed during this century. At the present stage of Marxist research there is an enormous gap between hypothetical generalisations, of the kind just discussed, and a wealth of unanalysed empirical material provided largely by bourgeois historians. In the following sections we cannot begin to bridge that gap. Rather we hope to indicate the field for Marxist research which, it is hoped, the Political Economy of Housing Group is opening up.

5. The Decline of the Private Landlord.

In the nineteenth century the bulk of working class housing was privately rented, and it was the failure of the private landlord to continue to provide for the housing needs of the working class which forced the state to take some of the task upon itself. Hence, if we are to argue that state intervention arose because of the inability of capitalism to deliver the goods, we have first to understand why private renting declined.

The landlord brought together a house, land and finance in order to rent the house to the tenant. It seems (12) that the landlord raised about 2/3 of the value of his property on mortgage, which means that the landlord's costs were very sensitive to changes in the interest rate. Hence, if he was unable to pass on the increases by raising rents, his profits would be easily eroded. The bulk of the landlords were relatively small capitalists. Thomas Cubitt, himself owner of a large building firm engaged in building bourgeois housing, wrote in 1840 that working class houses 'belong to a little shop-keeping class of persons, who have saved a little money in business . . . I think very few persons of great capital have anything to do with them at all.' (13) Such landlords were content with relatively low returns on their capital, particularly in the earlier years of the nineteenth century when outlets for small savings were limited. With the development of alternative outlets for capital, such as the stock exchange, government and municipal debt, and the building society, the landlord's commitment to his vocation tended to become more sensitive to change in his economic situation, as Cairncross has shown. (14)

Although the bulk of landlords in the late nineteenth century were small capitalists, larger capitalists did invest in rented accommodation as well, so that a large proportion of tenants rented from a large landlord.

Nevertheless, just before the first war those with capitals of between £1,000 and £20,000, who owned 36.2% of the national wealth, owned 53% of the house property and business premises. At this time the average price of a small working class house was around £250 (15). The fact that there were large numbers of small landlords meant that the returns to the landlord were relatively low, for economies of scale are limited, so that landlordism was a vocation which would be expected to be very sensitive to a decline in profitability.

The standards of working class housing in the nineteenth century were appalling, while rents steadily increased from 1780 to 1918, (16) even when the general price trend was downwards. In the nineteenth century the average working class family paid some 16% of income in rent, while the middle class expenditure was nearer 8 or 9%. (17) It should not be surprising that the working class was particularly sensitive to threats to their living standards posed by increases in rent, and it was working class resistance, reflecting growing working class industrial organisation, which brought down the private landlord.

The decisive blow to the private landlord was dealt by the introduction of rent control in 1915 as a direct response to working class resistance to rent increases. The cessation of building during the war and the influx of munitions workers to certain cities had led to great shortages of housing which the landlords tried to exploit. The landlords themselves faced an increase in their finance costs as interest rates rose as a result of wartime pressure, and this, it seems, accounted for about half the rent increase. (18) Resistance was greatest in Glasgow where the militant Shop Stewards Movement was developing as a powerful force. (19) When the munitions workers on the Clyde threatened a General Strike unless rent control was introduced, the government gave way very quickly. It seems that the workers were not alone in their protest, for the munitions employers also made representations to the Government demanding that rent control be introduced. Hence the 1915 "Rent and Mortgage Increase—War Restrictions Act" was passed. The point of restricting the increase in the mortgage rate was to relieve the pressure on the private landlord.

The impact of rent restriction on the landlord's profit is not clear. While the restriction prevented him from fully exploiting the wartime shortage, control of the mortgage rate and the fact that property was fully occupied may well have meant that his rate of profit did not actually suffer seriously. Whatever the economic impact on the landlord, however, rent control, introduced as a wartime emergency measure, was here to stay. It was the fact, with the implied threat, of rent control, rather than a serious decline in profit, which has led to the reluctance of investors to undertake new investment in working class housing for rental since the first world war.

In a wider context, however, it is significant that it was the landlord who was singled out, from all the wartime profiteers, as the one to bear the symbolic burden of restriction. The introduction of the measure was a direct result of a dangerous upsurge of working class militancy which threatened to spread from an opposition to landlord profiteering to an op-

position to all profiteering, and most notably that of the armaments manufacturers. In the context of such a political crisis the government acted fast, and it was the landlord who was the victim. Hence the imposition of rent control did not, in the first instance, have an economic motive, but was a means of defusing a politically dangerous situation.

6. *The Growth of State Housing.*

Although rent control was introduced as an emergency measure, it has remained in some form ever since 1915. The crisis simply made it clear that, in relation to wages, the levels of rent which would be required to induce landlords to add to stock at a sufficient rate to meet the housing needs of the working class could not be borne. In this sense state intervention to reduce the cost of reproduction of labour power had become necessary. However the motivation was still not simply economic, for the principle of direct Exchequer subsidy, accepted by the Cabinet in July 1917, arose after the Commission of Inquiry into Industrial Unrest had reported that housing conditions were a major element in causing unrest in seven out of eight areas investigated. (20)

The matter became urgent with the end of the war, and the election of Lloyd George with the slogan of building 'homes fit for heroes to live in.' In 1919 the first national house building programmes was launched, aiming at building 500,000 houses in three years. This programme was initially entrusted to the local authorities, and it is from this point that the state came to play the dominant role in the addition to the stock of working class housing. For the previous fifty years the emphasis of state activity in housing had been almost entirely on slum clearance and rehousing. By the beginning of the war, therefore, only 2% of all dwellings were owned by the local authorities.

The responsibility of the local authority after the war was to ensure that the housing stock expanded without rents escalating, though this responsibility was initially seen as a temporary one. To permit the state to fulfil this task the 1919 Addison Act gave a no-limit per-house subsidy to local authorities, adding a lump-sum grant to private building in 1920. The latter clearly indicates that the state did not see the role of the private landlord as having been extinguished, but the response of the landlord to the subsidy was limited.

The question which this change of policy raises is that of the light it throws on the class struggle at the time. The introduction of housing subsidies represented victory for the working class, though a victory which industrial capital would not have resented. The effective decision to transfer responsibility for the provision of new housing to the state clearly demonstrates the political weakness of the landlord, a weakness indicated by other evidence, as for example the sustained refusal of the Inland Revenue to allow depreciation on rented residential property.

Although the landlord received a subsidy on new buildings this did not match the advantage gained by the local authority, for there was no relief for the landlord of existing houses.

The City was not happy with the new legislation, particularly because

of the absence of an upper-limit on subsidies. Then, as now, the City, as the mind of finance capital, was preoccupied with protecting the government from itself by restraining its expenditure. The crisis of 1921 provided the opportunity for the City to kill the 1919 measure and secure the abolition of the subsidy. (22) The burden of pacifying the working class was temporarily borne by the dole.

The principle of subsidy was not abandoned, and with the passing of the financial crisis the 1923 Chamberlain and 1924 Wheatley Acts provided lump-sum per annum, per house subsidies to both local authority and private enterprise house building. Control of council rents was passed to the local authority and rate subsidy was permitted, thus giving the local authority great freedom of action within the financial constraints of the capitalist system. The Wheatley Act, introduced by the Labour Government, was more generous in the level of subsidy than any since.

The fact that housing was placed under local control meant that the housing policies of different local authorities varied quite considerably. Labour tended to give priority to council housing, providing substantial rate subsidisation, emphasising the quality of council housing, and, against very strong opposition, some even tried to build their houses by direct labour. For the labour movement until 1951 council housing was seen as the means of providing homes of high standards, in pleasant environments, at low cost. The very freedom given to local authorities in the provision and subsidisation of council housing meant that housing was the field in which the paternalism of municipal socialism could, and did, most effectively manifest itself. Since the early 1950's there has been a marked decline in the enthusiasm of the Labour Party nationally for the provision of high quality cheap housing. However at the local level some elements of the old ideology remain, and manifested themselves in such things as local opposition to pressure to build high-rise in the 1950's, and more recently in the Clay Cross struggle.

Tory councils contrasted sharply with Labour ones. They have tended to minimise the role of council housing, tending to build to lower standards, putting out to tender, and minimising the rate subsidy. Tory opposition to council housing has been particularly strong at the local authority level because of the massive representation of petit-bourgeois interests connected with private housing—small builders, estate agents, solicitors and landlords—among the ranks of Tory Councillors.

Despite differences in the approach of local authorities, however, the role of central government in determining housing policy has continued to be predominant through their financial control. Hence it is still possible to discuss the history of council housing as a national history.

The 1920's saw a major expansion in the council renting sector; between 1919 and 1934, 31% of new houses were built by local authorities, though half of them were either built for sale or sold to tenants. In the 1920's council housing was of a relatively high quality aimed at the most militant and better-paid sections of the working class. It is not clear to what extent this was a political decision and to what extent it merely reflected a belief in the 'filtering-up' effect, those in need would move into houses vacated by the better off. Council rents tended actually to be

higher than average private sector controlled rents, partly reflecting higher quality.

The progressive defeat of the working class, culminating in the debacle of 1926, is reflected in a steady erosion of working class gains in the housing field. Rent decontrol continued and the position of the private landlord was progressively restored. Militant Labour councils during the 1930's were denied funds for housebuilding by the Special Area Commissioners, and the Scottish Special Housing Association and the North East Housing Association were established to play a major role in the provision of subsidised working class housing in these areas. (23)

The 1930's saw a shift in emphasis to clearance and rehousing from the emphasis of the 1920's on the provision of 'general needs housing'—private enterprise was felt by the National Government to be able to take over the role of sole provider of housing for general needs; the Wheatley and Chamberlain subsidies were abolished.

The removal of subsidy and emphasis on rehousing found its parallel in the introduction of rent rebates for those who, on being rehoused, faced major increases in rent. The means test basis of these schemes was resisted by Labour councils, but by 1938 112 authorities had instituted such schemes; it was the introduction of differential rent schemes which lay behind many of the tenants' struggles of the 1930's. (see CSE paper (6))

As a result of the change of policy there was a big increase in the building of houses for sale and renting to the middle class. This boom was associated with the rise of the building societies, which in the era of the 'cheap money' policy was seen as an alternative means of channelling the funds of the small saver into the housing sector, and so financing housing at relatively low rates of interest; working class owner occupation also began to emerge during this boom. The house-building boom was also seen to be an ideal way of soaking up unemployment during the 1930's given the low organic composition of capital in the industry.

7. The Triumph of the Owner Occupier.

The post war history of housing is surprisingly similar to that of the inter-war period. An initial period in which council development is favoured over private development, a reaction in which private development is favoured while 'subsidisation' of council housing is reduced. The new factor in the post-war period is the arrival of the owner occupier at his present prominent position.

The 1945 Labour Government came to power still fired with a socialist enthusiasm for improving working class housing through municipal provision. The Labour government gave council housing a high priority, favouring it through the system of building controls, and regarding the council's duty as being not only to rehouse, but also to add to stock for general needs. Council housing was given a large Exchequer subsidy, and the rate subsidy was made statutory. The aim in 1945 was to build 300,000 houses a year. In fact the most that was achieved was 200,000 before the devaluation crisis of 1947 arrived. The government was faced

with pressure from the City, and from the United States, which dangled the carrot of Marshall aid, to cut its expenditure, and particularly to divert resources from social legislation to infrastructural investment. At the crossroads the government turned right, and among other things the house building programme was slashed. 1947 marked a turning point for the Labour Party in housing policy as elsewhere. From 1947 the long-standing ideological commitment to providing high quality 'subsidised' working class housing for rent was progressively whittled away.

The Tories were elected in 1951 on a promise to build 300,000 houses a year, a target which was achieved in 1953 and exceeded in 1954. The Tories 'were convinced that home ownership eroded socialist zeal and led to wider electoral support for the Conservative cause . . . the Conservatives sought to defend the property system by giving as many people as possible a stake in it.' (24) Tory housing policy was dominated by the desire to build a 'property owning democracy,' and hence the emphasis of the Tory government of the 1950's on owner-occupation. However their initial concern was to achieve their building target, and although this involved a massive expansion of buildings for owner-occupation, it also involved an absolute increase in council building. The target was achieved by diversion of funds towards housing, by relaxing controls, and particularly by reducing standards. This period also saw the rapid introduction of non-traditional methods, sponsored by the large building concerns, and justified on the grounds of the labour shortage as well as on cost grounds. The building boom, with the introduction of large-scale methods, and the labour shortage, stimulated rapid centralisation of capital in the building industry and saw the consolidation of the dominance of firms like Wimpey, Laing and Costain.

In 1953 the White Paper 'Housing—the Next Step' (25) was published. This White Paper marks the decisive shift away from state housing and towards owner-occupation. State housing was henceforth to be confined to provision for those in 'need,' who turned out to be those subject to slum clearance schemes. In 1956 the general subsidy for housing was abolished, and the rate subsidy was made non-compulsory. The subsidy was only maintained for clearance schemes and for higher blocks, whose introduction further tightened the grip of the big builders on the construction industry. Council housing was also faced with an increasing burden on finance, since a ruling of 1955 virtually cut out resources from the Public Works Loan Board, compelling local authorities to rely on the capital market, so increasing the cost of finance (and, of course, the return to finance capital). Increasing emphasis was placed on differential rent schemes to enable local authorities to reduce rate subsidy by raising rents. (26) Hence by 1964 almost 40% of housing authorities in England and Wales were applying rent rebate schemes, although usually on a small scale.

The effect of Tory policy was to lead to a rapid decline in local authority new construction. In 1951 the proportion of houses privately built was about 12%, in 1954 it had risen to 26%, and in 1959 the number of local authority dwellings built had fallen to half the 1953 peak. Meanwhile the proportion of the housing stock in owner occupation rose from 27% in 1947 to 42.3% in 1961 to 53% by 1971.

The 1930's had seen the first boom in building for the owner occupier, but owner occupation was still largely the preserve of the middle class* so that the end of the 1930's saw saturation of the market and a brief revival of building for private renting. The boom in owner occupation of the 1950's also had a large 'middle-class' component. However it was government policy to stimulate the rise of working class owner-occupation, and it was only in the 1950's and 1960's that owner occupation came within the reach of significant sections of the working class. By 1965 there were 2.8 million borrowers from Building Societies, and by 1973 this had risen to 4.2 million.

Since the 1950's the main debate in the area of housing provision has concerned the relative advantages of owner-occupation and local authority housing. Owner-occupation has received massive economic and ideological backing from the state as well as from the media, and its superiority is very rarely questioned.

There have been extensive discussions in the CSE Group about the relative costs and benefits of owner occupation and council renting. (26a) Comparison is made very difficult for two reasons. Firstly, because council housing and owner occupied housing are very differently financed, while finance costs comprise a large proportion of total costs. Secondly, the house owner may make unpredictable capital gains, which the council tenant may not, and this makes comparison of individual cases a purely arbitrary exercise.

If we compare an individual house owner with an individual tenant the comparison depends very much on the future course of interest rates and house prices, on the one hand, and on the time at which the home owner entered the sector, on the other. The owner occupier who has paid off a mortgage will be better off than the council tenant paying a 'fair' rent, but the council tenant on a cheap estate will be much better off than the new occupier in a situation of rising interest rates and falling house prices. Clearly the attempt to compare individual cases is a futile one, and this is because the main difference between owner occupation and council housing is not in the total costs and benefits, but in the allocation of costs and benefits within the sector. Hence the sectors can only be compared as wholes.

Much debate recently has focussed on the computation of the 'subsidy' given to each group. The owner occupier receives a subsidy through Exchequer support for new building (rent subsidies should be analysed as welfare benefits rather than rent subsidies.) The recent discussions have been very important in challenging the claim that council tenants are in some way privileged, by pointing out the enormous benefits which accrue to the owner-occupier. (The 1965 option mortgage scheme was the first official recognition that the owner occupier got any subsidy at all). At the same time the computation of relative costs and benefits has to take into account differences between the sectors in other costs and benefits as well, and this has yet to be done. One has to compare not only subsidies, but also building costs (taking account of standards), land costs, finance costs, cost of professional services, management costs, and cost of infra-structural investment in roads, sewers, etc.

Finally, the different financial arrangements involved in each tenure category are crucial in allocating costs and benefits to different individuals. From 1923 to 1935 council rents were set locally, dwelling by dwelling, as cost rents less subsidy. In 1935 the Housing Revenue Account was introduced by statute, and local authority rents came to be set at pooled historic cost less subsidy, local authorities having considerable discretion as to the size of rate subsidy which they could contribute to the Housing Revenue Account. The 1972 Housing Finance Act sought to break with the historic cost method of setting rent, replacing it with the nebulous concept of the 'fair rent,' of which more later.

The effect of setting rents on the basis of pooled historic cost is that any capital gains which would have accrued to the local authority as land-owner if rents were set in the market are in fact socialised and assigned to the tenants. Of course the local authority has paid for the building land in the first place, and still has to pay the costs of finance, but all subsequent gains from land-ownership are socialised. Moreover the setting of rents itself is taken out of the market, so that relative rents can reflect use values rather than relative scarcities. This socialisation of price setting means that the distributive effects of local authority renting differ from those of market allocation. In a context of rising costs we will find tenants of older housing 'subsidising' tenants of newer housing, and tenants on cheap land 'subsidising' tenants on expensive land. This 'subsidy' is of course only such by comparison with the irrational allocation of costs effected by the market. Other distributive effects will also be found. For example, local authorities which have built substantially under high subsidy legislation will have lower rents than those who have built under low subsidy regulation.

In the owner occupied sector capital gains are not socialised, but accrue to the individual on the sale of a house. In general the capital gain is not realised because the individual simply purchases a correspondingly more expensive houses. This capital gain can only be realised by leaving the sector or moving to a smaller house. In this case the gain is achieved at the expense of another owner occupier who purchases the house, and so represents a transfer payment, a premium paid, one could say, for the right to replace someone else in the sector. The capital gain of the individual leaving the sector is therefore matched by the increased indebtedness of the new entrant. Hence the realisation of capital gains at the same time increases the indebtedness of the owner occupied sector as a whole. The implications of what is in effect a means of expanding consumer credit for finance capital are not at all clear. However the important point is that from the point of view of the sector as a whole capital gains do not represent a benefit. Indeed they actually work against the sector as a whole, because the owner occupier is subject to death duties when he leaves the sector, while the council is not so subject when a tenant passes on. Far from being an advantage of owner-occupation, the individual market basis of allocation of costs and benefits compels the entrant to the sector in effect to take out a very speculative, and pretty expensive, kind of insurance policy. In return for his premiums he has the prospect of a capital gain at the end, but a capital gain which can only be

realised at the expense of other consumers. Of course recent events should not hide from us the fact that the owner occupier may also suffer a heavy loss.

The payment structure of owner occupiers will also be very different from that of local authority tenants. In general, in a context of rising house prices, new entrants to the sector will be subsidising established occupiers and paying a bonus to those leaving the sector. Only those buying new houses will pay a price related to historic cost. Hence the higher the rate of house price inflation, the higher the costs of entry to the sector, which is precisely the problem today.

In conclusion, then, we can say that the great advance of the local authority sector over the owner occupied is not the fact that local authority housing is cheaper so much as the fact that it involves the socialisation of allocation of both housing and the costs of housing. As well as producing a more rational rent structure, this also removes the element of gambling forced on the owner occupier. The disadvantages of local authority housing derive from the fact that it remains within a capitalist society, bureaucratically administered by an authoritarian state apparatus, and still subject to the extortion of banker and landowner.

By the mid-1950's the local authority stock had grown to become a significant proportion of the total housing stock. However, private renting was by no means eliminated and the Tories made every effort to rehabilitate the private landlord at the expense of the tenant. In 1947 58% of households remained in the private rented sector, despite the low rate of building for private working class renting. The decline in private renting through the fifties and sixties was in fact very rapid indeed, largely as a result of clearance programmes, but also, paradoxically, as a result of rent decontrol. By 1966 the proportion of private tenants had fallen to 22.5% and it has been falling very rapidly since then.

The 'problem' of the private landlord was not simply the natural Tory desire to rehabilitate him, but also the fact that the condition of much private rented accommodation was so bad that the government wanted to improve the standard without incurring inordinate expenses. Acts of 1949 and 1954 offered improvement grants, but these were not very successful. The Tories therefore turned to decontrol in order to increase rents and allow the landlord sufficient money to improve his properties. It was hoped that decontrol would make investment in private renting a profitable activity, and so an alternative to local authority renting, especially since 'subsidies' for local authority housing were cut at the same time. Two other important factors were the desire to get large under-occupied houses converted into flats, and so use the stock more efficiently, and finally to increase mobility by removing the anomalies in the structure of rents.

The 1957 Rent Act was therefore introduced, allowing immediate decontrol on properties with higher rateable values, and decontrol with vacant possession on the rest. By 1964 the number of controlled tenancies had been halved, often by the application of the techniques made famous by Rachman. The effect, however, was not to increase the supply of rented accommodation. On decontrol small landlords tended to sell out, either to owner occupiers, or to larger landlords.

The Tory Act was a disaster from every point of view but that of the landlord. When Labour came to power in 1964 they immediately re-imposed security of tenure and rent control. Milner-Holland reported that neither rigid rent control nor haphazard decontrol were acceptable. The result was Crossman's 1965 Rent Act which introduced 'fair rents' for unfurnished tenants, the concept of the 'fair rent' having first appeared in the Tory Agriculture Act of 1958. (27) The rent was to be set by Rent Officers who had to 'eliminate values inflated by scarcity.' The effect of this Act is well-documented by the Francis Report of 1971, (28) which shows landlords rather than tenants applying for registration, and the tendency for rents to be increased rather than lowered. Moreover it was very clearly the large landlord who was applying for, and getting, registration and so rent increases. Hence the 1965 Act reinforced the tendencies of the 1957 Act, to drive out small landlords, who would sell upon acquiring vacant possession, while concentrating profitable tenancies in the hands of large landlords. Finally, there was no prospect of new provision for private working class renting in a situation in which private landlords could not possibly compete with local authorities, which not only had subsidies, but which also charged pooled historic cost rents, so substantially reducing the rent of new properties. The attempt to establish parity had to await the Housing Finance Act, by which time the working class private landlord was a good as dead.

Despite the clear attempts to restore the fortunes of the private landlord, the post-war Tories, unlike those of the thirties, did not have much faith in private renting as the supplier of working class housing. The main aim of Tory legislation on private renting was to unfreeze the privately rented dwellings so as to make better use of the stock and so as to increase the mobility of those living in it, the workers. Under the Tories the private landlord was to decline more rapidly than he had ever done before.

Hence Tory housing policy allocated to local authorities the task of slum clearance and rehousing, and to the private sector the task of meeting general needs. This was the period, which carried through to the period of Labour rule in the 1960's, of slum clearance on a massive scale, and it was clearance which kept up the momentum of local authority construction.

The reasons for this emphasis on clearance may seem obvious—the standard of much working class housing was appalling, and since the occupants could not afford either to buy, or to rent privately, new housing, the state had to rehouse them. However we cannot take it for granted that capitalism will operate rationally to meet people's needs. Certainly widespread concern about housing conditions, expressed by those who had to live in the houses, by humanitarians, and by those who believed that bad housing created all manner of social problems, played their part. But there were also specific interests involved.

It is interesting that the heyday of slum clearance was also the heyday of the private developer. Up and down the country councils, whether Tory or Labour, worked hand in glove with these developers, clearing sites for the creation of new, high density, 'comprehensively planned' shopping

and office areas. These developments brought great profits to the developers, and, as we now know, to many councillors and council employees. They also appealed to councils because they generated a large addition to rateable value. However the connection between this development and the concurrent emphasis on slum clearance has not been investigated. The connection between the two will be neither close nor direct, for only a small proportion of land freed by slum clearance was diverted from residential use. However, it seems likely that there is some connection, particularly when we realise that clearance has virtually come to a standstill just when the major property companies have emerged from the boom having built their properties and so become more concerned with increased rents than with securing land.

Clearance also benefited the larger building firms, for the scale of rehousing meant that they alone were able to bid for the bulk of the local authority contracts. The Poulson and Birmingham affairs have shown just how much importance both architects and builders attached to these contracts. We know too little about other interests involved, notably 'finance capital' in all its forms, to be able to provide a satisfactory analysis of the post-war emphasis on clearance, or, correspondingly, on the more recent shift of emphasis to rehabilitation.

Tory policy on housing took a comprehensive view of the sector as a whole, each type of tenure having its part to play. The underlying principle has been the principle that land use should be determined predominantly by market forces, which masks the more fundamental view that the sanctity of private property must be preserved. This continued emphasis on the rights of landed capital in an advanced capitalist economy is perhaps partly to be explained by the extensive penetration of landed capital by finance capital over this century. Where this principle has meant that the private sector has proved incapable of meeting working class needs the local authority had been expected to step in.

Owner occupation was the key to the Tory housing strategy. It might be imagined, however, that the great stimulus given to the private owner by the Tories would be reversed when Labour, the party which had always given council housing first priority, came to power. However, by 1964 the Labour Party had abandoned its commitment to the local authority tenant and had itself endorsed the Tory ideal of the property-owning democracy. It is this conversion of the Labour Party to his cause which really marks the triumph of the owner occupier. By 1964 the Labour Party at the national level, preoccupied with its electoral concerns, had adopted Tory policy lock, stock and barrel. Even the Tories admitted that the 1957 Rent Act, Labour's main target, had been a failure. If Tories could win elections on Tory policy, then Wilson showed that Labour could too. It is, however, important to appreciate that these developments at the national level were not fully reflected locally, for the ideology of municipal socialism had been a powerful force in local Labour politics. This was to prove a source of persistent conflict between Labour local authorities and central government, culminating in the Clay Cross rebellion, but generally reflected in much more mundane issues like loan sanction.

During the fifties, and most notably after the defeat of 1959, the Labour

Party was converted to the cause of the owner occupier and came to adopt the Tory principle of complementarity between the different sectors of housing. The policy of municipalisation of private landlords, retained through the fifties, was abandoned so that the Crossman Rent Act accepted the principle of the Tory Act of allowing the landlord a 'fair return.' (29) The option mortgage scheme was introduced by the 1964 Labour Government as a method of stimulating the rise of working class owner occupation. Local authority housing continued to have a major role to play, but now the principle was that local authority housing should be the preserve of those on low incomes. Standards of local authority housing were in principle improved by the acceptance of Parker-Morris standards. However the aim of solving the housing crisis by building half a million houses a year was never even approached. The crisis of 1967 led to the introduction of the cost yardstick in July, which, in the long term undermined the Parker-Morris standards by imposing cost-controls, and since the devaluation crisis of 1967 local authority completions fell steadily. This, combined with the massive reduction in private renting, gave an enormous boost to the owner-occupier, while leading to an increasing shortage of working class housing. (30)

8. The Provision of Working Class Housing Under Capitalism.

In the last three sections we have outlined the development of the mechanisms by which housing is provided for the working class over this century. Over the period the state has assumed responsibility for ensuring that such housing be provided and has gradually evolved a comprehensive policy which attempts, as far as possible, to provide that housing within the confines of the capitalist system. In this section we would like to try to draw out some of the lessons of the history we have outlined. A Marxist analysis of that history is still not available, and much essential empirical work remains to be done, hence our conclusions at this point can only be sketchy.

The policy which has been evolved, and which is accepted by both major parties, is a policy which sees owner occupation as the ideal, the bourgeois solution castigated by Engels. (31) The decline of the private landlord has been allowed to continue, and the local authority has come to be seen as the provider of last resort. How are we to explain this policy? The policy cannot be explained as a rational attempt to provide housing in the most efficient way possible. If we find such rationality within the confines of capitalism, the exceptional nature of such rationality itself demands explanation. In this case, however, there is no reason to believe that owner occupation actually employs fewer real resources in providing a given quality of housing. Rather there is reason to believe that the local authority, potentially if not in fact, would produce housing more efficiently.

In essence our summary history has shown that state intervention in housing provision was the result of working class pressure which indirectly destroyed the private landlord, who was until recently the only viable alternative to the local authority. Once the landlord had been des-

stroyed the alternatives were essentially owner occupation or council renting. The question we have to ask is that of how capitalist interests relate to the choice between the two solutions. We shall consider the question under the headings of economic, political and ideological aspects, without confronting the question of the relation between the levels.

a. Economic

Industrial capital does not appear to have played a major role in the determination of housing policy. While industrial capital would naturally like to reduce the cost of reproduction of labour power, it doesn't seem to have played a major role in pressing for any such reductions. Neither has industrial capital, it seems, concerned itself much with the planning of new construction. For example, industrial capital has not played a major role in sponsoring new towns and new industrial suburbs. Such decentralising projects have been carried out on the initiative of the state, and the problem they have confronted has not been one of housing workers for local industry, but attracting capital to employ the workers.

Landed capital has, over this century, progressively ceased to exist as a clearly distinct fraction as land has been penetrated by finance capital. However local authority housing is undoubtedly detrimental to the interests of finance capital in its landed form, since the local authority removes land from the market and socialises the future rents on that land. In some areas local authorities have come to own a large proportion of the land.

Finance capital is not a homogeneous interest, and we do not know nearly enough about its operations. Both local authorities and owner occupiers have to borrow money at interest in order to finance their activities, but they borrow it on different terms and through different channels. The local authority has increasingly tended to have recourse to the national, and even international, capital markets, while the Building Societies channel small savings (which may be the small savings of large investors) to house owners.

The state, pressured particularly by the City, is always concerned to restrain its expenditure. However from this point of view there is little to choose between owner occupation and local authority renting, for both involve the Exchequer in substantial subsidisation. Recent attempts to eliminate any subsidy for local authority tenants, while increasing it for owner occupiers, tend to go against the strictly economic requirements imposed on the state.

For the building industry there is a place for both the local authority and the owner-occupied sectors. The local authority contract provides the large firms with their bread and butter work, offering large contracts with low, but relatively safe, returns, while private construction provides the jam. The instability of the industry, the need for heavy financial backing, and the increasing adoption of large scale methods of construction have all tended to increase concentration and centralisation of capital in the industry, a process which has been actively assisted by the state. (32)

b. Political

It was working class pressure which made housing a political matter and therefore a state responsibility. The state has responded to working class pressure by providing working class housing. At the same time it is clear that the state has resisted the extension of the local authority sector beyond a minimum of activity.

We know too little about the political representation of different fractions of capital to say much about their political interests and activities. However some things are clear. Firstly, it is clear that finance capital has been able to intervene decisively at certain specific junctures to determine the course of housing policy, its main concern being the pressure of local authority borrowing on capital markets. In 1921, 1947 and 1967 finance capital was successful in reversing working class gains almost before they had materialised. But finance capital does not only prey on the local authority as borrower, for the Building Societies are no longer insulated from other financial markets. It is significant that it was the Competition and Credit Control Regime introduced in 1971, at least in part to strengthen finance capital for the entry into the E.E.C., which first put the Building Societies under heavy competitive pressure, notably from the Banks.

Secondly, it is clear that the building and building materials industries are both very active politically, and have succeeded in persuading central government and local authorities to sponsor new methods, and particularly industrialised methods, which have increased the concentration and centralisation of capital. Builders (and developers) have also been very active in campaigning for the release and rezoning of building land.

Thirdly, it is clear that the landlord has had precious little political weight. Until recently capitals invested in the activity of private landlordism have tended to be relatively small, while the landlord has proved a provocation to the working class by confronting the latter with his exorbitant demands. Even the decontrol of rents has not been to the advantage of established landlords. Rather it has helped finance capital penetrate the profitable segments of the private rented sector.

Fourthly, industrial capital seems to have taken little direct interest in housing policy. Finally, we are only just beginning to investigate the political representation of landed capital. (33)

The fact that housing is a local responsibility has meant that local interests have also been able to influence local housing policy. The delegation of housing provision powers to local authorities meant that local policies could reflect the local state of the class struggle. A few red enclaves could subsidise rents to council tenants out of the rates, while Tory strongholds could confine public housing and make it pay an economic rent. The links between the local Tory Party and local property interests is notorious, small builders, estate agents, lawyers and surveyors having enormous representation as Tory Councillors. Their power in determining policy is out of all proportion to any importance as capitals.

c. Ideological

The capitalist class as a whole has a clear commitment to owner oc-

cupation on ideological grounds, and it was this ideological commitment which, as we have seen, was fundamental in determining the emphasis on owner occupation from the fifties onwards. The ideological commitment has two dimensions. Firstly, the ideological importance of continuing to legitimate private property by reference to its socially useful character means that any failure of private property, and any corresponding success of socialised provision, constitutes a threat to the operation of the capitalist system itself. Hence the sponsorship of owner occupation has been accompanied by a massive ideological campaign against the local authority as a provider of housing and in favour of the moral, if not the material, benefits of owner-occupation.

Secondly, owner occupation has been seen as fundamentally important both in fragmenting the working class and in giving the individual worker a 'stake in the system.' Such a policy is not without contradictions, for the position accorded the worker in the system brings him directly into contact with the reality of the constraints imposed by finance capital. Interest payments are no longer channeled to him through the local authority or the private landlord, but now appear to him directly as financial costs.

In conclusion, then, we can say that as the result of a combination of powerful capitalist economic, political and ideological pressures the state has given massive sponsorship to the owner-occupied sector, while seeking as far as possible to confine the local authority sector. Since the 1930's local authority building has been presented in every respect as being a second-best. The real material victory, which the Wheatley Act undoubtedly represented, was progressively eroded, with a temporary resurgence between 1945 and 1947. The massive emphasis on rehousing victims of clearance projects, the emphasis of the central state on keeping standards at a minimum, indeed the fact of low standards, particularly in environmental terms, have contributed to reduce local authority housing from an ideal to which all could aspire, to a fate to be avoided. However, the struggle is by no means at an end, for the contradictions of capitalism have a habit of popping up again, and this is as true of housing as of any other field.

9. *The Contemporary Crisis*

The Tories came to power in 1970 prepared for a massive offensive to annul the material gains achieved by the working class. In the field of housing this offensive took the form of the Housing Finance Act. This Act represented a combined assault on public and private tenants, but its main innovation was in relation to the former.

The fundamental problem the local authority sector posed to the Tories was that rents were too low. This was not the result of 'subsidisation', which was of limited significance, but more importantly was a result of the system of basing rents on pooled historical cost, a system which socialised capital gains. Rents in the public sector did not in any way reflect market pressures, and so the rents were too low to persuade those who could afford it to opt for owner occupation, and not structured in such

a way to make an optimal use of scarce housing.

The H.F.A. met this situation by introducing the 'fair rent' to the local authority sector. The 'fair rent' is defined, as in the 1965 Labour Act, as the 'likely market rent that a dwelling could command if supply and demand for rented accommodation were broadly in balance in the area concerned.' (34) Such a definition is clearly meaningless, and its ideological foundation is manifest. In effect the 'fair rent' is the rent which emerges from rent assessment committees as that rent which would give a certain return to a private landlord. Hence the 'fair rent' broke the link between historical costs and rents, and the effect was not simply to reduce 'subsidy' (although the central government saving for 1975/6 was estimated as being at least £285 per annum (35)), but in the long run it was expected that the local authority would make a profit. Hence the Housing Finance Act aimed a) to increase rents so as to reduce the 'burden' on the Exchequer and the rates. This requirement clearly corresponds much more closely to a demand from finance capital that reproduction of labour power be reduced. The move was clearly a regressive one, and was clearly seen as such. b) The Act aimed to raise rents so as to push high wage working class tenants towards owner occupation. In order to facilitate such moves the sale of council houses on very favourable terms was extended, and local authority powers to grant mortgages were steadily extended. c) More generally, market rents were expected to lead to a more efficient use of the housing stock. d) By charging high rents to the council tenant, the Act also served to improve the relative position of the private landlord, since in principle he could now compete with local authority housing. It would also be possible for housing associations to play a greater role. To help the private landlord, further rent decontrol was extended and the rent rebate scheme extended to private tenants. e) The Act also changed the redistributive basis of the finance of local authority housing. From 1935 to 1970 rents had been based on pooled historic cost and apportioned to houses on the basis of relative use values (or often on the basis of rateable values). The H.F.A. introduced a system which sets rents on the basis of market forces, with the introduction of the cross-subsidisation of those defined as needy through the rent rebate scheme. It is important to be clear that the rent rebate was to be met, as far as possible, out of the Housing Revenue Account, i.e. out of rents, and not from the rates or the Exchequer. f) Finally the H.F.A. took the setting of rents out of the control of the local authorities for the first time since 1923. The measure had great political importance, for many Labour local authorities had continued low rent policies long after the Labour Party itself had abandoned any kind of socialist commitment in the field of housing. Hence the move led to conflict with several Labour councils, most notably Clay Cross. (36) The change had other political implications as well, which need to be analysed. From the point of view of the working class, for example, the local basis of most tenant struggles has been both a strength and a weakness. Central rent determination both raises the possibility of national tenants' struggles, but also makes such struggles more difficult to get off the ground. The shift is important from the point of view of

capitalist interests as well, but we are not sure in what ways.

The Labour Party, on becoming the government, as in 1964, proposes to do little more than adjust the Tory measure to reflect the real state of the class struggle. Labour froze the rents temporarily, but does not propose to reintroduce rent control, and continues to apply 'fair rents' to housing association and private tenants. Moreover it is clear that the Labour Government intends to pressure local authorities to increase rents, partly through its use of the subsidy system, even though it has restored power to set rents to the local authority.

The only significant change in policy introduced by Labour is in the final recognition that there is no longer any room for the private landlord. It has at last become clear that the landlord can only make a 'reasonable' return at the expense of the tenant. In practice either rent is controlled, in which case in the long term the standard of rented accommodation deteriorates seriously, or the landlord is given a free hand, which leads him either to leave the sector altogether, or to rack-rent to students, young single workers, or blacks, or to improve his property and rent to middle class tenants. Either way the private landlord cannot provide for the ordinary working class tenant. In the end the latter becomes the responsibility of the local authority, either as a result of clearance or of eviction. The Labour Party has reacted to the situation by resurrecting the policy of municipalisation, abandoned in the late fifties: This time, however, municipalisation is clearly not a socialist policy but a last resort. Indeed it seems that Labour hopes that the growth of private renting in the form of the housing association will make municipalisation unnecessary. (37)

None of these policies address themselves to the real root of the contemporary crisis, which is the rapid escalation in the costs of both finance and land in the last few years. Underlying the increase in the cost of land there would seem to be two major factors. Firstly, the shortage of new building land in the major cities has become increasingly acute as land zoned for housing is exhausted. The effect of this is to increase competition for land, and particularly for marginal land, quite considerably. One manifestation of this pressure is the quickening of the rate of increase of ground-rent. Other manifestations take the form, for example, of political conflicts which derive from the need for local authorities to acquire land in areas which had previously been the preserve of private housing. (38) One also finds strong pressure on local authorities from both private developers and the central government to rezone land designated as green belt or recreational land. Hence, for example, many allotments have been developed for housing, and the sanctity of the green belt has been steadily eroded.

The escalation in the price of land, however, does not only derive from an increasing shortage of land, and so increasing rents. Much has been made of the speculative component of the recent boom, but what this really means is that finance capital has recently penetrated land ownership on a massively increased scale. This tendency was particularly marked as a result of the abortive attempt of the Heath Government to 'go for growth,' when the investment funds available to finance capital

increased enormously. Both in Britain and in Europe financial institutions realised that the rent-earning potential of urban land was not adequately discounted in existing land prices. In other words existing land prices did not take account either of the tendency for ground-rent to rise, or of the possible increases in rental values which could be achieved through re-development. The effect was that the price of land increased much more rapidly than did current rental. Although the boom had a purely speculative component as realistic assessment of the prospects gave way, in some cases, to overoptimistic fantasies, it nevertheless had a perfectly solid foundation, ultimately in the underdeveloped character of landed capital. The most serious blow to the boom came with the threat of sustained rent control, and, although prices have fallen back since the height of the boom, they have by no means returned to former levels.

There were other, particular, factors which fuelled the spiral in land prices. In the case of housing land the most notable was the availability of mortgages which substantially increased the effective demand for housing land. However, it seems likely that as important a factor is the increase in demand was the escalation in the price of housing itself which made many house purchasers regard their house purchase as a sound speculation in commodity futures as well as the simple acquisition of a home. The connection between the spiral in prices of commercial land and the spiralling price of house land has yet to be investigated.

In a context in which land prices are spiralling, while the increase in the price of the house itself keeps up with inflation, increases in the cost of finance also add to the burden. Some would argue that this is not the case, because with inflation increasing the real rate of interest is actually falling. However this argument is of no comfort to the individual or local authority trying to acquire the initial cost of finance out of current income. For those with outstanding loans the cost of finance has probably not increased as rapidly as have incomes. It is those who are having to borrow money to buy homes at current values who find themselves in an impossible situation.

The government reaction to the growing crisis has been piecemeal and essentially temporary. The Labour Party has come up with another of its 'radical' schemes, land nationalisation. Land nationalisation will socialise the speculative gains which have in the past been accruing to developers with changes in planning permission or rezoning. It may appear that at last the Labour Party is about to tackle the problem at the root, with an all-out assault on finance capital in its landed form. There are, however, three minor problems which might explain why Lord Goodman's favourite advisor, Harry Hyams, does not scream in pain. Firstly, in practice the separation of the value of a site from the value of the buildings on a site cannot easily be accomplished. Hence, under the proposed schemes, capital gains are likely, to some extent at least, simply to be transferred from site to building. Secondly, the proposal shuts the stable door after the horse has bolted. The speculative gains consequent on change of use have very largely been made. Future gains will not be those consequent on city centre development, but largely those consequent on encroachment into the green belt. Indeed it is very likely that land nationalisation will provide the opportunity for the developers to realise gains which at

present only exist on paper. Thirdly, the measures in question only affect capital gains consequent on change of use, they do nothing to socialise either existing rents, or capitalised expected future rents, which account for the bulk of the increasing value of land. Hence the contribution of nationalisation to the housing crisis will be negligible. It will not be because radical measures are irrelevant, but because the Labour Party's land nationalisation is not in any way a radical measure. (39)

So far the crisis has made itself felt in the owner-occupied sector in the case of the new entrant, who has to pay a high rate of interest on a loan for a very expensive house. The increased cost of land and finance has once more largely excluded the working class from the chance of entering the owner occupied sector. The government solution is to try to keep down the building society rate of interest, which was once close to the rate paid by local authorities, but is now only about two-thirds of the latter rate. To help the new entrant to the sector we have various gimmicky low-start mortgage schemes. Such piecemeal, and temporary, measures do not confront the fundamental problem of the exploitation of housing need by a parasitic finance capital in its landed and money lending forms. The local authorities are equally affected by the crisis, and construction has been steadily declining. Exchequer subsidies go some way to reducing the impact of 'exceptional' increases in the cost of land and finance, but on the other hand central government desire to cut expenditure leads to strong pressure of local authorities not to build. The effect is to lead to a withdrawal of the local authority from the provision of new housing not only from general needs, but also for replacement. Nowadays it is denied that there is any general housing problem, it is denied that we are left with many more slums. Clearance is replaced with rehabilitation as the solution for those living in inadequate housing. Instead of comprehensive programmes to improve housing standards we find the proliferation of Housing Action Areas, General Improvement Areas, etc. which set one area against another in competition for state favour. We find the use of the rent rebate as a means of protecting the destitute from the impact of the demands of finance capital, but no protection for the bulk of the working class. We find the private landlord being resurrected in the corporate form of the Housing Association as the means of housing those for whom there is not an alternative. (40) We find official toleration, and even official sponsorship, of squatting as a means of condoning the maintenance of housing standards which should have been, and were, surpassed fifty years ago.

Recently we have repeatedly seen Labour politicians preaching the banker's sermons. If the working class can't afford to pay economic rents, then they must have substandard housing. If the working class won't pay for nice new houses, then let's help them slap a bit of paint on the old one. If they can't find a house, let's be tolerant and let them borrow the house condemned as unfit for human habitation. When those slum dwellers tell us that they would rather live in a slum than be herded onto bureaucratically administered, authoritarianly designed and controlled council estates, let us pat ourselves on the back for being so democratic as to respect their wishes. If they can't pay fair rents for Parker-Morris

standard buildings, then we can always resurrect the prefab, and even offer a bit of Utility furniture at King's Road prices for nostalgia's sake. If they won't pay the going rate for land, we can just increase densities and reduce plot sizes, or we can build on the Green Belt. After all, nobody ever goes there since we cut back public transportation.

10. Conclusion—The Future

No amount of study of the Political Economy of Housing will provide a socialist solution to the housing problems. Only the working class struggle will achieve that. Today such struggle in the field of housing takes many forms, and every day new issues arise. Struggles have arisen in the last few years over issues other than the classic issue of rents. Groups have challenged the imposition of demolition and clearance from above. They have resisted the Housing Finance Act, and continue to resist the perpetuation of policies introduced by that Act. Squatting groups raise issues of the use of the housing stock and local authority allocation procedures.

The issue of tenant control has begun to be raised on council estates. In the future there is the prospect of local redundancy raising new kinds of housing issues. At the moment these struggles are fragmented and diffuse, many unsure of their direction and searching for a deeper understanding of the issues which face them. The weakness, lack of coordination, and lack of analysis which often characterises these groups mean that they often find themselves up dead ends. One of the greatest weaknesses of the Political Economy of Housing Group to date has been, in the view of at least some of its members, that it has not addressed itself closely enough to the problems which directly confront these varied struggles. It is to be hoped in the future that the Group will be able in some way to contribute to bringing together these struggles, and can contribute to the discussion of the direction which the overall struggle should take.

The housing problem today is still a capitalist system. The capitalist system has got more ruthless and more efficient in its exploitation of housing need. However there is no doubt that working class gains have been made in the field of housing. While the housing problem cannot be solved while finance capital, and so capitalism, continues to live off the working class, it is possible to defend and advance on gains already achieved, the greatest of which if undoubtedly the municipal provision of housing at regulated standards. Local authority housing is not an outpost of socialism within a capitalist society. It exists within capitalism, and continues to have to pay the banker his pound of flesh. However, it is the first step towards the socialisation of housing provision, for it makes possible a rational and democratic system in which the allocation of housing services and housing costs is no longer left to the hidden, grasping hand of the market. At present the system is not yet democratic or rational, and local authority allocation policies have been much criticised. The council estate remains under state control and not under working class control, subject to a bureaucratic and authoritarian ad-

ministration. The struggle to advance beyond the first step must continue. Perhaps most important, though, this first step must be defended against the forces which seek to undermine it, ideologically, politically and economically.

A major political problem remains in the fragmentation of the working class introduced by tenure differences. We have argued consistently that housing should be seen primarily in terms of class and not tenure. Moreover we have argued that local authority housing represents a considerable working class advance. While this may be the case objectively, it is not necessarily appreciated as such by the working class as a whole. It should not be imagined that all private working class tenants or working class owner occupiers have entered their respective tenure situations out of choice. With growing council waiting lists, many face the prospect of remaining permanently outside the council sector and so are forced into alternative solutions. However there is no doubt that for large numbers of working class families local authority housing is not seen as the ideal solution. Its primary drawbacks are the limited security of tenure, and the authoritarian nature of control in the council sector. Hence many working class families aspire to owner occupation so as to assume control of their own housing conditions while increasing their security to tenure.

The political problem is how a socialist housing struggle should relate to this fragmentation. Should it organise workers by tenure category with specific demands? Should it accept dissatisfaction with local authority housing, and seek solutions, such as the Housing Association, outside bureaucratic control? Or should it seek to bring together the whole working class on a programme which seeks to break down divisions by positing a common demand of collectively provided housing under collective working class control?

If this paper has done nothing else, it should have revealed the huge gaps which exist in any Marxist analysis of the housing field. At the moment we have a mass of detailed empirical work, largely produced by bourgeois historians, we have a few broad generalisations, and we have the experience of various kinds of housing struggle. The task of bringing these components together in a Marxist analysis which gives its concepts a concrete historical content at the intellectual level and a direct political relevance at the level of practice has only just begun. In the Group there is a desire to develop our work in two ways. Firstly, it is felt that there is a need to bring our work closer to the problems of those engaged in housing struggles by paying particular attention to current political issues and current government policies. Secondly, there are a number of areas of analysis in which we feel a particular need to develop our work:

1. We feel that the analysis of 'finance capital,' indeed of the fractions of capital as a whole, is very underdeveloped.
2. We feel a need to develop a theory of rent adequate to the study of housing.
3. We feel that more detailed study of regional variations in the development of housing provision and housing politics is essential, including study of the impact of migration, and particularly immigration.

4. We feel that we need to sharpen our analysis to develop a more adequate understanding of the relations between the economic, political and ideological in the field of housing.
5. We feel that we need to study the production of housing in more detail.

Report from Britain.

The only collective work bearing the Kapitalistate name is happening at the University of Warwick, Coventry. Although there have been murmurings of other groups none have got off the ground yet. The comrades at Warwick have been involved in a number of small research projects in such areas as community politics, trade unions, race and class, not directly related to Kapitalistate. We have an ongoing project on Capital and the State which has tended so far to be rather parasitic on other work, notably from the U.S., and have discussed Jim O'Connor's work in particular. Arising out of this a workshop entitled Marxist Theories of the Working Class has been established, which is taking as its starting-point Marx's writings on the labour process in *Capital*, and his notions of the reserve army and of unproductive labour. Particular interests are in the notion of the aristocracy of labour and theories of embourgeoisement, immigrant labour and racism, women, the family and the labour movement, domestic labour, state employment, white collar workers, trade unions, unemployment, and the notion of the lumpen-proletariat.

In our work on Capital and the State we are also turning back to *Capital* to try to use Marx's analysis as the basis of a conceptualisation of the relation between capital and the state. We have been particularly concerned to develop the implications of Marx's approach from the standpoint of social capital rather than that of the competing individual capitals.

Anyone interested in developing links in either of these areas should contact Simon Clark, Department of Sociology, University of Warwick, Coventry CV4 7AL, England.

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MARX'S THEORY OF RENT: URBAN APPLICATIONS

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In the recent revival of interest in Marx's theory of rent and its application to urban problems controversy has arisen over the meaning and uses of Marx's three categories of rent: differential, absolute and monopoly rent. This paper attempts to clarify and resolve some issues raised in these controversies. A presentation of Marx's theory is offered first, followed by a discussion of applications to urban land as made by Marx and Engels themselves, and by recent commentators including Lojkin and Harvey. In this presentation I have attempted to show that the distinction between the three forms of rent corresponds to a distinction between different strategic situations facing the working class.

A comparison of Marx's rent theory to alternative views, particularly those of Ricardo, George and Proudhon, has been made in a previous paper. (8) Examination of the proposed uses of Marx's theory in an urban context has required greater specification, than I had attempted before, of the distinction between absolute and monopoly rent, and the reasons Marx gave for limiting the definition of absolute rent to the case of productive sectors with a low organic composition of capital.

A. Marx's Theory of Rent

In his treatment of rent in a capitalist system, presented in Volume III of *Capital* and *Theories of Surplus Value*, Marx defines *rent* as a revenue received by land owners, who are able to wrest this revenue from those who would use their land. Rent is viewed as both the result of a landed class monopoly over a natural resource and a subtraction from surplus value which would otherwise be taken as profit by the capitalist class. (25: III, 615-813; 27, esp. Vol. II)

This definition is presented within the context of Marx's theory of value. In this theory, the value of a commodity is equal to the labour required to produce it, including direct labour in the act of production and the indirect labour required to replace the constant capital (raw materials and depreciating equipment) used up in production. The labour is performed, in a typical capitalist operation, by proletarians who sell their labour power (the ability to work) to employers at its value. The value of labour power itself is a cost of production, based on the amount of labour used in producing the consumer goods and services that go to reproduce

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the labour force. This determining cost is not based on physiological subsistence, but rather is determined by social ("historical and moral") elements, including notably the ability of the workers to enforce a decent standard of living through class struggle. As long as the productivity of labour in society is great enough that only a portion of the potential labour time of society can provide the consumption required to reproduce labour power, a gap between the value of labour power and the value produced by labour can exist. Capitalist direction of the labour process, using the labour power hired on the market, ensures that the gap will exist in the form of surplus value. The total amount produced by labour and the elements of consumption entering into the value of labour power are themselves the result of historical struggle between capital and labour, so, therefore, is the amount of surplus value produced. (25, I; 28)

A complication for the theory arises because competition among capitalists and mobility of investment funds between sectors of the economy requires equalization of profit rates among these sectors. If all goods sell at their values, and if the organic composition of capital, the ratio of constant capital expenditures to variable capital (wage expenditures) is different in different industries, rates of profit (surplus value as a proportion of total capital) will be unequal unless rates of surplus value (as a proportion of value produced) also vary. This assumption would require differential wage rates to hold in many cases, which is prevented by competition. Marx resolves this difficulty by arguing that the price of commodities is determined by what he calls *prices of production*: costs including payment for wages, constant capital replacement and an average profit on capital. The relation of prices of production to the labour theory of value used in Marx's introductory chapters is a hotly-debated issue. Individual goods prices clearly do *not* generally equal their value. But Marx did hold that at the level of the economy as a whole, the wage rate is still determined by the value of labour power, total produced value by how much labour the capitalists can force from their employees, and total surplus value by the gap between total value produced and value of labour power. (25: III)

Rent, in Marx's theory, becomes a deduction taken from surplus value, that would be received by the capitalists. In a capitalist system, the landlord does not receive earnings directly from the purchase of labour power and the sale of its product. He does not thus directly benefit from the creation of new value by labour. But by owning the land necessary for production, the landlord can obtain funds for its use.

Marx defines three kinds of rent, each of which is a revenue taken from surplus value, but each of which differs from the others in its origins and effects. These are:

1. *Differential Rent*. This is revenue paid because capitalists compete for use of "better" land or for the right to make more intensive use of land. In this case, the revenues paid to landowners come directly out of surplus value without affecting prices. Values or prices of production of goods are determined by the labour required for production on the worst quality of land in use. If production on better land or land improved by capital uses less direct or indirect labour, the saving forms a surplus profit. This differential is taken by the landowner as rent. Such rent cannot

affect the price of the product. Marx distinguishes between two types of differential rent. Differential Rent I stems from the different amounts produced using equal amounts of capital on equal amounts of land with varying fertility or location. Differential Rent II is that which comes about from differences in the additional output obtainable through application of successive investments on the same plot of land, or side by side in different plots of land. (25: III, 640-747)

2. *Monopoly Rent*. This revenue is received by landowners who let out land for the production of goods sold under monopoly conditions. If production of a product is not subject to competition among capitalists, price can be driven above its price of production or its value, allowing excess profits. Some of these profits are claimed by the landowners, who control the land needed to produce the product. Their control over land of special qualities may itself be the basis for limiting production in some cases; in other cases they may benefit from increases in prices induced by capitalist monopolists. (25: III, 615, 758, 805, 832-3; 27: II, 30)

3. *Absolute Rent*. This revenue is received when land owners, either by insisting on a minimal rent for marginal land on which no surplus profit could be produced, or through other barriers to use of land by capitalists, restrict the flow of capital into a sector of production, which Marx suggests by example must be a major one (food production and mining are mentioned), thus preventing competition from reducing the price of the products of that sector to their price of production. The price is, however, stated to remain below the value of the product, so that absolute rent is only possible for sectors in which the price of production is below value (i.e., in which organic composition of capital is low so that the proportionate share of total surplus value normally received by the industry is below average). (25: III, 748-772)

All three of the forms of rent discussed by Marx are presented as historically contingent forms of revenue, derived from the outcome of particular class struggles. They are distinguished from feudal rents, which are received by landowners in the form of direct payment in goods or labour time, rather than in the form of surplus value. (25: III, 782-813) The theory is distinct from that of neoclassical economics which sees rent as the reward received by land itself (not the landlord) for a contribution that is conceptually commensurable with that of labour and capital. (25: III, 814-831) Even in the case of differential rent, which appears at first to be a simple reward to land productivity, this difference holds. When Marx adapts Ricardo's theory of rent into his own theory of differential rent, he alters the description to show more clearly that rent is a social and not a natural phenomenon. Rent does not come about simply because of fertility differences. Even though soil quality differences would imply differential labour productivity under any economic system, this productivity differential would not be paid to a landlord if workers could use land at will, if society as a whole owned the land and allocated labour's uses by planning, or if the capitalists themselves held land jointly and could employ labour on it at will.

Similarly, the amount of differential rent taken from surplus value itself depends on historical factors, not on the simple growth of population or natural productivity. (25: III, 674; 27: II, 31) Marx shows that differential

rent will occur with several grades of land in use, regardless of whether cultivation is spreading from better to worse grades of land, as Ricardo had assumed, (31) or from worse to better grades. Technological improvements will not necessarily increase differential rent. If new inventions are particularly favourable to lower-quality land, they may decrease differentials and rent, even though total productivity increases. Thus, it is not historically necessary that landlords will come to take a larger and larger share of surplus value, or of society's total value produced. Rather, most technological change will increase profits (by reducing labour necessary for reproducing labour power and increasing total production), unless labour can insist on a larger share. Only in special circumstances will the landlord's relative share increase (although increases in the absolute amount going to landlords may more commonly occur). In the long run, as capitalism develops technology and makes land quality less important, and as capitalists (who decrease in numbers and increase in size) buy up land, landlords may even disappear as a class and rent cease to exist as a distinct part of surplus value.

Differential rent was thus the result of historical circumstances, involving technology, the amount of capital accumulation that might affect demand for the produce of land, and the presence of private landowners to capture the benefits of differential productivity. The same circumstances affected the other forms of rent—monopoly rent and absolute rent—as well. But in these latter forms of rent, additional factors also came into play. Landlords or monopolizing capitalists had to have the ability to prevent the flow of investment into a sector of production, thus ensuring higher prices and a greater retention of surplus value in that sector than would have prevailed under competition. This, in turn, could affect the total amount of production of surplus value in the economy.

How this effect is brought about is explained by Marx in his discussions of absolute rent. (27: II, 29-41; 25: III, 748-781) He considers the case of a sector of production such as agriculture in which there is (he believes) a higher than average generation of surplus value per unit of capital, the result of a lower than average organic composition of capital. Normally, Marx argues, the price of the commodities produced by such a sector will be driven down by competition among capitals, until it equals the costs of wages (variable capital) and equipment (constant capital) plus an average profit equal to that of the economy as a whole. This is the price base Marx calls the "price of production." But in the case of agriculture, when a landed interest is strong, prices will not be bid down to this level. Because capitalists desire to invest in this sector due to its potentially greater returns, owners of natural resources of even the lowest quality can demand payment for their use. By keeping more capital from entering the branch of production that needs their land, the propertied class can extract a "tribute" equal to the difference between the price to which the commodity's price is driven, and the lower price of production that would have prevailed in the absence of rent. Marx works out the case he calls "absolute rent" in which the price has an upper limit equal to the commodity's value, so that what happens is that surplus value produced in that sector is diverted from raising the overall rate of profit, which it would normally do. But he argues that cases can exist, which he classifies

as cases of monopoly rent, in which the price rises above the value of the commodity.

In either of these cases, unlike the case of differential rent, landowners are not merely the recipients of the benefits of differentials in fertility or investment that would affect price similarly if the land were owned by the capitalists themselves. In this case, rent affects prices:

Differential rent has the peculiarity that landed property here merely intercepts the surplus profit which would otherwise flow into the pocket of the farmer. . . . On the other hand, if the worst soil cannot be cultivated—although its cultivation would yield the price of production—until it produces something in excess of the price of production, rent, then landed property is the creative cause of *this* rise in price. *Landed property itself has created rent.* (25: III, 755)

The ability of landed property to affect prices, and do so on a large scale, raises crucial issues for the class struggle between labour and capital. In the case of differential rent, capitalists may resent the loss of part of surplus value to landlords; in the case Marx calls absolute rent they may feel a double burden. If the rent is collected for producing a product that is a necessary industrial input (like fuel) or a necessary part of the workers' consumption (like grain), the rent may raise costs of constant or variable capital to the capitalists. Labour, too, may feel it has a stake in reducing absolute rent, which is driving up the price of wage goods, although victory in such an attack, as Marx (26) and Engels (12) pointed out, would not necessarily benefit labour at all. If the product involved were already part of the accepted standard of living governing the value of labour power, labour can pass on to the capitalists the high cost of agricultural produce as part of wages. A decrease in food prices, conversely, may just make wages fall.

In such a case, capitalists might well advocate the sort of reform later suggested by Henry George (14) nationalizing land or taxing rents, and using the proceeds for the benefit of their own class. Such a reform could abolish absolute rent, but only transform differential rent from a payment to a landed class to one to an organ of the bourgeoisie. The reform might well be urged on labour as well in the case of absolute rent as a means for reducing food prices—but gains from this reform would at best be limited, because capital would later seek to capture the rest of the benefit through wage reductions, and the reform would not alter the primary way in which land ownership bound labour, namely by preventing the free access of labour to one of the means of production:

If the land were so easily available, at everyone's free disposal, then a principal element *for the formation of capital* would be missing. A most important condition of production . . . could not be appropriated. It could not thus confront the worker as someone else's property and make him into a wage-labourer. The productivity of labour in Ricardo's sense, i.e., in the capitalist sense, the "producing" of someone else's unpaid labour would thus become impossible. And this would put an end to capitalist production altogether. (27: II, 43-44; cf 27, II, 103-104; 25: III, 661)

The difference between differential rent and absolute rent, in Marx's definitions of the terms, thus corresponds to a difference between cases in which a land reform along capitalist lines could increase surplus value (perhaps allowing some increase in the share of value left for the proletariat as the value of labour-power, if labour could successfully prevent a fall in wages) and cases in which no increase in surplus value is possible from such a reform. The definitional distinction, thus corresponds to a differing set of political possibilities.

But can the same be said of the distinction between absolute rent and monopoly rent? In this case, the basis for distinction is initially less apparent. In both cases, a monopoly in land by a landed class raises prices. (25: III, 615, 805) In both cases, production of the commodity involved, and of total value and surplus value, may be affected. In Marx's formal definition, the distinction seems to be that in the one case price remains below value, and in the other it may rise above value. Why the definition of absolute rent is limited to sectors with a low organic composition of capital, and why absolute rent cannot drive prices above value, is one of the more obscure and debatable points in Marx. (10: 217; 18; 29) Marx seems to consider the distinction important. The definitional distinction, as is usual in Marx, does not seem to be based on an important political distinction, that between a case in which the effect on prices and production is major enough to have importance for capital and labour as classes, and that in which the effect occurs but on a scale too small to be important. The argument for the distinction is, however, presented weakly, as a debatable argument that absolute rent "cannot" drive price above value.

Four different arguments are offered at different points for this proposition, although none is carried through to any logical conclusion. Marx argues first that a higher organic composition of capital is unlikely in a sector which capital does not control strongly enough to prevent another class from exacting tribute, and that if there is a high organic composition of capital in a sector, productivity is likely to be high enough to meet market needs using little enough land to break the landlord monopoly. Thus "it would seem to be a contradiction" to assume that composition of capital were high and that simultaneously rent on marginal land drove price above price of production. (25: III, 765) This is a likely enough empirical view, and if true would rule out the case where price exceeded price of production which in turn exceeded value. But it is not theoretically conclusive for that case, much less that in which price of production is below value.

The second argument, is that if the organic composition of capital is low and capitalist penetration weak enough in agriculture for large precapitalist-style landlords to demand a rent for marginal lands, the price of foods is likely to be limited to value by the existence of a second precapitalist group, peasant producers. This is again empirically plausible but hardly a theoretic proof of anything. (25: III, 805)

A third possible position ventured by Marx is more of a logical argument, but one that is true under too-restrictive assumptions. If agriculture is considered to be the entire economy, the limit to rent is surplus value's total mass. If rent takes up the entire surplus value, profits will be

zero, the price of production will equal expenditures on variable and constant capital alone, and rents will equal the difference between value and price of production. This would be a situation corresponding to the physiocratic model, which Marx holds to be logically sound for a particular set of historical conditions, but it clearly does not show that price cannot exceed value in the case where industry and agriculture are separate sectors with different organic compositions of capital. (25: III, 775, 792)

In the physiocratic model, if rents pushed prices above values the additional gain to landlords would be nullified by the rise in the price of foods and all other goods; it would thus be impossible. This suggests an argument that if agriculture were the only sector with a below-average organic composition of capital, then in all other sectors price of production would be greater than value. If so, raising the price of all agricultural products above value would leave all prices above values, which is impossible as in the one-sector case. This proof does not hold, however, if there are a variety of sectors with low organic compositions of capital or if there is sufficient variation among organic compositions in the "above average" sectors that the lowered profit rate brought about if rents were raised generally drives prices of production of some of the commodities produced by these latter sectors below their values.

There is thus no infallible proof that the blockage of investment into a sector cannot raise absolute rents above the difference between value and original price, and the distinction between absolute and monopoly rents would thus seem to be an arbitrary definition. There is, however, a fourth argument presented by Marx, which if it leaves the distinction definitional, nonetheless makes it relevant rather than arbitrary. This argument rests not on empirical conjecture or weak logic, but on a basic question about class, that of when a prosperous landlord class can exist within a dominant capitalist system.

There is a difference between the theoretical possibility that agricultural prices can be pushed above values and the possibility that this can be done while leaving enough surplus value for capitalists to reinvest. If this surplus value were not sufficient, capital would not be invested in land at all and landlords would not achieve high returns within the capitalist system. (What they could do under feudalism is irrelevant.) If there is not enough capital to invest, capitalists will not compete for land and rents will not be paid. Even if profits were small but not reduced to nothing, rent would still be limited. But if rents drive prices above value for a large set of goods, profits will be reduced to the level given by the rate of surplus value in the high-organic composition industries alone. A low rate of profit will prevail. Thus, to the extent that agricultural rent proper drives prices above values (or, as Marx puts it in his definition, "to the extent that the agricultural rent proper is purely a monopoly rent") the amount of rent can only be small. (25: III, 771) Thus the importance of there being a low organic composition of capital in a sector is that it allows a significant amount of rent (other than differential rent) to be collected. The scale of the effect, might be the better way to define the absolute rent-monopoly distinction, with the requirement of low organic composition possibly (but only possibly) a necessary condition.

The difference between rents that can benefit or harm a small group alone and the rents that can sustain a landed class or cut significantly into profits is thus what Marx is suggesting in his absolute rent vs. monopoly rent distinction. And thus his overall distinction between the three types of rent under capitalism is shown to be based on differences in the class conflicts involved. The distinctions, in short, are relevant because they pose questions for analysis:

Does the control of land by private owners (e.g., a landlord, peasant or capitalist class) affect production and distribution within the capitalist system or are the prices of production of goods, inclusive of rents, unaffected by the specific ownership patterns? Are the changes in production and prices of production caused by barriers to capital flow significant enough in scope to affect entire sectors of production, and thus both affect the value of labour power in general or constant capital in general? Do the recipients of rent form an important enough group to be analyzed as a separate class? The extent to which private control of land diverts surplus value from capitalist investors, and the degree of concentration of land ownership required to maintain the proletariat as dependent on wage labour are questions which arise under all of the categories of rent. Ultimately *all* of these questions can be answered only through an examination of concrete situations; they boil down to a question of what struggles over land control between classes or between fractions of classes affect the capitalist system.

B. Urban Applications By Marx And Engels

Marx's theory of rent was developed principally to explain agricultural rent. He did, however, discuss its application to building sites, which he stated could be the object of rent. Both "the exploitation of the earth for the purpose of reproduction or extraction" and "the space required as an element of all production and all human activity" could be the basis of tribute demanded by property in land. "The demand for building sites raises the value of land as space and foundation, while thereby the demand for elements of the terrestrial body that is serving as building material grows simultaneously." Thus both the rent of urban land and that of sites providing building materials would grow with capital investment in cities. (25: III, 774) The ground-rent created, which Marx held could also be "the actual object of building speculation in rapidly growing cities," was, however, to be distinguished from the rent of buildings themselves, which included also interest and amortization on the capital invested in the buildings. (25: III, 775) Engels also made this distinction in criticizing utopian proposals to make housing rent-free within a capitalist system. (12)

Marx himself does not indicate, in any detail, to what extent urban land rent is differential, monopoly or absolute rent. But his basic distinction, between the different rents was certainly not limited to the agricultural case, and he cites specific cases of monopoly rent from housing (27: II, 30) and argues the presence of absolute rent for land in general will raise urban land rents because urban and agricultural land users must compete for space. (25: III, 773)

The first important urban use of his theory does not make much use of the distinction between the different types of rent. This is Engel's argument concerning struggles over the price of housing, in *The Housing Question*. (12) Engels' argument formally parallels that put forth by Marx himself in an 1848 speech on Free Trade. (26) Here Marx had attacked the opinion that free trade, by cheapening foodstuffs, necessarily benefited workers. The English free traders, Marx commented, claimed to be seeking the alleviation of conditions for the working class.

But strange to say, the people for whom cheap food is to be procured at all costs are very ungrateful. Cheap food is as ill esteemed in England as cheap government is in France. . . . (26: 234)

This opposition was well-founded Marx argued, because cheap food would allow employers to reduce wages. As long as the market drove wages to a subsistence level, cheaper food would only help employers. Agricultural progress, when it meant the introduction of cheaper crops like the potato which make a more meager standard of living consonant with survival could actually reduce living standards. Free trade would at best, not raise the real wage.

This was a rejection of the strategic call based on Ricardo's rent theory (31), for labour and capital to make common cause against landlords. Although Marx admitted labour might gain some transitory benefits from the growth of capital, which free trade could promote, he argued that accumulation would really only develop the forces that oppress labour.

Engels makes a similar argument about the proposal by the Proudhonist Emil Sax that workers should own their own homes. Engels comments that this will not help the workers:

Let us assume that in a given industrial area it has become the rule that each worker owns his own little house. In this case *the working class of that area lives rent free*; expenses for rent no longer enter into the value of its labour power. Every reduction in the cost of production of labour power, that is to say, every permanent price reduction in the worker's necessities of life is equivalent "on the basis of the iron laws of political economy" to a reduction in the value of labour power and will therefore finally result in a corresponding fall of wages. Wages would fall on an average corresponding to the average sum saved on rent, that is, the worker would pay rent for his own house, but not, as formerly, in money to the house owner, but in unpaid labour to the factory owner for whom he works. (12: 51-2)

Thus, Engels concludes, the savings of the worker might "become capital to some extent" (i.e., for the employer), but the worker would not "become a capitalist," as Sax had stated.

Engels generalizes the point to argue that any saving by consumers will be to capitalist advantage. The worker with a small garden plot who produces some food can be paid below the cost of subsistence. The effect of cheating by shopkeepers, if generalized, will be felt by average wage rates; the introduction of consumer cooperatives will benefit employers. (12: 52-54; 14; 15)

In the instances envisioned by Marx and Engels, any long-run interfer-

ence with production or influence on prices by landlords (via monopoly or absolute rent) would be a matter between them and the capitalists, the workers being essentially a disinterested third party. Similarly, although the taking of rent by landlords (even if output was unaffected) reduces capitalist profits; a transfer of ownership between landlords and workers would not increase workers' real incomes, if sufficiently generalized, because wages would fall. Thus worker ownership, like other constraints on landed property, could be seen as a gain by capitalists at the expense of landlords. Indeed, workers might actually lose out, in Engels' view. By being tied to homes or property in specific locations, they would lose the advantages that mobility might bring them in the job market, and become liable to the grossest of exploitation. At the same time, by owning some title of property, they might be induced to take a more conservative political role, as the bourgeois proponents of housing reform hoped. Thus, Engels' critiques of Proudhon's proposed ownership plans are no less scornful than his references to explicitly bourgeois reforms regarding the cost of living. (12)

Engels presents as applicable in all capitalist situations the argument that reforms affecting the cost of living cannot help the working class. "Either they become general and then they are followed by a corresponding reduction of wages, or they remain quite isolated experiments, and then their very existence as isolated exceptions proves that their realisation on a general scale is incompatible with the existing capitalist mode of production." (12: 52) But he justifies the argument that reform in property ownership itself is useless by reference to particularly European conditions. He relates the particular social conditions of the German countryside to the proposed Proudhonist reforms. Granting of small properties there would only "be the transformation of all the small rural house owners into industrial domestic workers," who would remain isolated from each other while being exploited by capitalist employers, despite their title to small "farms." (12: 17)

The strong position that Engels takes on the issue of homeownership and the reduction of rents is often applied mechanically in Marxian treatments of housing reform. However, it is best to remember that Engels was writing in a particular continental-European debate. There is evidence that Marx believed that *in some circumstances* the working class could benefit from lowered rents or land availability. The improvements would only be possible as a result of struggle over the "historical and moral" elements in the value of labour power, and they would be tenuous in the long run, since the contradictions generated by the accumulation process would lead to new downward pressures on living standards. Nonetheless, in his treatment of Wakefield's theory of colonization and in remarks on the American frontier, he does argue that American labour did benefit from access to land. (25: I, ch. 33)

In *Capital* he argues also that the availability of cheap food might sometimes benefit workers. In an apparent reconsideration of the effects of free trade he writes:

It is not true that consumption of necessities does not increase as they become cheaper. The abolition of the Corn Laws in England proved the reverse to be the case. (25: III, 657)

The re-consideration is only apparent, however, because earlier Marx has shown that maintaining some portion of the gains was possible to the working class because it did not simply join the capitalists' crusade for free trade, but rather maintained enough independence to ally with landed interests over issues of the working day, and, more important to struggle out of parliament as well as within it over wages and hours. (25: I)

In the United States, the issue of whether reducing the price of housing through reduction of absolute rent would benefit labour was debated in the late nineteenth century. Henry George's (14) theory of rent led to the conclusion that the benefits from ending land hoarding or speculation would be an increase in both profits and wages. Many of George's positions were adopted by socialist parties in their programmes of municipal or "sewer" socialism. Some collaboration between Marxists and George's followers took place, particularly in George's campaign for mayor of New York in 1885. On the other hand, George's ideas were also utilized as a guide to policy by bourgeois reformers, particularly in the Progressive movement after 1900. (8), (24)

I have elsewhere argued that the adoption of policies to overcome barriers to suburban expansion, in that period of United States history, represented adoption of a compromise in class struggle in the United States. (7) Under pressure from labour, particularly after the militancy of the mid-1880's, American capital sacrificed some of its interests in land thus allowing the acquisition of cheaper housing by the working class. Some real increases in living standards resulted. However, the process by which suburbanization took place was managed by bourgeois reformers and resulted in a weakening of socialist political organization and a separation of strata in the labouring class. (24) In the case of England, Weinberg has argued, a similar process came about with the working class already stratified to a degree; the "labour aristocracy" pressed for better housing and its demands eventually led to reform from which it benefitted. (37)

C. Recent Urban Applications: Differential and Absolute Rent

Within the past ten years, questions concerning housing and urban land have again come to the fore. Ghetto riots first focused attention on housing scarcities in the United States. Later, the pressure of new demand (the baby boom coming of age in the United States, the general recovery of European economies, and the expansion of central business district land use) led to additional conflicts over land use. Housing prices and rents began to rise, and new forms of neighborhood and squatter political organization emerged. A variety of explanations and proposals for action have been made by different muckrakers, advocate planners, and political organizers. Many of these arguments made implicit assumptions about the incidence of higher housing costs. They have raised issues concerning the possible effects of land monopolies (5), (13), (30) and financial monopolies (33), (34), (35), (36) on the price and availability of housing. These analyses have pointed to some important elements in the housing problem. However, they tend to assume that the particular

factors they emphasize are the only causes of the problem. Few have tied their analyses to any comprehensive treatment of rent and value theory.

The result has often been confusion. For example, land speculation and a shortage of housing have been blamed, by different analyses, both on the lowering of interest rates (5) and on the high level of these same interest rates. (33) More generally, the analyses have not asked precisely what conditions allow high rents to be charged by the monopolies they cite. That is, they do not consider why landed or financial groups are able to receive large gains by taking them out of housing or other uses, or where the money to pay "inflated" mortgages or rents for housing comes from. They do not respond directly to the questions raised by Marx and George concerning the division of cost burdens among workers and their employers, or among different subgroups within the two classes. And they do not, therefore, really answer the question of which classes are in conflict over urban land and the creation and distribution of surplus value.

Posing the questions in this way is equivalent to asking whether high building rents represent primarily high absolute rent, high differential rent, or costs which are not ground rent at all. Increased demand for land by a capitalist class which has concentrated surplus value in its hands can create a situation in which workers are expelled from housing to allow the realization of differential rents. Limits posed by land ownership to the investment of capital in expanding residential areas can, on the other hand, create absolute rent. Possible strategies for the working class will vary depending on which of these two rents is dominant or whether some other barrier than land ownership is impeding a flow of capital into residential construction.

Understanding which situation is occurring at any time is a matter for concrete analysis. But theory can be used to analyze what concrete results are possible, and how they can be recognized. The analysis of the possibilities is attempted in this section, with the aim of clarifying analytical issues. Possibilities of the existence of differential rent, absolute rent and financial monopoly are considered separately although no final conclusion on the magnitude of the different rents is presented here.

1. *Differential Rent*

Before discussing differential rent as a separate category, we may consider whether any urban land rents (as opposed to amortization and profits on urban constructions which appear as house or building rents) have any great importance or, for that matter, even exist. Lojkin is led, apparently by debates in France, to pose this question directly. (23) Marx stated that, with the integration of landed and capitalist classes and with the evening out of land quality differences through investments, absolute and differential rent respectively might, eventually, disappear. Realization of this possibility is suggested in Lenin's description of the integration of different economic interests in urban development.

Speculation in land situated in the suburbs of rapidly growing big towns is a particularly profitable operation for finance capital. The

monopoly of the banks merges here with the monopoly of ground rent and with monopoly of the means of communications, since the rise in the price of land and the possibility of selling it profitably in allotments, etc, is mainly dependent on good means of communication with the centre of town; and these means of communication in the hands of large companies which are connected, by means of the holding system and by the distribution of positions on the directorates, with the interested banks . . . (22: 65)

Despite this integration of capitals with land ownership, to the extent that it occurs, and despite the growth of transportation facilities than can reduce differential rent within cities, urban land rent, at least the differential variety, continues to exist. Not all land is in the hands of a unified capitalist trust, nor has transport become so cheap as to make all land equivalently good as a place to undertake production of commercial activity or to house workers.

The persistence of differential rents is suggested if one compares the value of land in cities of different sizes, and with different amounts of business activity. Such a comparison for the United States (38) indicates that land values are higher in larger than in smaller cities, and greater for cities with corporate headquarters functions than for those with purely industrial roles assigned to them by capitalism. A similar comparison can be made within other countries. The observation of these differentials does not, in itself, say anything about the origin of the rents which are (presumably) capitalized into the value differences. (32) But it is, at least, consistent with the view presented by Hymer (20) that the concentration of capital is concentrating demand for land in a reduced group of key cities, a demand that allows differential rent to be realized by land owners if they can transfer their property to uses wanted by the capitalists.

The realization of this differential rent requires direct conflict between potential users or redevelopers of land, and residents occupying it prior to the creation of new demands through the concentration of capital. (6) (32) Whether the conflict is resolved through the mechanism of the market or through political channels or through a more direct confrontation, the realization of the higher land values is in effect both a capturing of land by one group of users from another and a capturing of a portion of the surplus value extracted by capital by a group of landlords. (11) For capital to cede improved housing to workers, it would have to give up surplus value to workers to pay higher rents and thus itself give up its demands to some urban space.

Urban differential rent is thus the result both of conflict and of the structure of the capitalist system. Without the concentration of capital and the taking of land there would be no differential between the land rents in "corporate" cities and those of smaller or noncorporate centres. But this does not mean the rents involved may not be differential rents. For Marx, all rents, as indeed the value and surplus value of which rents form a part, are phenomena that only exist within the mode of production and because of it, their magnitudes being determined by the particular conditions of a system at a given historical moment.

As Irene Bruegel has argued, (2) David Harvey's analysis (18) is somewhat confusing on this point. Harvey is concerned with criticizing the land use models that dominate urban economics. He levels against them the

justifiable charge that they ignore existing monopoly elements (a point to be discussed further below) and simply take as given other power relationships, consumption patterns, income distributions and other outcomes of class conflict. He is on proper Marxian ground when he argues that orthodox analyses are wrong since "the high rental value of land in central cities should not necessarily be interpreted as a reflection of differences in marginal productivity of land" (18: 187) and when he proposes that rent is due to a class monopoly over land which enable landlords to appropriate surplus value. But he erroneously concludes from this that most urban land rent must be absolute or monopoly rent.

Marx's presentation of the forms of differential rent in agriculture makes quite clear that private ownership can intercept the surplus value produced on certain land because labour is more productive there; the categories of "class monopoly" and differential rent are not limited to mutually exclusive phenomena. And, because Marx's definition of "productive labour" and the neoclassical definition of "productivity" refer to entirely different things, the fact that office activities are "unproductive" for the creation of surplus value does not prove that their land has no "marginal productivity" or that they do not pay differential rent if they can concentrate more surplus value by locating in one place rather than in another.

Orthodox analysis is wrong, from a Marxian view, in saying that central city land—or *any* land for that matter—has a high "marginal productivity" (rather than in saying that surplus profit that could be made there is appropriated by landowners). It is wrong in ignoring that either "free market" or other allocations of land are the result of conflict. It is *not* however necessarily wrong in its description of market demand or in its identification of a central-suburban differential as crucial for office activities or the residences of office workers. Thus the forces that orthodox theory describes may at times be important for working class strategy.

The denial that much of urban rent is differential rent is not merely a technical point. It may raise false hopes that particular and isolated fractions of capital (or perhaps precapitalist landlords) are to blame for high rents, and can be isolated and attacked. Confrontation with those seeking to extract differential rent, however, means confrontation with the most concentrated forces of capital itself.

2. Absolute Rent

Differential rent may not, however, be the only form of land rent in a metropolitan area. Specific monopolies or general land ownership barriers to capital investment may also limit the use of land for residential or other urban uses, creating monopoly rent or absolute rent. The variety of specific monopolies that may occur is great; some are discussed in a subsequent section. The existence of general barriers to urban investment that could create absolute rent will be considered here.

The possibility of urban absolute rent, stemming from barriers to the

use of land for urban uses in general, has been proclaimed by Lojkin (23) and Harvey (18), (19) but there have been some doubts raised as well. In the first place, the existence of a large stock of fixed capital in buildings seems on the surface, to argue against the existence of a low organic composition of capital, which as discussed in Part A may be a condition for absolute rent. However, it should be remembered that for Marx, fixed and constant capital are not interchangeable concepts. If housing or other buildings are viewed at the moment of their construction, there is a possibility of the extraction of surplus profit as absolute rent because the organic composition of capital in construction is low. (Lojkin (23) uses this argument.) Alternatively, if buildings are considered as fixed capital, then the measure of constant capital that should be compared with annual rent and labour costs is not the construction cost of the house but rather its annual depreciation which may be low compared to annual labour costs. Under either argument, one condition for absolute rent may be met.

The condition that the flow of capital be limited may also be met, in the case of urban construction, by a number of barriers erected by land ownership institutions. In each case, the presence of the barrier is indicative of a conflict of some class or subclass of land owners with capital or some fraction of capital. These barriers may include:

I. The ownership of large estates that constrain city growth through refusal to lease or sell land for urbanization or which limit that growth to a lesser extent by insistence on rent for marginal urban uses or by insistence on leases for periods shorter than the life of buildings. (This pattern appears to have been important in England and particularly Scotland in the nineteenth century.) The primary conflict here is between capital and a pre-capitalist landlord class. (37)

II. Control over land which may be urbanizable by transit or utility monopolies, owing their power to public charters, and not releasing marginal land unless the rent is great enough to cover some expected and unusually high level of profit, on the purchase and resale with utilities of the land. (This pattern appears to have been important in the nineteenth century United States.) The conflict here is between rising or dominant industrial capital and an earlier form of capital. (7)

III. The fragmentation of urbanizable lands on the outskirts of cities or lands within the city on which additional capital could be invested in redevelopment. Such a fragmentation will only impede development if large assemblies of land are required to induce capital to invest. This will be the case when large investments in transport facilities or very large buildings are required or when credit is only available for large scale investors. Hence this becomes a situation which can create absolute rent only when an integrated capital, of the sort described by Lenin, confronts a petty-proprietor pattern of ownership.

IV. The deliberate delaying of development by such an integrated capitalist group with both land-using capitalist investments and ownership of land. In this case the integrated capitalists will pay more out in rent and gain something back in added rents. Inasmuch as reducing the

possible investment in one sector of an economy below the rate indicated by the equalization of before-absolute-rent profit rates will reduce the total of value and surplus value produced, this procedure is only advantageous for such an integrated capital if (1) it will bring them more in rents payable by nonintegrated and non-land owning industrial sectors or if (2) labour will be less united in a resistance to a reduction of living standards through rising rents than to a reduction through reduced wages. The degree of capital integration required in such a strategy is probably not yet attained in most cities.

V. Speculative holding of land by large or small investors, delaying construction at each time in the hope of making a better deal later. This can clearly create large barriers in the short run, but in the long run, while it can create some barrier (leaving the city perpetually smaller than capital "wants" it to be at that time) it cannot be the permanent basis of very high levels of absolute rent.

VI. Limitation of the area of density of construction by the state. This may take the form of health provisions, zoning, greenbelts, aesthetic conservation, and so on, applied by the state as mediator among classes or in the interest of preserving the reproduction of the population and the economic system in some wider sense at some cost to present profits or surplus, or it may take the form of legally similar provisions applied in the interests of preserving the rents of existing properties, against the interests of reproduction and accumulation.

In all of the above cases, land control can act as a barrier to capital investment in the urban area or urban system *as a whole*. This control involves conflict of interest among major classes or subclasses. It involves a limitation on housing (a basic subsistence good) and on industrial and commercial space used directly by capital, and hence can have an effect on the general rate of profit and pace of accumulation. The potential existence of rent stemming from barriers to capital flow into a major sector (urban construction or residential development), the fact that the barriers represent a possibly important class conflict, and (perhaps) the presence of a low organic composition of capital in the sector could justify calling these potential cases of absolute rent. That is to say, in these cases, there could be some opportunity for (at least temporary) gains to labour, and to working class residents, from alliance with capital to reduce absolute rent and break the barriers to cheaper housing, as was the case in the working out of the "suburban compromise" in the United States after 1885. (7)

However, theoretical possibility is one thing; actual importance another. To what extent absolute rent caused by these barriers is presently a factor limiting investment in urban construction is difficult to measure. Transit franchises and a landed aristocracy no longer pose the barrier they once did. Given the extent to which orthodox analysts and government commissions have, in recent years, concentrated on the small-proprietorship barrier to land assembly and the implications of zoning, it would seem that these factors create at least some absolute rent or are believed to by capital's spokesmen. (6) Speculative holding of land in the present inflationary period may also be a complicating factor. (5)

But whether there is scope for any great gains to be made, for capital or labour, from an attack on any of these proprietors is still unproven. To prove it would require a demonstration not merely that there are large holders of idle land, but that these holdings are barriers to use on a sufficient scale.

3. Financial Barriers

One additional source of absolute rent suggested by a number of recent studies and pamphlets has not been included in the list above. This is the limitation of the flow of capital into urban investments by high interest rates. A number of writers have suggested either that financial manipulation is raising rents or that mortgage costs are a direct *and removable* source of rents. (16), (19), (33), (34), (35), (36). The arguments presented at times merely reproduce Proudhon's error in attributing rents to land "values" which are normally just the capitalized form of rents, (25: III, 622) in assuming that, since (for the perpetual asset) the rent is equal to land "value" times intermediate removal of either the price or the rate will cause the rent to vanish. They are, from a Marxist viewpoint, suspect as well in that they involve a primacy of the sphere of circulation over that of production. There is, however, some chance that they indicate an effect of direct barriers to capital flows which would appear, in the sphere of circulation, as high interest rates.

Because of the longevity of most urban structures, the demand for ownership and thus construction of these may be sensitive to interest rates. Buying a building, after all, involves buying the right to receive its rents for many years thereafter—one cannot just buy title to one year's usage except by renting from another owner. Someone must be prepared to tie up a considerable sum in an investment with a long turnover period. If a particular rate of profit can be made on investments with a short turnover period, no one will invest in building with a longer period of use unless the latter yield enough surplus profit in each year that the idle capital tied up in the building and not released by depreciation can still receive its reward as interest. The higher the average rate of profit and interest, the more surplus profit that buildings must yield before they will be saleable at a price that covers their price of production. Thus to say a higher interest rate may "reduce construction," is to say that higher average profits may result in a shift of investment.

Shortages of buildings created by the reduction in long term investment can, of course, drive up rents for finished space. (This shortage effect and the resulting rise in annual rent itself puts some limits to the reduction in construction.) Real problems may thus be created for workers. But, this being said, distinctions must be made between the rise in house-rents due to interest-induced shortages, and the supposed creation of absolute rent by a banking monopoly. In the *first* place, a distinction must be made between "artificially" high interest rates and those which stem through normal market forces from periods of high profit. A cyclical phenomenon by which housing investment moves counter to industrial investment has often

rents is a customary part of the squeeze on wages that is (if labour responds) reflected back into an eventual squeeze on profits late in a boom. It need not be due to any financial machinations. *Second*, the rents that will be raised by the shortage, in this case, are *house* rents or building rents and not *land* rents. If construction is inhibited by interest, existing buildings become more valuable (in annual rental terms) but unbuilt areas go begging. This is a different situation from that which creates absolute rent—a situation in which capital is trying to find places to build, and because some places are barred to it, those available can command additional rent.

All this does not deny that the state or financial monopolies may deliberately limit credit to long-term uses or to urbanization, and that the effects of such artificial rationing would be similar to those of the land rationing that locates absolute rent. As in the absolute rent cases the rent of housing would be increased, creating pressures on either wages or profits (depending on the state of the primary class struggle). But the existence of such an artificial barrier to investment in housing is not proven by the mere existence of high interest rates, nor by the presence of large financial institutions.

Too much, in short, is attributed too readily to "finance capital". Integration of business under the direction of financial capitalists need not mean a conflict of interest between bankers and industry. But even if a financial monopoly exists, it is not possible to derive *both* the existence of a perpetual speculative boom in office construction and land acquisition *and* the high annual rents for urban buildings that shortage brings about from this same phenomenon. (5) If interest rates are high, then for a given annual rent, building sale prices will be low. If higher interest rates, by increasing owners' annual costs for a given purchase price, raise annual rents demanded by owners, these rents can only be met by renters if real demand is sufficiently sustained (by entry of new renters or compensating wage increases to worker-renters).

Temporary coexistence of the two phenomena is possible if interest rates are temporarily above their expected normal. In this case, those with capital may try to buy land and those who would otherwise build may delay construction. But this temporary effect is a far cry from any long term shift due to the importance of a "secondary circuit of capital" as the causative factor in determining city form. (21; cited in 18)

If there is any long-term effect on urban form from the rise of financial capital, this would require that there be enough surplus value produced that some of it could be intercepted by financial institutions and spent on city land for their own use.

Although Lefebvre's language is ambiguous on this point, when he speaks of a decline in "the proportion of global surplus formed and realized in industry," I believe the correct interpretation is that he is not predicting a reduction in production of surplus value in industry but only an increase in the proportion of it distributed in forms other than profit, since he speaks of an increase in the "proportion realized in" financial and real estate activities, and not any proportion produced in these. (21), (18)

To say "the secondary circuit comes to supplant the principal circuit" may just mean there is concentration of capital and a creation of new channels for distribution of its revenues. Such a concentration has been discussed above as a source of differential rent. Its main urban effects, the rise of office tower and luxury residential demand and the accompanying rise in differential rent in financial centers, could not continue if financial monopolies went so far as to undercut the production of surplus value.

There are thus three possible general explanations for high overall rent levels and an attempted reduction of housing standards for the working class within urban areas. One is that concentration of capital has increased demand for urban space, thus raising differential rent; a second is that land ownership and control has imposed a barrier to investment in urban structures, creating absolute rent; and a third is that a financial fraction of capital is presenting a barrier to investment in housing, and creating inflated house rents although not directly creating ground rents. Either of the last two theories, if proven important, would suggest that some gains could be made by labour through interclass alliances with fractions of capital, to increase housing investment. However, while better concrete analyses are needed, and speculative or financial effects may possibly exist, there is no compelling argument that either land ownership or financial barriers are the reasons for high rents. Working class communities, or housing consumers generally, appear to be confronted by concentrated capital itself as the principal opponent in the battle for urban space.

D. Recent Urban Applications: Monopoly Rent

Global effects on the pace of urban construction and the overall amount of rent are not the only aspects of the urban land market of interest to radical analysts. Much of the concern of the Left with land use stems from struggles over rents and land uses in specific neighborhoods. Analysis of factors determining the outcomes of these struggles at the micro-area level has, in general, been better developed than analysis at the city-wide level. The importance of these local situations is shown clearly in David Harvey and Lata Chatterjee's concrete analyses of Baltimore. This section argues that these concrete analyses can best be understood as dealing with problems of monopoly rent.

Harvey's investigation of Marx's rent and value theories was preceded by a critical analysis of the failure of the more macroscopic and non-political neoclassical models to explain the formation of the ghetto or rent phenomena there. (18, ch. 4) His and Chatterjee's analysis of the specific institutions of the Baltimore market, (16), (19) and other analyses of urban submarkets from a generally Marxist perspective, have added an important dimension to knowledge of the urban system and the specific transfers of revenue and surplus value that take place there.

These studies generally show the existence of political struggles over land use, and the importance of control over specific tracts of land. As Harvey points out, each geographic space is unique in location. In the

case of differential rent, and even absolute rent at the level of the city as a whole, generalized competition sets limits to these rents. But in dealing with particular areas, it is frequently the case that a group or an individual can free itself of competition of others, or alternatively may be forced to compete more intensively for space.

These cases can be analyzed using Marx's category of monopoly rent, and distinguished (by use of this category) from the cases of rent arising from general urban growth (differential rent) or from barriers to urban growth as a whole (absolute rent). This distinction in the scope of effects is important for analysis. Harvey and some others (16), (18), (19), (1), (37) while maintaining the distinction in their empirical work, have unfortunately ignored it in their theoretical formulations. Harvey at some points refers to all interest groups as classes, and then parallels this mixing of the Marxian categories of "class" and "fractions of classes", by mixing the categories of rent, referring to both city-wide and neighborhood-wide rents as "absolute rent", or alternatively as "class-monopoly rent." This last category is of no use in distinguishing between types of rent because for Marx *all* rent involves a class monopoly. David Weinberg, (37) who makes the distinction between classes and subclasses central in his concrete analysis, and Harvey himself, in an essay relating class consciousness to residential differentiation, (17) are clearly-concerned with land uses and rents arising from struggles at a more microscopic level than that of the expansion of the city as a whole. Their failure to separate monopoly and absolute rent in theory thus blurs an important distinction between the need to analyze local struggles resulting in the creation or elimination of monopoly rents and the need to explain why rents in general may rise or fall.

Monopoly rent in the city can clearly take on many forms. Racial minorities, immigrants and other subgroups may, at times, be so limited in the availability of residences that they may be forced into paying rent that drives their standard of living below the standard that underlies the normal value of labour power at the time. (Marx discussed cases of this sort involving the rent of houses for farm workers on large estates and within isolated industrial or mining areas in which the employer is also the landlord.) Owner-occupiers or squatters may obtain unique access to land in specific communities enabling them to acquire housing below its general market price, and thus (unless wages are reduced as a result) enjoy higher living standards through what is, in one view, a nonpayment of part of the absolute or differential rent from that area, and from another view a receipt of it by themselves (or by their employers if their wages are reduced).

Specific industries also may be limited in space available to them, and thus be able to acquire factory space only if their price can be driven above value. Andrew Broadbent, who attempts the most careful formal model, provides an urban analogue for the case in which rent derived from production of a subsistence crop (grain, in Marx and Smith's cases) raises the rent demanded for production of another good (cattle), driving the price of the latter above value. However, he then refers to this case as "absolute rent." Marx, citing Smith's analysis with approval, did not use

this label for it. (I; 25: III 615, 805)

Monopoly rents are not the only ones relevant for local struggles. Differential rent alone explains part of the high rent facing the poor. But a review of Harvey's analyses of specific cases shows his basic point—that differential rent analysis is not sufficient—is soundly based. Recognizing that specific monopoly rent situations affect specific subclasses may be of particular interest since the stratification of the working class is held, in recent radical analyses, to be an important area of study from the viewpoint of examining the difficulties of organization of the class as a whole. (15) Although the primary grounds for division within the working class are generally held to stem from distinct positions in the work process, differences in tenure and residential location may play an important part in reinforcing the distinctions. In the case of racial minorities, particularly in the United States, the interplay between residential, educational and employment discrimination as manifestations of institutional racism, play a particularly divisive role. Weinberg, for England, and Castells, for France (4) suggest parallel interactions between residential and job segmentation of the proletariat. Monopoly rent factors may, however, also play a part in the conflicts determining wage differences among subgroups and in establishing a dualism of profit rates among industries.

The specific cases discussed by Harvey and Chatterjee show the importance of rent analyses. One of their particular analyses is that of the black ghetto in Baltimore. With blacks restricted by mortgage discrimination and other barriers to outmigration, they must pay more for space than they would have otherwise. In part, their rent is higher because the areas to which they are restricted are those with high differential rent; in part they pay an additional monopoly rent above this. While there are forces (such as blockbusting of new areas) which tend to reduce the monopoly difference, Harvey and Chatterjee (16), (19) find that supply to subgroups remains limited. They argue one reason for a limited supply of housing is mortgage disinvestment and the abandonment of buildings, which they attribute to high interest rates. They leave an implication, not argued in detail, that financial institutions by limiting supply might be raising house rent within ghetto borders (which would not as we have seen before, be the same as raising ground rent).

This analysis complements, but does not fully replace, the orthodox position that the poor are crowded onto high priced central land strictly because of the pressures of differential rent. The issues of the mechanisms by which ghetto borders are maintained and housing there is deteriorated, however become central issues for analysis. The interplay between rents and wage rates, which they explore less fully, would be another aspect of the situation of the Black community which Marxian perspective indicate as crucial. If in some sense societal discrimination sets a gap in real living standards between Blacks and Whites, this "Black Tax" may in part be reflected in lower wages; in part in higher rents (including rents passed on as interest payments). Improvement of the Black position would thus require not only wage equalization, but also removal of the monopoly rent differential; conversely, reduction of rents for Blacks would lead to a lowering of their wages if there are industries

able to attract Black labour at a going (low) real standard of living. For disadvantaged subgroups in the working class, therefore, struggle over both wages and rents may be necessary, just as, in periods when absolute rent is a constraint to urban housing, struggle over both may be needed by the working class as a whole.

There are, of course, situations in which a group is not subject to specific monopoly pressures. Harvey mentions one such situation in his discussion of white working class areas of Baltimore:

The white *ethnic areas* are dominated by homeownership which is financed mainly by small community-based, savings and loan associations which operate without a strong profit orientation and which really do offer a community service. As a consequence little class monopoly rent is realized in this sub-market and reasonably good housing is obtained at fairly low purchase price, considering the fairly low incomes of the residents. (16)

The availability of housing sites for low income families at low cost in areas (such as Latin American cities) where squatting is widespread would be another. However, in analyzing these cases, several questions must be posed. A first question is whether the low price of housing in these areas is reflected in lower wages as Engles (12) suggested it would be) or whether it allows the families in the area to retain higher real earnings. The former is apparently the case in areas of widespread squatting (although, as with American suburbanization in the early 20th centuries the removal of absolute rent may perhaps allow some real income gains to be retained by workers there). For some neighborhoods in American cities, however, the lower rental costs involved in keeping property in use among members of a cohesive community, *which is itself a small portion of the labour market*, may allow real income gains to be achieved (in the form of housing rather than cash) by community members. In these cases, however, the housing gains could themselves be the result of a monopoly on the land by the users, who manage to keep out other groups (who could bid up the price). The existence of local monopoly privileges of this sort might be a material basis for the tenacity with which some such neighborhoods keep out minority buyers. In such cases, the existence of local financial institutions could itself be part of the local monopoly.

If this case appears possible, it is crucial to analyze a second question. This is whether rents in the neighborhood are, in fact, low because monopoly of land use by the residents has driven their rent below differential rent levels, or whether (for the city as a whole) construction levels are so restricted that one can speak of absolute rent in the urban area as a whole. If this last is the case, the group with a local land-monopolizing community may just be transferring absolute rent to itself, creating a situation in which if other groups took appropriate action, they too could avoid the need to pay absolute rent. In this latter case, however, the residents of the originally-privileged neighborhood would confront capital at the point at which it attempted to cut wages, in a situation which allied them with other groups in the working class.

The different political implications, from a working class organizing viewpoint, of these last two cases indicate the importance of the absolute rent/monopoly rent distinction. Only in the absolute rent case can the working class as a whole have an interest in direct action over rents—even then it must be accompanied by wage action to gain any benefits. In the monopoly rent cases, gains may be limited by specific groups, and the interests of different sectors of the working class may sometimes clash.

One final case discussed by Harvey is that of the creation of new suburbs to house members of the upper or middle strata of the proletariat, and generally the self-defined "middle class", which is expelled from inner-city areas by a process that Harvey calls "blow-out", or flight forced by blockbusting or denial of credit. Harvey argues that in this case, "the same financial institutions which deny funds to one sector of the housing market stand to gain from the realization of speculative gains in another." (18:175) Since he and Chatterjee also argue that credit rationing to inner-city housing raises rents for the groups left behind in the suburbanization process (19) the implication is that a combination of deterioration and blow-out can continually create new rents, some of which (in both the ghetto and the new sub-divisions) accrue to the financial institutions, which thus have a stake in continuing the process.

A consideration of the entire city, however, suggests that the description of the two submarkets alone cannot explain the observed process. At the level of the entire city, the releasing of land at the suburban "margin" and the removal of some land in the inner areas does not clearly affect any change in the level of absolute rent in the system as a whole. If blow-out or blockbusting work on a sufficient scale, the monopoly rent differential paid by Blacks may actually fall. Nor, if as is required to operate the process, the requisite transport and utilities for the new suburbs are provided out of taxes levied over the whole area, is differential rent over the entire city likely to increase. Indeed, it may fall. Thus there may, in the whole system, be a reduction in land rent if there is any change. Increases in costs are likely to be in the form of increased real costs of construction (if these exceed the maintenance costs that would have accrued otherwise) or in costs of transport over a wider area. How then can the financial institutions profit; how can the increased rents accrue?

The answer may be found in the changes in land rents (and value) elsewhere in the system than at the two geographic margins (of suburbanization and of racial transition). If land is released from idle or speculative holdings at the outer edge by the subdividers, and transport in general is provided, the competition of this new land will reduce differential and absolute rents in older areas of the city. If blockbusting is extending the barriers of the ghetto, some reduction in monopoly rents occurs there. But in both cases, much of the loss in rents will fall on properties that are in the hands of owner-occupiers or small landlords, who have already paid for (expected) higher future rents through initial purchase prices or committed themselves to pay them in the future on mortgage payments. These owners will thus suffer the equivalent of a capital loss on their properties. At the two margins, however, the investors (combining finan-

cial and political influence to keep *others* from transferring land into urban or ghetto uses) will be able to gain (through purchase prices or mortgage arrangements) several years worth of expected future absolute and monopoly rents (respectively, at the two margins). Although their absolute and (in the ghetto case) monopoly components will be reduced from previous levels, they may still be substantial. There is thus a transfer of rents, over the system, to the blockbusters, subdividers and their financial backers, but not an increase of rents. A process of this sort, involving only the differential rents accruing from new transport, is presented by Edel and Sclar. (9) Adding the ghetto sector and absolute rent to their analysis does not alter the basic conclusion of their analysis. (There is a material basis to complaints by homeowners and inner-city landlords alike that their property on rental values are deteriorating, but the cause is in the suburbanization process or the blow-out process as described by Harvey which may be "managed" by financial capital or just occur as a by-product of capitalism. The cause is not the existence of demand for space by Black families, who are customarily blamed for the declines.)

Conclusion

The above analyses can hardly be taken as complete or conclusive. The concrete situations in which absolute and monopoly rent occur, as well as the factors which increase differential rents, need more careful analysis. But if the examples given have indicated the political importance of separating the concepts of differential, absolute and monopoly rents as representations of different situations in which organizing opportunities open to the working class are structurally different, then this paper will have suggested a way in which Marxian categories can be used in a strategic manner—the manner which, I believe, underlies their definition. Marx's view of all types of rent as reflecting class and subclass power over land, and as distributing surplus value is useful because it points to concrete questions, questions considering the relation between rent and wage rates, questions of which class or subclass will be affected by rent changes, and questions, ultimately, of strategy and tactics.

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CITIES AND CITY PLANNING IN CAPITALIST SOCIETIES: A THEORETICAL APPROACH

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1.0 Introduction

This article tries to explain the relationships between the development of cities and city planning in capitalist societies. (2)

My premises are that control of space is explicable in terms of control of capital (*Verfügung über Kapital*). (3) An understanding of city planning requires an analysis of private versus public activities, power relations and functions. City planning is one function of the state in advanced capitalist societies, a function that originates in contradictions of the capitalist development. The tendencies inherent in the development process of cities and city planning are based on the contradictions between (a) both the conscious intentions and functions of control of capital and (b) the activities and functions of city planning.

My concept of 'city' consists of those 'social relations' (*gesellschaftliche Verhältnisse*), which are crucial for cities in capitalist societies. I define 'city' as these kinds of social relations and their concrete spatial manifestation, i.e. 'space' is a social category. Thus cities, no matter which differences are between them, can be distinguished from rural areas by means of social relations of production, including the kind of production, market characteristics, etc.

In this outline 2.0 describes the social relations that the city consists of, in the spheres of production, circulation, real estate and the state; I further outline their process of development. 3.0 shows the spatial manifestations of these social relations; this approach is a method for understanding the need of city planning, its conditions, activities and functions; I shall distinguish between 'transportation planning,' 'zoning' and 'comprehensive planning.'

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2.0 Social Relations in Cities and their Development

2.1 Social Relations in Cities

The production relations are the basic social relations in capitalist societies, because they organize production and reproduction of people. I shall analyse these production relations in the different spheres: production, circulation, real estate and in a different form in connection with the functions of the state, however the production relations in production proper are the determining ones.

The general characteristics of all production relations are the institution of private property and private power over capital and over the use of work force. All production-processes are related to processes of surplus value creation and utilization of capital (*Verwertung von Kapital*) (4); they consume capital and labor and produce revenue (rate of utilization of capital). The work force has only the control of their own labor power and they are therefore forced to sell the latter in order to reproduce themselves. Thus the relation between capital and work force is a power relation; it is one of the main determinants of the conditions of reproduction; the importance of this is, that together they determine the range of the possibilities of structuring space. (5)

On the other hand, the production relations are different in different spheres. In production itself, there occurs the production of commodities as exchange values and the creation of surplus value. In real estate there occurs the exchange or leasing of real estates as commodities, the realization of surplus value of the construction industry, and the utilization of real estate capital.

2.1.1. Social Relations in Production, Circulation and Real Estate

The major social relations in production are

- (a) relations between work force and production capital,
- (b) relations between workers, (6)
- (c) relations between production capitals themselves,
- (d) relations between production capitals and other forms of capital.

The latter is mainly a relation of competition; this means that more and more surplus value has to be produced by means of accumulation. The different capitals compete with one another in buying the different means of production and in selling their commodities; every single capital wants to get a higher rate of surplus value to be able to accumulate and continue the production process.

The major social relations in the circulation sphere are

- (a) relations between work force and capital in the circulation sphere,
- (b) relations between workers, (6)
- (c) relations between different capitals in the circulation sphere,
- (d) relations between capitals in the circulation sphere and other forms of capital.

The relations (a) between work force and capital in the circulation sphere can be a form of production relation for the realization of surplus value and the utilization of capital in the circulation sphere. It can furthermore be a consumer-seller relation; in this case it is dependent on the wage of

the work force; the wage is exchanged to use values for consumption and reproduction. The relations (c) between capitals in the circulation sphere are relations of competition for markets and for means of production, dependent on the degree of division of labor. They also can be a buyer-seller relations. In relations (d) between capitals in the circulation sphere and other forms of capital (except real estate capitals, which will be named later), the capital in the circulation sphere can be a buyer or a seller and the other form of capital a producer or consumer.

One prerequisite of capitalist real estate relations is the private power over real estates, basing on the legal institution of private property and a specific distribution of real estates. Real estate relations are

- (a) relations between work force and real estate capital as production relations, lease-and other tenant relations, or buyer-seller relations (dependent on the wage),
- (b) relations between workers, (6)
- (c) relations between real estate capitals and other forms of capital as lease-and other tenant relations, or buyer-seller relations,
- (d) relations between different real estate capitals as relations of competition, or buyer-seller relations.

They aim at the unproductive (e.g. workers living in rented housing) or productive (e.g. capital carrying out production in factories) consumption of real estates, at the use and/or utilization of real estate capital. So real estate relations are prerequisite of consumption, production and exchange of commodities, because every involved process needs some kind of housing and real estate. I define 'rural areas' as opposed to 'city' as those areas, where agricultural products are produced in agricultural production relations (e.g. farms).

The overall distribution of private capital between individuals determines their class position in the society and therefore how they enter into the social relations in different spheres. The relationships between the different spheres can be specified in terms of markets: the labor market (exchange of labor power), the market for commodities and services (exchange of commodities and services), the real estate market (exchange of real estates) and the money market (exchange of 'general exchange values par excellence'), each of them with specific conditions and characteristics. (7)

2.1.2. Analysis of the State (8)

I will first analyse the conditions, under which the state is assigned specific functions (e.g. nationalisation of unprofitable business, such as railroads). Secondly I will analyse the conditions, under which the state fulfills these functions. 'Function-fulfillment' is dependent on 'function-assignment,' and both are dependent on the conditions of surplus value creation and utilization of capital. By applying this formal framework to concrete situations one can analyse why the state is carrying out specific activities and not others. Those activities with respect to the social relations determine the overall functions of the state. The function of city planning by the state will be later analysed analogously; in addition there have to be taken into account the specific relations between state institu-

tions and the utilization conditions in cities.

The analysis of the conditions of 'function-assignment' to the state yields criteria which determine under what conditions 'requirements' of the society are to be met at all; secondly under which conditions they will be met by the state (and not privately). In general 'social requirements' will be met the more those 'requirements' relate to different kinds of utilization conditions (e.g. transportation not only for workers, but also for raw materials and products), to utilization conditions of different capitals (e.g. transportation not only to the location of one capital, but to that of many capitals, as in central cities), and the more the nonfulfillment of those requirements hinders the genesis, preservation and expansion of utilization of capital. The existence of such 'social requirements' depends on the development of the productive forces and the production relations (f.i. stage of capital accumulation, stage of similarities between utilization conditions of different capitals, etc.).

These 'requirements' will be assigned to the state, if they cannot be met by private capital, i.e. when this 'treatment' needs an institution, whose 'production-processes' are not dependent on direct utilization of capital as condition for further production and accumulation.

The conditions of 'function-fulfillment,' which are also the conditions of accomplishment of 'social requirements,' are the availability of administrative, financial and technical methods and resources, as well as legal institutions; these conditions also include conditions of state production processes.

The overall function of the state can be divided in the function of maintenance of capitalist production processes (by creating possibilities of utilization of capital and labor, e.g. state military or construction contracts; by eliminating 'dysfunctional' effects of capitalist production processes, e.g. welfare payments, subsidies, or actions against pollution; and by complementary production, e.g. highway construction) and in the function of maintenance of reproduction (by creating conditions for reproduction, e.g. housing subsidies; and by eliminating dysfunctional effects of reproduction, e.g. through the creation of parks). The latter functions tend to get subjugated in capitalist societies under the former. The specific function-fulfillment of the state can itself contribute to new dysfunctions.

2.2. Development Tendencies

These development tendencies describe briefly the major changes from early capitalism to advanced capitalism; they can be derived from the basic relations between capital and wage labor and the competition between capitals; they make it necessary to expand possibilities of surplus value creation and to increase the rate of utilization of capital; this expansion can be achieved both by an increase of production and an increase of productive forces by means of cooperation, division of labor and specialization (organisational progress) and the use of machinery (technological progress). This leads to an expansion of capitalist production relations, to capital concentration (increased accumulation) and to capital centralization (combination of different capitals, decrease of small

capitals).

The relations between capital and wage labor change with the increase of cooperation and division of labor; an increasing number of wage laborers work for the utilization of one capital. As a consequence capital introduces work positions with control functions (e.g. foremen) to secure capital and continuous productive labor processes. This introduces a hierarchical structure within the working class, which is reflected in wage and other differentials and therefore in means of reproduction for wage laborers. The increased use of machinery in production also changes the relations between capital and wage labor; at first the qualifications of workers are equalized; then new labor processes lead to an increase in the differentiation of worker qualifications; this leads to a further expansion of a hierarchical structure within the working class. The expansion of production expands the differentiates the relations between capitals (differentiation of capital sizes, introduction of power relations on markets between large and small capitals). The specific role of production for the development of capitalism bases on the fact that production processes are on the one hand subject of and on the other hand produce means of this development (transportation, machinery, etc); in different stages of development of capitalism, production of those products is expanded, which yield especially good possibilities for surplus value creation.

The development of concentration and centralisation of capital in the circulation sphere is dependent on the previous expansion of production, of transportation and of wages. Specific tendencies of cooperation, specialization and use of machinery, and of relations between capitals apply in this sphere in a similar way. The consumer-seller relation underlies therefore also specific changes (changing marketing strategies, depersonalization and increased commodification of the relations etc.). (9) In a later stage of the development of capitalism the circulation sphere has an increasing function in the preservation of possibilities of surplus value creation and utilization of capital, because of overproduction and the danger of stagnation.

Similar tendencies in the real estate sphere can be observed in a still later development stage of capitalism, but not independent of activities of the state. One difference to the other spheres is that real estate capitals become increasingly identical with production and other capitals in the circulation sphere, and with wages. Lease and other tenant relations are increasingly formalized, institutionalized and economically defined. The contradictory role of real estate capitals for either surplus value creation and capital utilization or reproduction (e.g. housing) gets more complex and interrelated.

The most general tendency of markets is their expansion, the rise of oligopolization and the differentiation of power on markets. The increasing complexity of markets leads to the development of specific 'market-functions' (and corresponding labor processes) to enable exchange on markets.

During the changes from feudalism to capitalism the functions of the state are decreased to control and order functions (emancipation of the bourgeois class from previous state restrictions and power) as prere-

quisite for the introduction and expansion of surplus value creation. The development of capitalist production relations produces then increasingly contradictory utilization conditions (which would hinder capitalist expansion and cannot be handled with under private capital), which make interventions of the state 'necessary.' This leads to an expansion of state activities and power, and to an increasing development of functions of the state, which focus more and more on general utilization conditions of capital and labor in all spheres and on reproduction. (70)

3.0. Development of Cities and of City Planning

3.1. Development of Cities

Up to now I have considered capitalist social relations in cities in general; now I will take up their spatial manifestation in the city. It should be emphasized that there exist structuring processes, determined by the general laws of capitalist development which lead to specific spatial structures of cities. In the next section I will trace the development of the structuring processes of cities from early capitalist cities until the institutionalization of city planning.

3.1.1. Early Capitalist Cities

Cities or communities existed already before the rise of capitalism (f.i. feudalism). Therefore there exist prerequisite spatial structures—e.g. sites, dependent on the prevailing production process, internal spatial patterns, dependent on economic and political power and the necessity of transport or traffic etc. (77)

With the introduction of capitalist production relations feudal cities were changed to early capitalist cities and new early capitalist cities were created. With the introduction of capitalist production relations it is necessary to exchange capital in part to real estate (i.e. real estate becomes a commodity, and in this case a site for a new factory). The capital has then the power over the spatial structuring of the corresponding production processes; wage laborers have no power over their structuring. New industrial sites within cities that already existed before lie next to existing structures, on transportation routes and near public utilities. In the case of newly developed cities, these sites are normally as close as possible to transportation routes, sources of raw material and water power. Frequently factories are built on agricultural land; the reason for this change is that higher rates of surplus can be produced on the same land, which becomes necessary with the compulsion to accumulate.

Commercial sites, i.e. the realization of surplus value at this early stage remain relatively unchanged; their traditional sites are in the center of the city or on crossroads.

This increasing capitalist utilization in cities creates a shortage of land, rising land values and speculation. Wage laborers have to sell their labor power at industrial sites. Capital recruits wage labor partly from existing populations in cities, but mostly from rural areas (increase of population, changes in production processes in agriculture etc.). The function of wage laborers in capitalist production relations changes their previous produc-

tion and reproduction conditions, including where they live. The surplus labor force keeps wages to the minimum level necessary for reproduction. This places quantitative and qualitative restrictions on the level of consumption, kind of housing etc. The shortage of housing for the expanded urban population in this stage and also later stages leads to increased rents, housing density and decreased quality of housing. Often housing is built by industrial capitals for wage laborers in segregated parts of the cities and adjoining to industrial sites (polarization of housing); this is a new form of capital utilization.

The spatial structures of cities are shaped by the traditional sites ('religion', state, commerce, craftsmanship, bourgeois housing around the center of the city) with additional new industrial sites, sites for wage labor housing and transportation routes. All material constructions, distribution of transportation routes etc. reflect the mode of production and reproduction of all the different social classes in spatially segregated forms.

The increasing emancipation of capital from the restrictions of the feudal state leads to the increasing influence of capital on local city administrations together with a decreasing influence of national state institutions on local ones. The activities of local city administrations are control functions (e.g. police), the provision of some utilities, and the spatial structuring of transportation routes. The local structuring of transportation routes expands possibilities of capital utilization, has an effect on the differentiation of land values and the patterns of the overall spatial development of the city.

3.1.2. *Further Development of Cities—Transportation Between Cities*

The further development of cities is determined by two factors: the spatial manifestations of the development tendencies noted above and their impact on previously existing structures. The expansion of the production of transportation equipment and facilities provides technical means of transportation, which permit the movement of goods over long distances between cities. This allows for increased transportation services and decreased time of transportation, permitting faster circulation of capital and greater surplus value creation. The pattern of these transportation routes between cities integrated sources of raw material, industrial centers and markets. This leads in part to the development of new cities at crossroads and hinders the further development of cities isolated from those routes. (12)

Better transportation facilities between cities allow for expanded capital utilization and spatial concentration of capital, and in this way increased expansion of spatial structuring by capitals for production processes with their concomitant effects on the real estate market. This leads to further shortages of housing for rapidly increasing numbers of wage laborers. The housing facilities that are built as means of capital utilization are located in old cities at the rim or periphery, where real estate prices are low and construction costs are cheap. (13) Only classes or groups with private capital or high salaries can afford privately owned housing in sep-

arated or traditionally used areas. The development pattern of cities is therefore similar to earlier stages (residential segregation and spatial expansion in 'rings' and along transportation routes). (14)

3.1.3. *Further Development of Cities—Transportation Within Cities*

Major spatial changes in the expanding cities are the rising spatial distances and therefore the rising amounts of traffic in cities. Corresponding to the development of transportation facilities between cities, there later develops public transportation within the city. Those facilities are used to get people to and from work, to sites of commerce etc. For workers their use is dependent on the wage; the use of these facilities increases the time for reproduction of labor power. The function of these transportation facilities increasingly relates to utilization conditions of capital and labor (on the level of appearances to 'interests' of production and reproduction) within cities. The spatial distribution of the transportation routes also becomes a major factor in the further spatial expansion of the city. Distances become less important in production and reproduction.

The rising importance of mass production of consumption goods versus machinery for capital utilization has its correlate in cities in a further stage in form of the spatial expansion and concentration of capitals in the circulation sphere on sites of maximum accessibility (i.e. center of cities, major crossroads or transportation routes). This leads to a decreasing diversity of uses and kinds of utilization in traditional centers and partly to new housing sites. This development, which takes place according to differentiated consumption possibilities (on both sides of production and wages), allows also for the development of new personal transportation facilities (i.e. cars) as means of production and reproduction processes. It generates rising possibilities for capital utilization by the production of these 'private' transportation facilities (i.e. automobile industry); conversely surplus value creation by the production of public transportation facilities for cities decreases. The increasing number of private transportation facilities produces changing requirements for transportation routes. (75)

3.2. *Development of City Planning and Further Development of Cities*

Until now the development of cities has been regarded as the general condition for the institutionalization of city planning. In this section, the further joint development of cities and city planning will be shown. City planning as state influence on utilization and reproduction conditions in cities and their spatial structuring process is one aspect of the growth of state functions from early to advanced capitalism. I analyse here the three development stages of city planning and describe these state functions and explain them in terms of the analysis of the state in 2.1.2.

3.2.1. *Traffic Planning*

The first stage of the institutionalization of city planning relates mostly to 'traffic planning', in specific, traffic planning as the coordination of anti-

icipation of the form of spatial structuring of transportation routes. First I will consider the conditions of 'function assignment': the changes in the utilization conditions in expanding cities lead to an increasing spatial concentration of buildings in the center of the city, to expanding center oriented traffic volumes and to a growing impact of traffic and transportation in cities for capital utilization. Transportation conditions, e.g. traffic jams in city centers, have the tendency to limit the expansion of capital utilization.

The 'treatment' of these transportation conditions if necessary for the following reasons:

- (a) if those requirements are not met, further capital utilization in city centers becomes problematic;
- (b) the traffic situation relates to different (not only specific) conditions of capital utilization (e.g. to transportation of raw materials, products and workers) and to different single capitals (e.g. different industries);
- (c) the traditional way of developing transportation routes is not more sufficient, because of the new availability of different kinds of traffic and transportation facilities with different routes and different kinds of traffic, which in turn need to be coordinated and adapted to one another;
- (d) the spatial scope of the structuring of transportation conditions is wider, the corresponding costs are greater and the scope of concrete interests in specific transportation conditions is more differentiated than in earlier stages.

The 'treatment' of those 'requirements' is institutionalized in state institutions because

- (a) traffic planning cannot be commodified, i.e. priced in the market place;
- (b) traffic planning requires too much capital and long periods of time before it is profitable;
- (c) because of the traditional state power over traffic space by specific state institutions on different levels, e.g. city, region, etc.;
- (d) the requirements relate to a too wide spatial scope, to indefinite time periods and to formally unspecific (public) use.

Now I consider the conditions of 'function-fulfillment': the organisational conditions of traffic planning are met on the city level because of traditional city level requirements and because the requirements concerning transportation conditions are concentrated in the city. This makes the realisation of private capital interests easier, also due to the fact that the city level is financially dependent on these capital units. The production conditions of traffic planning are mostly separate institutions for planning without power over decisions. The legal conditions are limited to the power over existing state traffic space. The technical conditions depend on the development of planning and building techniques (in general on the development of the productive forces).

Correspondingly the contents of traffic planning activities are to draft a map of transportation routes, which involves routes from the outlying areas to the city center and connections to long distance transportation routes between cities; this expands the hierarchy between different

transportation routes. The planning process from the draft until a realisation, in spatial structures, develops further also the intermediate limiting conditions. In the first development stage of city planning its realisation will be started only at places where traffic is most concentrated.

The function of traffic planning is dependent on how much planning is actually realised and therefore also depends on the creation of means of realisation. The realisation of traffic planning (as described above) has the function of preserving and expanding capital utilization, especially for capitals in the circulation sphere, which are located in the city centers, production capitals on the connecting transportation routes, and real estate capitals on route adjoining sites (land value increases). By building new traffic facilities, direct utilization possibilities for private capitals are created (e.g. construction industries, automobiles etc.). At the same time dysfunctional effects may be eliminated, since the need for traffic planning arises from capitalist organization of production, circulation and real estates. As a consequence, however, traffic planning may become dysfunctional in new ways. A further function of traffic planning is the determination of new city development according to the kind of planning actually realised.

For specific reasons the planning of housing is *not* institutionalized in state institutions, even so, it can be shown that the coordination and anticipation of housing needs in cities (with respect to their construction and availability) poses a social requirement. (76) The state reacts to housing problems by providing financial aid only for privately built housing. This indirectly has a 'positive' function for preserving and expanding capital utilization (e.g. construction industries, sale of consumer durables etc.). State financial aids for one family housing units for the wage labor group have ideologically integrative and legitimizing functions, in addition to their effects on city development ('urban sprawl') and community services. (17)

3.2.2. Zoning and Traffic Planning

The second stage of city planning is 'zoning' as well as further traffic planning. The introduction of 'zoning' requires a certain expansion of state power over the structuring of not only public, but also private space. 'Zoning' is a kind of planning that consists of the coordination and anticipation of the different kinds of utilization and use of all real estate (utilization of production, circulation and real estate capitals, use of housing and state property for traffic facilities, open space and other uses).

The further expansion of capital utilization in cities leads increasingly to a differentiation and hierarchy between cities in terms of the relative sizes of capital wealth and power, area and population. The tight market situations on both the real estate and building markets lead to continual price increases of real estate, rents and buildings. The structuring of space in the larger cities, i.e. metropolitan areas, is more and more limited to large capitals and state institutions. Metropolitan areas tend to develop specialized areas for specific kinds of utilization and use only (mixed kinds are the result of transitional areas).

The distribution of real estate according to economic power exercised in

the market and also according to the results of capitalist development patterns produce requirements which focus on a different distribution of real estates for different kinds of utilization and use. A 'treatment' of these requirements is needed for all different kinds of capital utilization in metropolitan areas and relates to all kinds of capitals in different ways; it also relates to the way the state uses real estate, as well as to state power and the degree and type of financial dependence of the state on capital.

The treatment of these requirements is again assigned to state institutions because of: the above mentioned needs for all different kinds of capital interests; their spatial range; the state monopoly to create legal means of power over space; and finally because of the lack of a private market for such a service.

The organisational conditions of 'function fulfillment' (a) are again determined on the city level (it should be noted that city boundaries owing to the possible expansion interests of city governments change); within city governments state 'production processes' of planning are mostly organized separately. These conditions of function fulfillment also include: (b) legal means to restrict private utilization and use are created by the state on different government levels (e.g. condemnation proceedings); they correspond to existing power relations and utilization conditions in cities; (c) the limited financial resources of cities limit the direct power of state institutions to control space by buying up property; the overall financial possibilities of cities deteriorate in comparison to their requirements; (d) the power influence of private capital on zoning is possible, because city governments are financially dependent on them (i.e. city revenue from taxation), furthermore there is a direct relationship between kinds of zoning and kinds of real estates; (e) the stage of productive forces influences directly different 'needs' of real estates and areas and therefore indirectly the process of zoning; (f) the development stage of planning techniques based on the past development of cities and a reaction against their perceived dysfunctional effects; this is exemplified by the garden cities and neighborhood units ideologies of planners.

Zoning provides for a distribution of real estate utilization and use, which to varying degrees is orientated to existing structures. The tendency is for densities to decrease steadily from the center of the city to the suburbs. In the city center are concentrated sites for capitals in the circulation sphere (commerce, finance, administration, services) and state activities. Housing is concentrated on the outer perimeter of the metropolitan area, and production is located on major transportation routes. The distribution pattern is such that there are as few mixed areas as possible.

This kind of zoning has the function of stabilizing existing distributions in part, but it also may have a small impact, since zoning regulations can be applied only in a restrictive sense in cases of changes in the kind of utilization or use of real estate. Zoning leaves existing distributions unaffected. This function also depends on the relationship between existing distributions and the intended ones. Zoning can have the function of stabilizing utilization processes in so far as it provides for new sites of capital utilization. In so far as it does so, it might prevent some dysfunc-

tional effects of capitalist distributions patterns. Zoning for housing has the function of stabilizing both utilization processes and reproduction processes. The concept of rigidly separated kinds of utilization and use leads to increased traffic volumes and eventually to increased markets for automobiles. Zoning has some impact on real estate prices and speculation, but it cannot create a 'rational' distribution pattern. Capitalist market conditions on the real estate market are only marginally changed. Direct influence is only possible by means of public real estate ownership.

The development of traffic planning in the second stage is determined by its initial state and by the increases in transportation and traffic volume, which takes place in cities and between cities. These requirements lead to expanded traffic planning in cities and to the institutionalization of traffic planning between cities and on different state levels; the latter then becomes a further condition for planning in cities. The rising requirements of traffic planning increase their financial means and 'production processes', partly by state aid to cities and partly by the increased income of cities. More advanced planning techniques provide more exact measurements of traffic volumes and density, which yield guidelines for planned capacities.

The center oriented concept of traffic planning is expanded; circular traffic routes around city centers in different distances from the city center are added. The same distribution pattern is used for public transportation facilities. At this stage traffic planning and zoning have not yet been coordinated. The amount and scope of actual traffic planning increases and so does its real functions. The functions in the second stage of planning are similar to the ones described above, the exception is an increase in the stabilizing functions for reproduction. Those functions, however, are interrelated to stabilizing functions in the production sphere.

3.2.3. *Comprehensive City and Regional Planning*

The third and thus far last development stage—comprehensive city and regional planning—relates to the continual orientation of planning to the coordination and anticipation of all space structuring processes; for example planning is coordinated for whole regions and anticipated for long periods of time, such as 30 rather than 10 years. The further changes in metropolitan areas result in a continuing discrepancy between traffic volumes and facilities and between housing and supply. The expansion of large capitals leads to a diversification of the sites of one capital, in the case of capital in the circulation sphere their sites are increasingly located also in residential areas (e.g. supermarkets).

Increasing areas of city centers are dominated by capitals in the circulation sphere. Partly they rehabilitate and redevelop building structures privately, and in this way create new utilization possibilities. Partly deteriorating old building structures in city centers lead to new function assignments for state institutions (e.g. urban renewal). Increasingly large real estate capitals build whole residential areas (these are often realizations of ideological planning ideals). In metropolitan areas the private

housing of wage laborers appear more and more in the form of them owning parts of buildings (e.g. condominiums).

These situations in housing, distribution patterns, traffic, rehabilitation, redevelopment etc. in metropolitan areas create for similar reasons as mentioned above a further function expansion of state institutions over the spatial structuring processes in the form of comprehensive city and regional planning.

Changes in the conditions of function fulfillment relate to:

- (a) coordinated planning institutions on different state levels, where the local levels are increasingly dependent on higher levels; (18)
- (b) decreasing influence possibilities of single capitals in comparison to capitals that have a society wide impact on utilization;
- (c) increasing legal power of state institutions in so far as the application of that power does not limit major capital utilization interests;
- (d) increasing costs of planning in the society, but also decreasing financial possibilities in cities;
- (e) a rising dependence of local planning on society wide economic planning;
- (f) rising bureaucratization of state production processes and the professionalization of planning;
- (g) further development of coordinated planning techniques;
- (h) an increase of local function fulfillment for reproduction processes, which makes legitimizing and integrative processes necessary (e.g. citizens participation);
- (i) further ideological city planning concepts, such as the 'urbanity' concept, that areas should have mixed rather than segregated utilizations and uses (the origin of this relates to past negative experiences with such manifestations of the ecological segregation as e.g. 'bedroom cities', and the existing economic and real estate restrictions.)

The changes of the contents of planning determined by the above conditions result in the provision of some housing in city centers and partly more mixed patterns in residential areas (private and public services, recreation, commerce etc.). The planning expands geographically and is done for longer periods of time. Rehabilitation and redevelopment planning is provided for old buildings. The differentiation of traffic and transportation leads to further hierarchies, e.g. from freeways at the top of the hierarchy to residential streets, and spatially to society wide networks; public transportation facilities are expanded throughout metropolitan areas.

The functions of this third stage of planning are a continuation of the functions of earlier stages through the increasing realization of comprehensive planning. The functions relate more and more to society wide utilization processes. Rehabilitation and redevelopment create new utilization possibilities and better financial income for local state institutions. Increasingly comprehensive planning stabilizes and controls reproduction processes and determines metropolitan developments. (19)

4. Conclusion

The crucial problems of city planning lie within the fact that it is both determined and at the same time limited by capital utilization. City planning can only be reactive to the constraint of preserving capital utilization and surplus value creation, even so the development of cities and city planning indicates a decrease of private and an increase of the state structuring of space.

The problem of finding possible approaches for changing those development tendencies must be related to real changes in the function assignment and function fulfillment process and to the possibilities for political activities. Since city planning affects reproduction processes directly and production processes for wage labor only indirectly, the following organizing problem arises: to what extent can people be mobilized around issues of city and regional planning? (20)

FOOTNOTES

1. This article is a revised short summary of the author's *Stadt und Stadtplanung. Ein Ansatz zu einer sozialwissenschaftlichen Theorie*, Diplomarbeit am Soziologischen Institut der Universität München, 1971.

2. The analytical instrument for the analysis of this relationship is the concept of 'function,' which is meant to be a historical category with regard to its contents. Its contents are determined by the labor process with respect to the social reproduction process.

3. The relationship between 'power' and 'space' is one of the major questions, which lead to this approach. Space will be regarded here as determined negatively, i.e. in the way space is limited or determined by means of built structures (material factors). This makes clear that space is heavily dependent on both the production relations and the productive forces (and their stage of development). This yields a social, economic and political determination of space and allows for questions about the structuring of space (formation process of space by people, classes and groups and their different possibilities and roles within this process).

4. In this paper it is argued, that surplus value is produced in production and realized in circulation; furthermore capital in the circulation sphere is utilized; whether this means that surplus value is also produced in the circulation sphere will not be discussed here. Therefore I will use the general term of *utilization* of capital, which refers to the production and circulation sphere and means the capitalist use of capital.

J. O'Connor lately suggested to apply surplus value creation to production and circulation, in opposition to the 'orthodox' interpretation (see his forthcoming book).

5. This determination functions with respect to social, economic and political factors and to space and lifetime; e.g. the wage labor group is dependent on the wage in its possibilities to consume and to live, furthermore on the spatial organization of production processes and this organization with respect to time; the same is valid for the possibilities of this group to structure space; it is to different extents dependent on the structuring, which is done by capitals and by the state, both in the sphere of production and reproduction.

6. Relations between workers are not yet fully incorporated into this approach; their analysis is necessary, e.g. for activities of worker organizations concerning cities and city planning.

7. These conditions and determinations are named in the long version of this approach, especially in more detail for the real estate market.

8. This analysis of the functions of the state is described mainly with respect to instrumental state functions. For ideological, legitimizing state functions see:

Offe, C., *Strukturprobleme des Kapitalistischen Staates*, 1972;
Offe, C., *The Abolition of Market Control and the Problem of Legitimacy*, *Kapitalistate*, No. 1, 1973,
Sardei-Biermann, S., Christiansen, J., Dohse, K., *Class Domination and the Political System*, *Kapitalistate*, No. 2, 1973;
Habermas, J., *Legitimationsprobleme im Spätkapitalismus*, 1973;
O'Connor, J., *The Fiscal Crisis of the State*, 1973;
Rubinson, R., *The Political Construction of Education*, Doctoral Dissertation, Stanford University, 1973.

This analysis of the functions of the state can be derived from an analysis of the relations state — workers and state — capitals, which can be only outlined here:

The relationship state-workers can be a state production process and a citizen relation. For the state-worker production relation it would be necessary to determine state production, as f.i. use value production, as Offe does it (in Offe, C., *The Abolition of Market Control and the Problem of Legitimacy*, op. cit.), as surplus value consumption and as indirect surplus value creation, as O'Connor does it (see O'Connor, J., *The Fiscal Crisis of the State*, op. cit.), or in a similar way, which determines the relationship between state production and surplus value creation.

The determination of the state-worker citizen relation, has to be based on a theory of political incorporation of the bourgeois class (see e.g. Habermas, J., *Strukturwandel der Öffentlichkeit*, 1962) and of political incorporation of the working class (see e.g. Rubinson, R., *The Political Construction of Education*, op. cit.).

It can be argued that with the rise of capitalism, capitalist interests get institutionalized within the state; the political incorporation of the working class, which expands formal equal rights to all people, follows the development of capitalism, after the extension of apparently equal positions to all people on markets, as buyers and sellers.

A further analysis of political incorporation of the working class would explain the contradiction of formal equal rights of all people and their actual class position, i.e. class inequalities, as well as the contradiction between formal equal rights and actual state power; this could lead to a further explanation of f.i. citizen participation in planning.

The analysis of the state-capital economic relationship is dependent on the determination of the relationship between state production and surplus value creation.

9. See Sardei-Biermann, S., Christiansen, J., Dohse, K., *Class Domination and the Political System*, op. cit.

10. For literature on section 2. see the following:

Marx, K., *Capital*, Vol. I, II, III
Marx, K., *Grundrisse*
Marx, K., *Early Writings*
Dobb, M., *Studies in the Development of Capitalism*, 1963
Habermas, J., *Strukturwandel der Öffentlichkeit*, op. cit.
Habermas, J., *Toward a Rational Society*, 1970
Mandel, E., *Marxist Economic Theory*
Marx, K., Engels, F., *The Housing Question*
Baran, Sweezy, *Monopoly Capital*
Sweezy, *The Theory of Capitalist Development*
Hobsbawn, *Industry and Empire*
O'Connor, *The Fiscal Crisis of the State*, op. cit.,
Offe, C., *Strukturprobleme des Kapitalismus*, 1972
Bendix, R., *Work and Authority in Industry*, 1956
Hall, H.H., *Occupations and the Social Structure*
Burns, T., *Industrial Man*, 1969
Schumpeter, J.A., *Capitalism, Socialism and Democracy*, 1942
Polanyi, K., *The Great Transformation*, 1944
Weber, M., *Economy and Society*
Birnbaum, *The Crisis of Industrial Society*, 1969
Bendix, R., *Nationbuilding and Citizenship*, 1964
Luckmann, T., Berger, P.L., *Social Mobility and Personal Identity*, 1964

11. The analysis of the feudal city is not presented in this short summary.

14. See e.g. Park, R.E., Burgess, E.W., (eds.), *The City*, 1925, 1967

15. For literature on section 3.1. and on section 3.2. see footnote 19

16. This argument is shown in detail in the long German version of this approach.

17. See e.g. Kallmunzer, M., *Zur Kritik der Eigenheimideologie*, Diplomarbeit am Soziologischen Institut der Universität München, 1971

18. The relationship between different state levels and the differences within their policies could be derived from a theory of political incorporation and the further determination of state-worker and state-capital relations, see footnote 8.

19. For literature on section 3.1. and 3.2. see e.g. Reading Lists in *Radical Political Economics*, URPE, Dec. 1971 and

Abrams, C., *The City is the Frontier*, 1965
Altshuler, A.M., *The City Planning Process*, 1967
Ashworth, W., *The Genesis of Modern British Town Planning*, 1954
Babcock, R.F., *The Zoning Game*, 1969
Bollens, J.C., Schmandt, H.J., *The Metropolis*, 1970
Bollens, J.C., *Exploring the Metropolitan Community*, 1964
Creighton, R.L., *Urban Transportation Planning*, 1970
Engels, F., *The Situation of the Working Class in England*
Erber, S., ed., *Urban Planning in Transition*, 1970
Gottmann, J., *Magalopolis*, 1969
Greers, S., *Governing the Metropolis*, 1962
Gutkind, E.A., *Urban Development in the Alpine and Scandinavian Countries*, 1965
Howard, E., *Garden Cities of Tomorrow*, 1914
Jackson, J.N., *Surveys for Town and Country Planning*, 1963
Kaitz, E.M., Hyman, H.H., *Urban Planning for Social Welfare*, 1970
Lowe, J.R., *Cities in a Race with Time*, 1967
Martindale, D., Neuwirth, G., ed., *The City*, By Max Weber, 1958
Netzer, D., *Economics and Urban Problems*, 1970
Owen, W., *The Metropolitan Transportation Problem*, 1966
Pahl, R.E., *Patterns of Urban Life*, 1970
Park, R.E., Burgess, E.W., *The City*, 1925, 1967
Rabinovitz, F.F., *City Politics and Planning*, 1970
Reissman, L., *The Urban Process*, 1964
Riener, S., *The Modern City*, 1952#
Rodwin, L., *The British New Towns Policy*, 1956
Rossi, P.H., Dentler, A.R., *The Politics of Urban Renewal*, 1961
Warner, S.B., *Planning for a Nation of Cities*, 1966
Wirth, L., *Community Life and Social Policy*, 1956.

American readers in particular will be interested in a newly-established newsletter directed at radical urbanists, including community organizers and advocate planners, as well as academicians. Four highly interesting issues have already appeared. To get it, please contact Chester Hartman, 360 Elizabeth Street, San Francisco, CA 94110, and enclose a small contribution.

URBAN STRUCTURE AND STATE INTERVENTIONISM

By Adalbert Evers

Many crisis symptoms in urban structures are no longer merely problems of local community planning, but have become the object of policies at all levels of government. (1)

The reason for this lies in the differentiation and disparate development of urban structures, which is a consequence of national frameworks of production and exchange. We will investigate this larger context of community planning and the sources of the changing pattern of state intervention in urban affairs (sections I and II). Next, the changing functions of the local institutions of the state will be considered (III). Our survey of (a) the national economic context of urban problems; (b) changing patterns of state intervention; and (c) changing functions of local governments will permit us to formulate hypotheses and draw certain conclusions about the present form and future development of social conflicts (for the most part removed from traditional wage and labor struggles) which are challenging and changing current urban living conditions.

I. The Law of Value and State Intervention: The General Politico-Economic Determination of the Development of Urban Structures

The law of value is the inner regulator of the capitalist mode of production. Its mediation through the process of price formation brings about the general equalization of profit rates among individual capital units within different sectors of the economy. But this equalization of profit rates occurs within the context of important inequalities of the conditions of reproduction. The inequalities of the natural conditions of production does not permit production in certain geographic areas nor the urban development that goes with it. Conversely, one of the primary causes of capital agglomerations springs from the regional or local monopolization of natural advantages, such as fertile soil. Beyond these primary limitations, which tend to diminish with the continuing development of the productive forces, there are other limitations which are determined by the

conditions of capitalist reproduction. We mean both those conditions of reproduction which are internal to the process of production (e.g. constant capital) and those which are external (e.g. infrastructure). For the time being, we ignore the fact that the latter are mainly financed and allocated by the state as "general conditions of production." Real inequalities in rates of profit correspond closely to the inequalities of these conditions of reproduction.

The conditions for achieving greater or surplus profits over a given period of time are: (a) changes in the rate of profit through changes in the rate of surplus value; (b) increases in the productivity of labor through the introduction of improved conditions of production or through more economic use of constant capital, thus decreasing the expenses of production; (c) accelerating the circulation of capital in order to expand the mass of applied productive capital in a given time span. These three ways of expanding profits can be achieved either by changes in the *internal* structure of the process of production, or by changes in its *external* conditions: (a) by increasing the intensity of labor in the process of production above the average, or by exploiting regional differences in the external conditions of reproduction of the labor force through the export of capital or the migration of the labor force from one region to another; (b) by utilizing new machines and technologies, or by changing the external conditions of production (e.g. introduction of new and improved modes of transportation), by economizing on constant capital through changes in the size of the plant, by using the advantages of advanced stages of development of particular geographic areas, thus permitting new methods of work; (c) by increasing the circulation of capital through changing the structure of a given plant, (e.g. new methods for the storage of materials), through improvements in the means of transportation within a given region.

We can draw the following conclusions about the relationship between the spatial distribution of production and the competition of the various capital units. First, there is a specific relationship between the type of industry and the productivity of labor in a given plant and the specific character and level of development of the external conditions of production (necessary "infra-structures"). (2) Second, each individual capital unit is limited in its choice of location by the nature of the material preconditions necessary for its particular production process. Given the choice between various locations, it is certain to choose that location which on the average provides the greatest cost advantages, thus permitting the most favourable utilization of invested capital. Third, the equalization of rates of profit or the disappearance of surplus profit as a result of the operation of the law of value means that if production is taking place in different locations capital agglomeration will occur through the influx of capital units which seek to take advantage of locally or regionally specific, non-mobile conditions of production.

We have seen that there is the possibility (and necessity) of spatial differentiation in levels of development and types of production. Hence there must be corresponding differences in urban structures as well. The actual contours of the concentration of production, circulation and consumption in a given locality is determined mainly by the distribution of surplus profit (a concentric pattern in the various urban structures is most common). (3) The relationship between landownership and industrial and commercial capital is one of the main factors in the relocation of production, due to the increased cost of expansions and the impediment to optimal allocation of various functions. (4) Changes in the spatial distribution and level of development of urban structures (or alternately, the stability of surplus profit) are basically dependent on the mobility of capital and the labor force. In turn, this mobility depends on the actual nature of the capital employed: the greater the percentage of capital tied down as fixed constant capital, the less mobile it is; the greater the specialization of the labor force or its local social ties, the more difficult it is to move workers from region to region or sector to sector.

The intervention of the state with respect to the utilization and spatial distribution of capital can be summarized under four central headings: (a) the creation of general material conditions for the utilization of the individual capital units (i.e. infra-structure); (b) the creation and enforcement of a general framework of law; (c) regulation of the conflict between wage labor and capital, not only by means of law, but also through use of police and military forces; (d) securing the existence and expansion of national capital as a whole on the capitalist world market. By influencing the law of value and the formation of an average rate of profit the state both modifies and guarantees the realization of this law. The State modifies it by withdrawing part of the newly produced value from its normal pattern of distribution according to the law (e.g. taxes). The state functions as a guarantor of the law of value by helping to secure its operation. It both sustains and modifies the spatial distribution of capital (and hence the agglomeration of urban structures) in many specific ways:

(a) Conditions of production financed or directly allocated by the state have the same use value as those produced as commodities by capital for sale on the market. They increase the productive power of labor. The spectrum of state intervention in regional and local conditions of production includes financial measures, policies influencing the regional structure of industry, and infra-structural policy (e.g. state production and distribution of energy). In these ways the state changes existing regional and local differences in the conditions of production and urban structures themselves. The state also works towards the equalization of the conditions of production (e.g. by expanding and thus increasing the accessibility of the infrastructure). Thus by permitting better communication between existing agglomerations, new potential locations for investment

and agglomeration are created as a by-product. The state is also in a position to finance the infrastructural preconditions for opening up new regions. On the other hand, the state also perpetuates existing inequalities to the extent that it is forced to provide the external conditions of production (infrastructure) in those areas where they are already in demand, i.e. to maintain or improve the conditions for the extraction of surplus profit by individual capital units in specific regions and cities.

(b,c) The creation and enforcement of a general framework of law provides the non-material conditions of production for the capital units. This ensures (guaranteed by the omnipresence of the police and the courts), that existing exchange relationships can be expanded.

(d) The state secures the existence and expansion of the national capital on the world market and the regulation of the international flow of money capital, commodities and labor-power, which has a two-fold effect: first, it promotes the development of a national framework of production and exchange within which the advantages of various agglomerations can be compared and related to one another; second, expansion beyond the national market means that changes in the conditions of production become dependent on the functioning of the law of value on the world market. Production conditions are thus externally determined and capital compares the advantages of different locations internationally.

This relationship between the development of individual capital units, the conditions of reproduction, state transfers of money, and state-financed and allocated use-values is both *complementary* and *contradictory*. The interests of individual capital units correspond to a decentralized mode of *ad hoc* allocation of necessary conditions of reproduction by the state. Local government allocations enhance existing local advantages in response to the requirements of local capital. But the interests of individual capital units contradict state allocations of the conditions of production which relativize the advantages of location of traditional urban agglomerations, (e.g. by the provision of infra-structure for "internal colonization"). Historically, state allocation of the new value produced in particular cities and regions which is extracted in the form of taxes and fees, did not occur just within the limits of the location in which the new value was produced. This value was rather centralized in a financial fund and re-allocated by the state in a general process of financial accommodation between the various regions and cities.

The inter-relationship between capitalist development and state policies results in more than regional differentiation in general. It results in specific contrasts between city and countryside, a reciprocal relationship within which both development and underdevelopment are reproduced. This is not logically deducible from the structural model of capitalist society, but must be studied in its concrete historical development. The establishment and development of capitalist production and urban centers

is a process of uneven development. The imprints of pre-capitalist structures are still to be found in urban structures. The various stages of one or more modes of production exist not only subsequent to one another but also simultaneously. The most significant stages are: first, the historical establishment of the capitalist mode of production in Europe takes place in various pre-capitalist municipalities, which capital restructures. At the same time previous modes of production continue to exist in the surrounding area. In this respect the contradiction between city and country manifests itself as a contradiction between different modes of production; second, the consequent superimposition and replacement of pre-capitalist structures and the opening up of new regions by individual capital units is not simply a repetition of what had taken place before. Some specific characteristics of backwardness in certain regions, (e.g. low wage levels) now become favorable locational factors. The contradiction between city and country and differing standards of living in various villages, cities and agglomerations appear as development and under-development reproduced by capitalist relationships themselves; third, the perpetuation and intensification of the contradiction between city and countryside within a national framework is less significant today. The comparison of potential locations by capital units increasingly takes place on a European and even world scale. In this way, the developmental differences between European periphery and metropolitan areas becomes greater. Not only do the "advantages" of various underdeveloped regions within the metropolitan countries become more relativized, (6) but even the further development of these agglomerations is no longer exclusively determined by the deglomeration effects produced within them. Rather, this process is increasingly influenced and determined by the number of cities, locations and regions now entering into the international competitive network. The retrogression of agglomerations is comprehensible within an international framework of analysis alone. (7)

II. The Necessity for the Modification of State Intervention with Respect to the Spatial Differentiation of Urban Structures.

In the traditional complementary relationship between state policies and capital development, the phenomenon of differing and contradictory social and economic development in the various regional areas plays a subordinate role. Nevertheless, the state policies had significant (and unintended) effects on the process described above. The first efforts at regional planning by the central state were land use policies that reached existing municipalities. Their aims were so general that they were no more than commentaries on the divergent development of cities and countryside which was taking place. In the Federal Republic of Germany, attempts at regional planning through financial subsidies ranked very low on the priority scale of state policies as measured by the amount of money expended. At most, they alleviated some of the social conse-

quences of city-countryside development and underdevelopment through subsidizing middle-class structures outside metropolitan areas. On the other hand, *direct* state economic policies (which were most significant) mainly intensified developmental differences.

State economic activities which are important for differential regional development can be summarized under the following general categories:

(1) *State infrastructural policies*: Planning, operating, and financing conditions for the reproduction of capital which the development of capital requires but which cannot be provided on a profit basis assume a key position in the intensification of the contradictions between city and countryside. Decentralization modes of allocation and planning of urban infrastructures in accordance with local and regional needs helped to maintain and expand advantages in the conditions of reproduction in limited areas. This complementary relationship between local capital and government reinforced and further intensified differences in development. (8)

(2) *State structural policy*: The direct intervention of the state into the particular conditions of reproduction of individual capital units through the allocation of financial inducements was concentrated on the most rapidly developing branches of the economy and the major agglomeration centers favored by those branches. Regional structural policy-makers pursued a strategy of social appeasement, *i.e.*, industrial structures with below average productivity were subsidized without opening up new avenues of development. Or, in the course of state-enforced structural transformation, for example, they incorporated peasants into the labor force in agricultural areas, increasing the city-countryside polarization.

(3) *Cyclical policy*: Attempts to cope with the symptoms of industrial cycles on a short term basis had the effect of differentiating between regions. Cyclical crises not only increase the centralization of capital, particularly smaller capital units and regions with less diversification of production, but also influence the degree of spacial concentration of capital. A restrictive state budgetary policy intensifies the spatial concentration by making cuts in those infrastructural services and financial support where state support can be effective only on a long-term basis.

For many years the societal and regional consequences of the complementary relationship between private capital development and state policy have been ignored. But in recent years it has become necessary to reform state policy partly because crises in the countryside were intensified, and partly (this being essentially new) crises appeared in precisely the most advanced areas of agglomeration. These latter crises are a barrier to further capital development and also to the maintenance of state services in these areas. The state first began to alter the complementary relationship between state policy and capital concentration in those areas where these problems occurred the most rapidly and at the highest level.

Isolated compensatory policies, such as the classic type of regional structural policy in rural areas, required the expenditure of money from state funds which had relatively little impact on the pattern of capitalist development. Even in the eyes of official critics, regional structural policy merely subsidized the costs and production prices (designed to influence businessmen's decisions as to the location of their enterprises) without changing the geographic pre-conditions of alternative locations themselves. Regarding the necessary minimum standard of infrastructural supply, costs to the state are increased by a decreased concentration of the population and capital in areas of agglomeration because additional financial support per capita for any decrease in the density of the population in declining areas is needed. (9) The existing urban structures and their expanded reproduction in areas of agglomeration generate further increased costs. The growing separation of the functional elements of the reproduction process requires extensive transportation facilities. The lack of space and a general rise in the price of the environment and a worsening of living conditions require compensatory measures. If these and other mechanisms are not to enter into the costs of the specific capital units (*i.e.*, if they are not to become perceived as location disadvantages), state agencies must make compensatory investments in order to maintain local advantages and urban development. The securing of minimal supply facilities in underdeveloped areas, on the one hand, and the reproduction of over-agglomeration, on the other hand, required the subsidized maintenance of profitable reproduction for the individual capital units. The individual capital units thus produce in a socially wasteful manner. This results in rising state expenditures and, in the long run, a general fall in the average rate of profit.

State externalization of the losses of private production is no new phenomenon. However, the problem has reached such proportions in the Federal Republic of Germany that measures have been taken to reform or transform this particular capital-state relationship. Putting aside the specific circumstances which made a policy change necessary, (10) we can indicate the central characteristics of the present period of transition.

(1) *The Rise of Contradictory Factors in the Complementary Relationship Between Capital and State Intervention*: As we have seen, state policy in the past reinforced "natural" processes of regional differentiation and agglomerated development and compensated for the socially negative effects. Now the state is forced to intervene directly and correctively in this process, thus contradicting specific local and regional interests of the capital units themselves. The latter must rationally invest the funds available for infrastructural and structural policy, but the concurrent state "calculi of optimality" with respect to regional development and the allocation and the internal organization of municipal structures do not always coincide with the immediate demands of capital. Thus, a compromise

must be sought.

(2) *Centralization of Responsibility and the Delegation of Tasks*: An effective policy aimed at correcting the process of regional differentiation ultimately depends for its success on converting the complementary relationship between local capital units and communal and regional governments into a looser one. It further depends on the degree to which the central state can influence these local and regional governments in the interest of capital as a whole, as well as the degree to which it can delegate necessary tasks to the respective regional and community levels of government.

(3) *The Regionalization of State Development Policies*: The incorporation of the problem of regional differentiation and the internal organization of urban structures into an economic growth policy of the state requires more than isolated regional structural policy. It becomes necessary to regionalize the various spheres of central policy-making themselves to effectively co-ordinate them with the plans and programs of regional development policy.

(4) *Reform of the Means of Implementation of State Intervention*: A process of adaptation within the administrative bureaucracy is both a condition and a consequence of the transformation of state intervention we have described. Reform of administrative structure can take the form of new territorial delineation or changes in the inner workings of administrative agencies in order to avoid unintended policy conflicts. At the same time a reorganization of the system of taxation and disbursement, as well as the modes of state investment and budgetary planning, also becomes necessary.

III. *The Role of the Local Government in Restricting and Modifying State Intervention.*

An examination of the changing significance of local community planning and its tasks is important because the community is the focus of most political initiatives and struggles concerning problems of living conditions. The traditional tasks and the relative autonomy of the communities within the German federal framework served both as a restriction on and as the object of reforms in the mid 1960's. This can be briefly illustrated with respect to the characteristics described in section II

(1) *Rise of contradictory factors*: A major portion of state finances (roughly one fourth) was decentrally consumed, invested, or transferred by particular communities. On the income side of the ledger, federal funding rose steadily. But well over one-half of local budgets came from local tax income, three fourths from business taxes alone. The expenditure of this state income mediated by community competition for industries with growth and development potential was determined by local and regional interest-constellation of capital. Industry already located in the

community was guaranteed a high degree of influence owing to the financial dependency of the locality. (12) Most communities possessed neither the economic nor the political power to modify the legal framework within which the reproduction of capital took place.

In this situation, state policy-making was forced to act according to disparate *ad hoc* requirements. This resulted in intensified contradictions between highly developed agglomerations and less developed areas with all the negative consequences both for the state and the individual capital units which we have described.

(2) *Centralisation of responsibility*: The lack of centralization in individual areas of policy-making seriously restricted the state's capacity to make policy on a regional basis. The communities' contribution to investments in infrastructure (so significant for regional differentiation and municipal development) is much greater than their contribution to the state budget as a whole. (13) The utilization of these funds according to local or regionally limited optimalization calculi (*i.e.*, the decentralized mode of planning and allocation of infrastructures) created a major barrier to effective state wide development policy. Conversely, there was no method of forcing the communities to contribute to the costs and to participate in the tasks of even traditionally centralized anti-cyclical budgetary policies.

(3) *Regionalization*: Not even the remaining (and relatively substantial) funds still available to the federal and state governments were spent for regional goals; nor were these expenditures even regionally coordinated. Their allocation took place according to individual department level planning. With respect to the intended regional policy, there existed a two-fold dilemma: on the one hand, the state was deprived of significant financial means and areas of intervention due to relative decentralization; on the other hand, the existing guidelines and programs for regional planning were not binding for the various departments.

(4) *Reform of the means of implementation*: In addition to the state tasks and distribution of responsibilities we have described, there were other problems, *e.g.* the inefficiency of local bureaucracies and the legally-fixed and traditionalized modes of levying, allocating, and planning finances. There were many small entities which could provide neither business-like efficiency in their administrative activities nor financial services for the continuation and expansion of social and economic development. Conversely, classic metropolitan areas found themselves threatened by stagnation and a drying up of financial resources, as a result of fixed community boundaries and an exodus of firms with development potential. With a large part of budget resources tied to the existing local level of industrialization, the exclusively formalistic approach to revenue-sharing and the impossibility of estimating in advance or even controlling community contributions to state expenditures and receipts made a reform of the system of revenue sharing and the position of the com-

munities within this complex urgently necessary.

By 1973, a large number of the state reform measures which apply specifically to communities had been implemented. (Another part of this program is still in the planning stage.) With reference to the characteristics delineated in Section II, we can make the following points with regard to the position of the communities.

(1) *Rise of contradictory factors*:

At the state and federal government level, the concept of a hierarchical "central locality" arrangement of urban structures has become accepted as a guideline. For the less developed rural areas, this means that state support is concentrated in a few key areas with high development potential, in comparison with traditional wide-spread maintenance subsidies. If this can be enforced in the interest of big capital and against that of medium-sized capital and lagging firms, the concept of hierarchical multicentered urban development within particular agglomerations still remains difficult to realize. The more powerful central state determination of the mode of reproduction of capitalist urban structures seems to be heading in the direction of an extended reproduction of the same *mono-centric* type of municipality (including the accompanying heavy social costs). But the effects of the central-locality model on the individual communities is different. The intensification of internal differentiation both in rural areas and areas of agglomeration (*i.e.* the concept of concentrating on a few key areas) means supporting the development potential of a few areas at the cost of supporting many different areas.

(2) *Centralisation of responsibility*:

The concentration of political authority with the aim of enforcing the new concept of regional and municipal development took place in Germany with the passing of the "Stability Act" of 1967 and the "Finance Reform Act" of 1969. (14) The centralization and coordination of a number of responsibilities which had previously been exclusively within the authority of the communities and the states took place mainly in the field of infra-structural and structural policy-making (*e.g.* establishment and expansion of universities; improvement of regional economic structures; educational planning; promotion of scientific research; promotion of municipal construction; hospital financing; and the allocation of funds for housing programs). This meant that supporting the development potential of a given community was no longer based on formal legal and supervisory criteria, but rather on the way that federal or state governments classified the development potential of the various communities and provided infra-structural and structural funds (the expenditure of which was limited to certain specified purposes) according to regional or national optimalization calculation and requirements. The Stability Act forces the communities to contribute to the cost of decentralization, anti cyclical budgetary and monetary policies. The general limitations on

governmental expenditures, as well as the limit on the amount of credit the communities can have based on criteria relevant to the economy as a whole, subordinates them to regional variations in the business cycle. It also subjects the communities to the ups and downs of the national business cycle, mediated by centrally-controlled crisis management programs.

(3) *Regionalization:*

State development plans and the Federal-Planning-of-Regional-Development Program (Bundesraum ordnungsprogramm) are attempting to determine the policies within the individual departments that are most important for regional planning, and to relate the work of these departments to regional development goals. Diverse possibilities for the exercise of state influence for improved spatial concentration of the conditions for the reproduction of capital are combined and coordinated. The result for the communities will be a more accurate definition of their development potential and greater assurance with respect to the measures they can expect from the state or federal government.

(4) *Reform of the means of implementation:*

The reform of regional and local governments taking place in most of the states at the present time entails interrelated fundamental territorial and functional changes. Many tiny communities are being dissolved. Between mid-1969 and 1972, the number of communities in the Federal Republic dropped by 38 per cent. In the new and larger communities it is easier to implement the concentration of funds desired by the state within expanded territorial boundaries. While the incorporation of smaller communities into the agglomerations does open up the formal possibility of *multi-central* development in a newly created planning area, it also serves *de facto* to break down temporary barriers to expanded *mono-centric* development. Functional changes are based on the fact that in the cities (15), states (16) and federal government the importance of planning units for coordinating the other departments is increasing. Conversion commissions made up of representatives of the federal government, the states and the community organizations have been established. (17) The Stability Act and the Finance and Community Finance Reforms have reduced the proportion of income derived from local taxes while the proportion of partially use-designated financial allocations from the state has significantly increased. (18) These changes are expected to facilitate the implementation of state programs for the communities. They also serve to loosen the tight complementary relationship between local industrial development and municipal development and to tie both more closely to the planning and finance programs of the states and the federal government.

These changes mean that the successful implementation of state planning requires significant improvement in the quality and execution of

planning by the communities. (19) In connection with these reforms and their consequences for the situation of the communities, we can point to some of the ensuing problems which will require further study.

If the state attempts to confront the deficiencies inherent in the capitalist mode of production and distribution by improving the internal efficiency of the state mechanism itself, we must investigate to what extent this has been possible up to now, together with the identifiable effects of this course of action for the development process of urban structures. How are the general economic and political restrictions of state interventions actually mediated? For instance, how does the "fiscal crisis" fit into this particular context? To what extent do these restrictions really intensify the need for reform? To what extent do they restrict the possibilities for actually implementing these reforms? (20) Further, we need to examine more closely the complex we described above (section I) as the emergence of contradictory moments in the relationship between the state and the individual capital units. To the extent that state intervention occurs in opposition to, rather than in cooperation with local capital interests (e.g. when it is not a matter of improving local production conditions but putting a stop to their destruction in an agglomeration center by means of environmental controls), the freedom of action for state policy decreases, while the necessity for action becomes more pressing. The same claim can be made with respect to the divergence between state guidelines and concepts for a "central-locality" model oriented distribution of state infra-structures and the location and development according to individual business interests. To date, all of the corrective measures of the state in this direction have been frustrated by the "brutum factum" of traditional agglomeration complexes.

IV. *Urban Structures, State Intervention and the Reproduction of Labor Power.*

On the basis of our discussion of the causes and patterns of the capitalist contradictions in urban structures, we will attempt to draw a few critical conclusions with respect to the tactics and goals of community organizing ("citizens' initiatives"). Our critical remarks concern the following general points: (a) Practical action in urban areas is often purely locally oriented; (b) The problems in the factories are separated from those in the residential areas; problems of work from those of leisure time; the process of production from the process of reproduction; (c) The related acceptance of *present forms* of action as community organizing (whether these actions are accepted or criticized and rejected) is naive.

(a) We have attempted to demonstrate that the problems that are the focus of local organizing are almost invariably problems of more than a local nature. On the one hand, these problems encompass all the phenomena of the poverty of public services which today are typical of the

situation in all developed capitalist countries. The capacity of individual communities to achieve even marginal changes in their situation (e.g. by the reallocation of scarce budgetary funds) is strictly limited. The communities are caught up in a competitive struggle with each other, which narrowly circumscribes their range of action. On the other hand, there are the specific problems of the unevenness of regional development resulting from the spontaneous effects of the law of value. Over-agglomeration in one area and under-development and stagnation in another area mutually cause one another. Any political plan to modify this situation in the interests of the workers would have to approach the problem in a comprehensive way. In addition, the breakdown of major agglomeration centers as a result of the supra-national organisation and orientation of big capital (the Ruhr valley area is an example of this development in the Federal Republic) demonstrates that the context for practical counter-action cannot be locally limited, and that at the locality where the conflicts manifest themselves, the close linkage between industrial production and the reproduction of both its human and its material conditions must be taken into consideration. Here there exists *both* the problem of inner-plant structures and conditions of production and the problem of living conditions provided by the communities. Correspondingly, this problem demands intervention by the state or federal government in the communities in terms of both structural and infra-structural policies. If community organising efforts are not to lag behind the state actions themselves, these efforts need to be involved not only with local authorities, but also recognize that *the conditions in the cities and in the plants are both elements of the same problem whose universality is becoming increasingly evident.*

(b) The confrontation of "citizen versus the state" and concentration of attention on the sphere of reproduction are only one aspect of the real problem, i.e., the determination of the value of labor power under capitalist conditions. Although theoretically deducible and economically determined, ultimately the value of labor power is in fact determined by the power relationship between capital and labor. It contains two aspects; the quantitative aspect of exchange-value and the qualitative aspect of use-value. The quantitative aspect was at the core of the union struggle between wage-labor and capital. However, during the course of this struggle, numerous changes occurred. The socialization of the process of the reproduction of labor power began to manifest itself in state mediation of the quantitative magnitude of the value of labor power. The *price* of labor power in its exchange relationship with capital diverged more and more from its value because state services (i.e., non-capitalist production) flow into the *value* of labor power as material elements. If the

social character of the reproduction process of capital was recognizable at an early stage in capitalist society as the productive consumption of labor power, it is also true that workers' consumption is simultaneously the process of the production of labor power, which is increasingly *social* in nature.

This social process cannot be directly provided by capital itself. It must be mediated by the state. This means that the struggle over the value of labor power must of necessity transcend the level of the individual state itself. At the same time, the forms of struggle over the mass of surplus value and variable capital change and expand. This takes place in the struggle in the plants over the intensification of work and wage-cuts or through confrontation with the capitalist state over state budget allocations for education and health services. The price of these services used to be contained in the individuals wages. Its removal is due in part to the increasingly social nature of the process of reproduction and (when not a concession won by the workers themselves) is aimed at reducing the growth in value of their labor power. All of these struggles rotate around the same central point, the quantitative determination of the value of labor. The focus of the struggle at a given time can be at the point where the adversary makes his attack. (21) It is foolish to treat these points of attack (within the work place as "worker" and outside it as "citizen") as separate or to juxtapose them to one another. Particularly with regard to the (state organized) social reproduction of labor power, the abstract assignment of a part of social wealth in the form of exchange-values is replaced by concrete determinations and *use-value*. Exchange-value and use-value are inseparably linked. Is the compulsory model of consumption and living conditions merely to be *extended* or is it to be *changed*? Are individual or collective forms of consumption to be given priority? How does one choose to attack the class nature of collective consumption and the miserable quality of the use-values available in this sphere (which will not change as long as the privileged few can appropriate these goods and services privately). The present model of consumption is distorted. It is aimed at creating an artificial individualization of the workers and employees as willing consumers. The state-mediated portion of consumption (social reproduction of labor power) reduces both the mass of surplus value which can be invested and that which can be realized by the capitalist; thus it is held to an absolute minimum. This means that non-capitalist production by the state (even when it is functionally related to capitalist production), is in permanent conflict with capitalist production. In a two-fold sense, the conflicts in the cities and the plants are elements of one and the same problem: the struggle over the value of labor-power. First, because labor-power's quantitative definition is mediated by the state, facilities such as schools, hospitals, traffic systems determine its value (as well as wages). Secondly, because within the context of the socialization

of the reproduction of labor power, the present capitalist mode of consumption and living cannot be accepted. The struggle over the concrete determination of use-values involves both collective as well as individual consumption.

(c) This conception of the coordination of workers' struggles means that we cannot dismiss civic action groups either as "bourgeois" activism exclusively concerned with the problems of specific strata of the population and marginal problems. Nor can we accept these actions as the form of organization adequate for the truly substantive problems. In the Federal Republic, citizens' initiatives seem to be filling a vacuum. Workers and employees have already recognized that the problems of the cities increasingly affect their living conditions and prospects and that their political position concerning the labor process and the community's quality of life are two sides of the same coin. However, the workers' unions (who seek to maintain the value of labor power) are not ready and able to mount struggles around the quality of community life. Instead, there has been spontaneous practical resistance outside of the union movement. An immediate goal should be to get the unions to take up and organize this resistance. In contrast to citizens' action groups, the unions are in a position to engage in these struggles in an effective way. They are not locally detached from one another, but rather organized as national organizations. The unions are not bound to represent the lowest common denominator of a conglomerate of interests, but rather the real interests of the working class. Through their practical work, they can mediate between the plants and problems which arise outside of them; they can clarify the relationship between the internal structure of the plants and the structures to be found in the cities of a given region. Their classic adversary is not primarily and exclusively the state, but rather capital itself. Finally, the method of struggle cannot primarily mean integration into existing bodies of the state, but must center around the autonomous organization of a counter-force.

Attacking regional problems is the adequate articulation of the classic task of the unions. (22) It is not a question of replacing union struggle with primarily party tasks. However (and European developments as a whole evidence this) class struggle is becoming more and more not merely a quantitative question of "how much", but rather a broad and inclusive struggle involving all spheres concerning the determination of the value of labor power. This makes it imperative to transcend the "almost technocratic separation of the working and living fate of the masses, working time and spare time, producers and consumers" (23) and to develop a materialistic explanation for this inter-relationship, if we are to achieve the goal of comprehensive social emancipation.

notes

1. Traditionally the concept of "city" meant more than a political entity. It encompassed the local unity of production, trade or exchange and consumption. This conception is becoming more and more obsolete in the face of increased socialization and division of labor, in the face of the multiplication of large scale interdependencies. We use the concept of "urban structures."
2. D. Lapple, *Staat und allgemeine Produktionsbedingungen* (The State and the General Conditions of Production), Berlin (West), 1973, pp. 71ff.
3. Evers/Fester/Harlander/Hiss, "Verwaltungsreform als Bestandteil von Landespolitik—Das Beispiel des Ruhrgebiets" (Administrative Reform as an Element of State Policy-Making—The Ruhr-Area Experience) in: *Stadtbauwelt*, 39/1973.
4. On the role of private property ownership in the functional context of the city, cf. E. von Einem, "Zur Entstehung und Funktion des Städtebauförderungsgesetzes" (On the Genesis and Function of the Municipal Construction Promotion Act), in: *arch*, 16/1972.
5. Cf. Elmar Altwater, "Notes on some Problems of State Interventionism", in: *Kapital-istate*, 1/1973, p. 96.
6. Cf. Ernest Mandel, *Der Spätkapitalismus* (Late Capitalism), Frankfurt, 1972, p. 80.
7. E.g., in the Federal Republic of Germany, the migration of the steel industry from the Ruhr Area to the more advantageous areas within Europe (i.e., the coast of Holland and the French Mediterranean coast) leads to the stagnation, degeneration and decline of urban structures.
8. Central government infrastructural policies only existed in certain areas of highway construction and railway traffic, in certain sections of housing policy, etc. A large part of state infra-structural services were planned and executed by the states and the communities themselves; for the most part the states and the federal government only participated in the planning process of the communities with respect to the formal aspects of revenue-sharing (this, e.g., in the fields of educational facilities, the hospital system, community traffic and highway facilities, etc.)
9. K. Topfer, *Regionalpolitik und Standortentscheidung* (Regional Policy and Location Decision-making), Bielefeld, 1969, p. 100; and R. Jochimsen, *Raumordnung und Marktwirtschaft* (Regional Organization and the Market Economy), in: *Informationsbriefe für Raumordnung*, Stuttgart, 1969, R. 3.4.1.
10. In the Federal Republic, several factors came together: the cyclical crisis of the years 1966/67, a critical structural change in the field of energy supply closely connected with a regional crisis of urban structures in the Rhein-Ruhr agglomeration area (one of the major coal supplying and refining areas) and certain infrastructural deficiencies (for instance, the crisis in education).
11. Here, we are not primarily interested in the changes in community planning made by individual communities under the immediate pressure of crises and problems, but in those changes which are either sanctioned or rendered mandatory by higher-level authorities.
12. It is precisely this situation which makes community efforts to implement industrial structural transformation particularly difficult in many instances; in the smaller cities, middle sized industries fear the competition of newer and larger industries on the labor market; the same can hold true for major branches in the agglomeration centers threatened by stagnation. The means available for exerting influence on political authorities are quite disparate in this respect; they range from overlapping personnel among the administrative, political and private enterprise functions to threats of moving the location of their enterprises for political reasons.
13. On the average, two-thirds of all public investments for construction, and 80 per cent of all material investments, were undertaken by the communities. Cf. A. Evers/M. Lehmann, *op. cit.*, p. 115.
14. "Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft," (Economic Stability and Growth Promotion Act) dated June 8, 1967, *Bundesgesetzblatt*, I, p. 582, Grundgesetznovelle (constitutional amendment) dated May 12, 1969, *Bundesgesetzblatt*, I, p. 359.
15. At the city level, special desks to be set up for "city development planning" are being organized parallel to the general administration and immediately subordinated to the top levels of the administration.

16. In 1967 in North Rhine-Westphalia, a planning and coordinating staff was set up within the office of the minister president. This staff is currently responsible for the significant areas of state planning, structural policy and infrastructural highway and traffic planning.

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HEGEL AND THE STATE

Boulder *Kapitalistate* Collective in collaboration with Margaret Fay*

I. Introduction

Can a highly abstract theory of the state advanced by a German philosopher a century and a half ago be of more than antiquarian interest to modern Marxists, most of whom are absorbed in practical political struggles? Shlomo Avineri's latest book, *Hegel's Theory of the Modern State* which argues that Hegel's ideas on the state should be of vital concern to contemporary Marxists, stimulated us to undertake our own collective study of Hegel's political theory. By way of introduction, we would like to outline the relevance of Hegel of living Marxists.

On the simplest level, familiarity with Hegel's theory of the state deepens our comprehension of Marx's own political thought. We are convinced that much, if not all, of Marx's work (and not merely his early work) was a continuous (though for the most part, latent) dialogue with Hegel, a dialogue in which Hegel figures as both inspiration and antagonist. Therefore, understanding Hegel's position illuminates the structure and the substance of Marx's own writings.

Secondly, Hegel's theory of the state provides a valuable *object lesson* in the use of dialectic method. This method, so fundamental to Marxist thought, yet so elusive, is poorly understood by many self-declared Marxists and is often dragged in as a shallow justification for every sort of logical atrocity. By "object lesson" we mean that Hegel's theory of the state presents us with a sustained attempt to apply dialectical thinking to a problem of immense practical significance, an attempt which at once clarifies the intrinsic nature of dialectical method and emphasizes the constrictions this method must endure within its Hegelian form. Hegel's theory of the state shows us how the dialectic method may be used to uncover the logic of social process, why it is uniquely suited for historical

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investigations, how it reveals the complex unity of social reality, and why the dialectic method—whatever the intention of its user—has an inherently critical thrust. Paradoxically, the theoretical and political differences between Marx and Hegel may actually enhance the latter's pedagogical effectiveness for Marxists, since these differences enable the attentive reader to unravel the dialectical method, and to distinguish the method *per se* from the substantive positions of these great thinkers.

Thirdly, the compelling power of Hegel's overall conceptualization can provide rather startling perspectives on both historical processes and political institutions. Despite the remote abstractness and grandiose idealism of his concepts, it is possible to reformulate them within the framework of historical materialism, in order to further our own understanding of the modern state and to decipher the mystifying appearance of the modern world as an ever-changing complexity.

Finally, we have been most impressed by the penetrating insights that Hegel's theory of the state provides for the meaning of freedom. Freedom is perhaps the most used and abused shibboleth of twentieth century political ideology. In recent times, the ideological expression of class conflict has typically been a dispute over the meaning of freedom and over the methods appropriate for its realization. The theoretical equipment of Marxists has not always been adequate for the struggle. Current discourse among Marxists themselves has suffered from the lack of a satisfactory notion of freedom. Some Marxists have even lapsed into the vocabulary and thought patterns of romantic idealizers of individuality. In contrast, Hegel's theory of the state starts from the premise that freedom is the practical and political expression of the human capacity of free will. This concept of freedom, emphasizing collective political action as the practical realization of free will, is remarkably congruent with the intent and practice of contemporary revolutionary struggles. By studying and appropriately reformulating the Hegelian concept of freedom, Marxists can construct an intellectual foundation from which to conduct a politically effective and morally honest defense of revolutionary struggles.

In summary, we feel that a reexamination of Hegel's political writings is adequately justified. Our paper has three major objectives: (1) to provide an introductory exposition of Hegel's overall conceptual schema (Sections II and III); (2) to outline Hegel's theory of the state, emphasizing those aspects most influential in shaping Marx's own political analysis (Sections IV-VII); and (3) to offer a critical assessment of the interpretations made by Avineri in his book *Hegel's Theory of the Modern State* (Section VIII). We conclude with our own assessment of Hegel's relevance to the modern age (Section IX).

II. Hegelian Dialectics (1)

Hegel developed his epistemology out of a prolonged confrontation with Critical Philosophy, the intellectual heritage of Kant. According to Kant's analysis of the process of cognition—which he called “The Transcendental Unity of Apperception”—the very structure of the human mind spontaneously organizes the full range of experience available to the human individual. This organizing structure is inherent in the human

mind, and is not derived from sense impressions impinging from the external world.

Kant claimed that *a priori* categories of the mind give form to the content of sensible external reality. All cognitions about reality must be formed in terms of these *a priori* categories which are twelve in number and include space, time, substance, and causation among others. The human mind can only gain knowledge of *phenomena*, that is, sense data filtered through these *a priori* transcendental categories. Imprisoned within the confines of its own structure, the mind can never comprehend things-in-themselves, the objective realm independent of the constituting subject, which Kant calls *noumena*. Consequently, the thinking subject—insofar as she (2) is confined within the categories of theoretical reason—and the existing object fall into radically separate realms (3).

Hegel reacted strongly against the Kantian epistemology, which he argued drastically restricted the scope of reason. The separation between subject and object resulted from the artificial fixity which had characterized the attempts of previous philosophers to conceptualize the relationship between the knowing subject and the known object. Neither subject nor object, Hegel claimed, should be conceived as stable entities, but rather, as two moments in a single process of becoming.

Hegel's concept of becoming requires careful explanation. Becoming refers to an epistemological structure in which both subject and object undergo a ceaseless and unified process of self-transformation. The knowing subject and the known object continually dissolve and recreate themselves, and in the process of this dissolution and recreation thoroughly interpenetrate one another. The reunification between subject and object is possible because on the most ultimate level, subject and object are identical. External objective reality must be understood as a continually transforming consequence of activities by the thinking subject. Conversely, the thinking subject achieves reality only through activities which continuously create and recreate the objective world.

Hegel sharply rejects the Kantian distinction between the *knowing* subject (Kant's theoretical reason) and the *acting* subject (Kant's practical reason). Thought and action, theory and practice, can be separated neither empirically nor analytically. Similarly, the object of knowledge is necessarily the object of moral action or human practice. Hence, the process of knowing must not only trace the “becoming” of the object of knowledge, but must actually join in the movement of that “becoming” process.

The effort of reason (i.e., the knowing subject) to comprehend the process of becoming is what Hegel calls dialectics. Hegel develops the dialectical method in the context of a general theory of logic which distinguishes several levels of cognition:

In point of form Logical doctrine has three sides: (a) the Abstract side or that of understanding; (b) the Dialectical, or that of negative reason; (c) the Speculative, or that of positive reason.

(Hegel, 1975: 113)

The first of these, the level of understanding is the level of formal logic

that acquires its most fully developed expression in Kant's Theoretical Reason. From Hegel's perspective, it is clearly an inadequate mode of knowing. It treats objects of knowledge as separate and, for purposes of analysis, as fixed. Thus, understanding does not constitute an adequate logic of process. The attempt to apply "understanding" to a reality whose essential constituent is process generates contradictions such as the famous Kantian antinomies.

... Kant ... never got beyond the negative result that the thing—in itself is unknowable, and never penetrated to the discovery of what the antinomies really and positively mean. That true and positive meaning of the antinomies is this: that every actual thing involves a coexistence of opposed elements. Consequently to know, or, in other words, to comprehend an object is equivalent to being conscious of it as a concrete unity of opposed determinations.

(Hegel, 1975: 78)

Hegel elaborates his criticism of the Kantian analysis of cognition as follows:

Thought, as *Understanding*, sticks to the fixity of characters and their distinctness from one another: every such limited abstract it treats as having a subsistence of being of its own.

(Hegel, 1975: 113)

The Dialectical mode of cognition makes possible a deeper comprehension of the objects that "understanding" cannot adequately grasp.

In the Dialectical stage these finite characterizations or formulae supersede themselves, and pass into their opposites ... in its true and proper character, Dialectic is seen as the very nature and essence of everything predicated by mere understanding—the law of things and of the finite as a whole ... by Dialectic is meant the indwelling tendency outwards by which the one-sidedness and limitation of the predicates of understanding is seen in its true light, and shown to be the negation of them.

(Hegel, 1975: 115-116)

This deeper comprehension comes about through three interrelated thought processes: *negation*, *contradiction*, and *totalization*. Negation dissolves the fixity of the object by conceiving it as a complex constellation of alternative potentialities, some of which stand in direct opposition to each other. Hegel regards all real entities as the unification of opposites, and hence, his frequent reference to a thing turning "suddenly into its opposite." (4)

Contradiction refers to the recognition of an internal dynamic propelling the object of knowledge away from whatever its present finite condition may be.

For anything to be finite is just to suppress itself and put itself aside ... Wherever there is movement, wherever there is life, wherever anything is carried into effect in the actual world, there Dialectics is

at work ... the finite, being radically self-contradictory, involves its own self suppression ... [Dialectics] purpose is to study things in their own being and movement and thus to demonstrate the finitude of the partial categories of the understanding.

(Hegel, 1975: 116-117)

The source of the object's dynamism may be the unification of opposites mentioned above, but this should not be interpreted as the core meaning of contradiction. Hegel uses contradiction to designate the immanent self-determining logic of an object, a logic which expresses itself in the sequence of historical forms which the object assumes.

Dialectical reason refuses to comprehend the objects of knowledge as separate distinct entities, but conceives them instead as moments of a totality in the process of becoming. Totalization refers to the process by which thought transcends separation and forges a conceptual unity from what had appeared at the level of understanding as distinct self-sufficient existence. Totalization embraces not only the entire sequence of transformations undergone by the known object, but also the self-transforming process of the knowing subject. Thus, the subject-object dichotomy, posed by Kant's theoretical reason, is eliminated. (5)

III. Hegel's Conceptual System

Through exploration of the inadequacies inherent in all previous philosophical systems, which remained fixated at the level of "understanding," Hegel arrives at the premise that opposites are essentially complementary. In order to comprehend the Hegelian conceptual system, two interrelated points must be grasped. First, Hegel's concepts function to reveal the inconsistencies which arise when logic at the level of understanding endeavors to comprehend historical process. Second, Hegel used concepts to describe and interpret the process of becoming; thus, they are the tools of the dialectical mode of cognition. Hence, they constitute tunnels between knowledge at the stage of understanding and genuine dialectical knowledge.

The concepts which Hegel used occur in pairs, and we shall refer to a pair of related concepts as a *dialectical category*. Every stable entity must be dissolved into a process before its existence can be adequately comprehended. The dialectical categories elucidate the internal logic of the process into which stable entities have been dissolved. The concepts occurring in such pairs are both opposing and complementary. The entire process to which the dialectical category is applied cannot be grasped except as an interpenetration or synthesis of the opposing concepts which identify the category itself.

The dialectical categories that we develop here are intended to render the basic methodological dictums of negation, contradiction and totalization more concrete and accessible to the reader for the purposes of understanding Hegel's political theory. They are (a) subjectivity-objectivity, (b) universality-particularity, (c) freedom-necessity, and (d) rationality-positivity. At the risk of considerable distortion, we shall attempt to give a brief and simple account of each.

The universality-particularity category concerns the relationship between any concept or idea on the one hand, and a finite instance of the concept on the other. Put somewhat differently, the universality-particularity category focuses on the concept and its historical embodiment in space and time. Insofar as an entity to which a concept refers includes only those features necessarily implied by the concept and nothing more, it manifests universality. Conversely, insofar as the entity contains other features in addition to the ones implied by the concept, it manifests particularity. The universality or essence of a concept can only acquire concrete existence in the real world through particular entities, while the meaning or identity of these finite particulars only becomes apparent through the universal concept which it expresses.

The three remaining categories are all aspects of the concept of will. The subjectivity-objectivity category pertains to the will of the human agent seen as the initiator of action. Subjectivity means that the human agent, as initiator of action, acts in a deliberate and self-conscious manner. Subjectivity refers to the self-consciousness of the will, its volition insofar as this volition is a matter of inward experience. Objectivity signifies existence independent of the will, existence which constrains the action of the human agent. Subjectivity and objectivity achieve synthesis because objective reality can be a product or concrete embodiment of subjective volition, while will becomes conscious of itself as an agent of effective change and of self-transformation through its relationship with external objectivity.

Hegel regards freedom as the essential concept-defining aspect of will. The attribute of freedom is immanent within the notion of will; an un-free will is simply unthinkable. Freedom, however, does not mean the absence of restraint or determination. According to Hegel, the will is free because it is self-determining, because the constraints under which it operates have been chosen by the will itself. Necessity, as understood by Hegel, is less the negation of freedom than of accident. Necessity means actions in conformity with the laws of nature and social organization. Freedom and necessity stand united if the will self-consciously recognizes what the demands of necessity actually are; if it understands these demands as desirable, inevitable, or—to use Hegel's own words—rational, and if the will, when possessed of these insights, chooses necessity of its own accord.

One way of conceptualizing the relationship between freedom and necessity is through the notion of authenticity. The unity of freedom and necessity exists in the realization of the authentic nature (i.e., the genuine essence) of an entity. The authentic nature of an entity is the self-determined unfolding of its concrete potentialities, in contrast to those aspects imposed from without. Authenticity embodies freedom because it entails self-determination rather than external causation. Authenticity embodies necessity because it repudiates capriciousness in any form, and expresses instead the indubitable requirements of determinate being. An authentic person is one who comprehends her own essential being, and always remains true to this understanding. While fully able to enjoy the meaningful pleasures of life, she is not dominated by capricious whims, false needs, or impulsive desires (the illusory guises

of freedom). On the contrary, she self-consciously chooses to act in accordance with those true needs which stem from her own essential being, and to act in a manner consistent with the real potentialities of her situation. The actions of the authentic person thus embody the fundamental unity of freedom and necessity.

Hegel regards the free-willed subject as one who acts out of her self-conscious recognition of necessity; in other words, one who acts rationally. The rationality-positivity dialectical category refers to the relationship between thought and action. Rationality implies the unity, apprehended by the will, of a universal principle (be this principle scientific or ethical) and finite particular reality. This unity expresses at a higher level of abstraction, the necessary relationship between idea and existence. But, as Avineri indicates, Hegel conceives rationality as more than just a relationship between idea and reality. It is also a force—a force sometimes acting through unwitting agents—which strives to align the universal and the particular in the real world. Marx expresses this same idea

It is not enough that thought should seek to realize itself in reality; reality must also strive towards thought.

(Marx, 1963:54)

Positivity, on the other hand, entails a discontinuity between idea and existence, between the universal and the particular (6). Positivity means acceptance of what happens to exist (what is merely posited) without inner conviction, without understanding its internal self-determining logic, without comprehending its essential necessity, just because it does exist. Something rational becomes positive if it no longer seems either instrumental for valued ends or a logical emanation of necessity, and instead obtains acceptance via inertia or the coercion of authority.

We shall use these four dialectical categories of universality-particularity, subjectivity-objectivity, freedom-necessity, and rationality-positivity to elucidate Hegel's concept of the state.

IV. Hegel's Concept of the State

The main preoccupation of Hegel's political theory is to identify the conceptual essence of the state, to investigate the implications of this concept, and to trace its concrete historical embodiment in the evolution of successive political communities. Hegel sometimes alludes to "merely existing" (7) states for the sake of illustrating his theory, but these states are not his central concern.

Hegel conceives the historical development of political structures as a process of unfolding human consciousness. The final stage of this evolution is the state which, in its perfected self-realization, is the most comprehensive expression of the human will. The essence of the human will is freedom and rationality. Hence the state, being the most comprehensive expression of the human will, provides the most complete embodiment of freedom and rationality.

The state in and by itself is the ethical whole, the actualization of

freedom; and it is an absolute end of reason that freedom should be actual. The state is mind on earth and consciously realizing itself there

The march of God in the world, that is what the state is. The basis of the state is the power of reason actualizing itself as will.

(Hegel, 1952:279)

Hegel defines freedom as human self-consciousness, and understands the realization of freedom to be the absolute aim of world history. Therefore, he interprets world history as the development of the consciousness of freedom.

The History of the world is none other than the progress of the consciousness of Freedom. . . the *final cause of the World at large*, we allege to be the *consciousness* of its own freedom on the part of the Spirit, and *ipso facto*, the *reality* of that freedom (author's italics).

(Hegel, 1956:19)

The emerging consciousness of freedom expresses itself most immediately through the concrete political structures of individual nations, and especially in the development of modern nation-states which are to date the most complete embodiments of the unfolding human essence.

In the history of the World, only those peoples come under our notice which form a state. For it must be understood that this latter is the realization of Freedom, i.e., of the absolute final aim, and that it exists for its own sake . . . all the worth which the human being possesses—all spiritual reality, he possesses only through the state The State is the Divine Idea as it exists on Earth.

(Hegel, 1956:39)

Hegel divides the movement of world history into three stages which form a dialectical progression leading towards the birth of the modern state: Oriental, Graeco-Roman, and Germanic-European. According to Hegel, Oriental civilization is characterized by a despotic state, and can only attain a limited consciousness of freedom, namely that "one is free," that one being the despot. Everyone else is unfree, and the reality of this servitude reduces the apparent freedom of the despot to the condition of mere caprice. The Graeco-Roman state extended citizenship rights to a significant body of people, but was nevertheless based upon slavery. Graeco-Roman civilization could only attain the limited consciousness that "some are free." The Germanic-European state, under the influence of Christianity, promulgated a universalistic constitution which placed everyone under the protection of law; therefore, Germanic-European civilization had acquired the consciousness that "man, as man, is free."

The consciousness of freedom is available to human beings only insofar as they are structured into and actively participate in political society. The state is, of course, the culmination of political society. Thus, it is not only the supreme embodiment of freedom, but also the supreme instrumentality for the attainment of freedom by individual men and women.

Hegel understands conscious freedom as the exercise of free will. The will implied in the concept of the state is now the will of any single

individual or social class. Neither is it a will emerging from the aggregate of specific individuals or specific class will, or from a consensus called public opinion. The will which Hegel finds immanent within the concept of the state is the will implied by the culture and institutions of a given society taken as a whole. The state-will exists as the logic implicit within the prevailing institutional and cultural processes, translates this logic into concrete historical imperatives, and acts in accordance with these imperatives. The state-will corresponds to the will of a hypothetical individual perfectly in tune with the institutions and culture of society conceived as dynamic processes, and devoid of all particularizing characteristics. Obviously, such an individual can only be a theoretical abstraction, but an abstraction that finds historical embodiment in the potential of all concrete members of society.

Hegel's view of the state as the supreme embodiment of human freedom by no means implies that the state will promote the desires of the majority. The existence of the state represents the capacity of individuals to act collectively. The state congeals the potency for action—the potential power—which slumbers in the lap of the human community. Without the state (i.e., under conditions of anarchy and lawlessness) the exercise of human will would be frustrated at every turn. Sustained collective actions would be totally impossible, while the unregulated interaction of individual wills would render precarious even those actions conceived on a smaller sub-collective scale. Under these conditions the exercise of human freedom is inconceivable. In fact, the very notion of freedom becomes largely incomprehensible. The state-will is not simply an extension of the individual will. The state-will provides the foundation for the exercise of individual will. The state-will, we might say, creates the basis for the very existence of the individual will.

Further illumination of Hegel's concept of the state can be obtained through application of the four dialectical categories outlined in the previous section. Consider the first dialectical category universality-particularity. Hegel views the state as an embodiment of the universal aspects of social life. The state, at least in principal, comprehends the totality of society, and functions as steward of the values and interests implicit in this totality. The state expresses the universal interests of all citizens and all social classes, not the special interests of particular citizens or particular social classes. However, during certain historical periods the interests of the totality may temporarily coincide with the interests of particular social classes. During these periods the universality of the state will appear in the form of particularity; that is, the state, without relinquishing its essential universality, will appear as an agent for a particular social class. Such situations often stimulate superficial muckraking critiques of the state. Such critiques are misguided because they fail to understand the universalistic essence which lies beneath the particularistic appearance. Only an analysis permeated by deep historical consciousness can comprehend whether the seeming particularism of a state is mere show or a genuine abandonment of statehood.

In terms of our second dialectical category subjectivity-objectivity, the state as idea represents a unity of subjectivity and objectivity. The state

represents objectivity since its institutions confront people as external realities independent of their own will. Through the state the implicit rational volition of the totality becomes objectified, and through this objectification exerts an influence of history. At the same time, the state is subjectivity because its essence is will, and because the will of the state expresses the subjective intentions of our hypothetical individual who perfectly reflects the institutions and culture of society. Moreover, the state expresses the wills of real people insofar as real people identify their own freely-willed aspirations with the interests of society as a whole. Even when certain aspects of state policy conflict with the interests of particular individuals, or, to take a more extreme case, even when the state appears as an obstacle to individual self-realization, even under these circumstances the people involved typically maintain their identification with the state as a whole, because they understand it as a guarantor and extension of their own subjectivity.

Our third dialectical category, freedom-necessity, must be considered in terms of both subjective and objective aspects. The state, according to Hegel, is at once the necessary means through which a people can achieve freedom and also a concrete realization of this freedom (i.e., the objective expression of freedom). On the other hand, the state functions as the collective consciousness of necessity. Through the cognition of necessity the state identifies the real possibilities available to society, and converts the unavoidable from an external coercive determination to a voluntary self-determination. Thus, the state creates subjective awareness of external objective necessity, an awareness which ultimately transforms this external objective necessity into an inner subjective freedom. Only through the state can society as a whole achieve self-determination, and the achievement of genuine self-determination proves tantamount to the attainment of subjective freedom.

In the absence of a state, Hegel argues that society is dominated by the uncoordinated activities of its members. The activity of each person confronts all others as an external reality to which they can only react. History, strictly speaking, could not exist since human affairs would be naturalistic processes of action and reaction. In short, the absence of a state implies the absence of conscious choice at the societal level and the existence of the most insidious form of constraint, the inner fetters of subjective necessity. Only through the state does society become conscious of itself and of the possibilities immanent within collective action. Only through the state can society mobilize its collective energies, deliberately coordinate the activities of its members, and consciously make its own history. Hence, because the state conveys the dictates of necessity to individual citizens, and because the concrete emanations of collective freedom are decisions which confront these citizens as state compulsion, the true nexus between state and freedom is sometimes obscured. This, Hegel argues, explains the erroneous yet persistent view that freedom is necessarily obtained in opposition to the state.

The fourth and final dialectical category, rationality-positivity, focuses on the existence of the state as the possibility of rationality at the societal level. No will other than the state-will can consciously comprehend the totality of a social formation, and thus no other entity possesses the

cognitive presuppositions necessary for rational action at the societal level. The unity of idea and existence, which Hegel understands as the core of rationality, is conceivable only through the agency of the state, because only at the level of the state can the idea of social totality and the principles which characterize this social totality become manifest. Every other will is burdened by its own particularity and, as a result, can only attain sub-rationality, not rationality of the whole. Even if another will could somehow grasp the idea of social totality, by itself it could not actualize this idea and, thus, could not attain the heights of true rationality. The state, Hegel asserts, is the concrete expression of rationality, and as such is the precondition for the practical integration of the universal and the particular, of subjectivity and objectivity, of freedom and necessity, in historically-existent human societies:

Rationality, taken generally and in the abstract, consists in the thorough going unity of the universal and the single. Rationality, concrete in the state, consists (a) so far as its content is concerned, in the unity of objective freedom (i.e., freedom of the universal or substantial will) and subjective freedom (i.e., freedom of everyone in his knowing and in his volition of particular ends); and consequently, (b) so far as its form is concerned, in self-determining action on laws and principles which are thoughts and so universal.

(Hegel, 1952:156)

Thus, Hegel regards the state as inherently rational and understands its existence as necessary for the realization of universality, freedom, and rationality both on the planes of social totality and individual consciousness. He repeatedly describes the state as a movement that inseparably unites rationality, universality and freedom. However, while Hegel maintains that the concept of the state is inherently rational, he does not claim that every action of every real state is rational.

In considering the Idea of the state, we must not have our eyes on particular states or on particular institutions. Instead we must consider the Idea, this actual God, by itself. On some principle or other, any state may be shown to be bad, this or that defect may be found in it; and yet . . . it has in it the moments essential to the existence of the state . . . The State is no ideal work of art; it stands on earth and so in the sphere of caprice, chance, and error, and bad behavior may disfigure it in many respects. But the ugliest of men, or a criminal, or an invalid, or a cripple, is still always a living man.

(Hegel, 1952:279)

The irrational, tyrannical, and despicable actions of particular states do not refute the inherent rationality of the state considered at the level of concept. These actions simply furnish further evidence that there remains a gap—perhaps an irreducible gap—between essence and existence. Abandoning the effort to comprehend the conceptual essence of the state would mean throwing oneself at the mercy of political appearances, abandoning the attempt to decipher the internal logic of the historical process in which one political form supercedes another, and abandoning

the hope of realizing the potential which remains only partially developed within existing states.

V. State and Social Structure

Hegel's concept of the state leaves us with the impression of a supra-individual will or consciousness which, although it appears as an emanation of a historically specific socio-cultural formation, is in fact the *universal* cause of every *particular* finite social formation. The conflicts which rage between individuals and between social classes are, in Hegel's view, superficial phenomena which do not touch the underlying reality of the state. The state endeavors to confine these conflicts within definite limits and to unify the divergent units of society behind common projects which further the interests shared in common by all citizens.

Let us probe further into the relationship between Hegel's theory of the state and the living history of human societies. Perhaps the most fundamental point to grasp is the identity Hegel posits between the idea of the state and the structure of human consciousness. The state, that most developed social formation of which the human species is capable, exists already as a potentiality within the particular wills of individual human beings. In other words, the state is implicit within individual human consciousness.

Freedom and rationality are the essential characteristics of human consciousness. It follows from the identity which Hegel posits between the structure of human consciousness and the concept of the state that rationality and freedom must be crucial aspects of the state as well. The state for Hegel is both the precondition and the realization of potentialities which exist within every individual, and as such is the objective actualization of rational freedom.

Although an identity exists between individual will and state considered at the level of concept, the real historical relationship between individual and state is mediated by specific social institutions. The most important intermediary institutions identified by Hegel are property; the spheres of ethical life, namely the family and civil society; and class structure. Hegel posits these institutions as universal elements of any social order. Without them, any historical society would simply disintegrate. Nevertheless property, family, civil society, and class structure are historically specific in that their forms and functions change over time and across different societies.

A. Property

Hegel regards *personality* as the inner subjective manifestation of freedom, and treats the spheres of family and civil society as the embodiment and historical development of the principle of personality. In contrast, Hegel regards *property* as the external objective manifestation of freedom. Property is different and separable from the individual, and yet it functions as an extension and objectification of the individual ego. Through property, the individual compels others to recognize her concrete

existence and, by the same token, establishes a realm in which her own will, not the state-will, has ultimate sovereignty.

Hegel holds property to be a particularly important mediation between individual and state because it establishes a format and even an agenda for relations between the two. Every social formation in which private property appears promulgates a major body of law pertaining to property. Property law specifies the rights and obligations accruing to property, the procedures which must be followed in transactions between the state and the property holder, and sometimes even the class position of the property owner herself. Property provides an independent power base enabling the ego to face the state from a position of self-reliant dignity rather than of cringing weakness.

Hegel's analysis should not be dismissed as an ideological defense of private property. Implicit in his analysis is a critique of the propertyless condition, but not an assault upon the *personal worth* of the propertyless individual. Hegel's position implies hostility towards a society which condemns the majority of its members to the propertyless condition. Thus, Hegel's defense of property is at least as much a critique as a vindication of capitalism.

This last point becomes more obvious if we recognize that Hegel is essentially defending the property of petty commodity producers, not capitalist property. The virtues which Hegel ascribes to property derive from the direct concrete identification of owner with property. They require that the owner use her property, labor on it, and familiarize herself with its peculiarities, as with her own body. Property with which the owner has an abstract generalized relationship, which is simply an instrumentality for the expansion of value and the acquisition of wealth—that is, capitalist property—finds little justification in Hegel's analysis.

B. Family and Civil Society

The family and civil society, together with the state, are modes of ethical life. By ethical life Hegel means freedom actualized in the existing world through the self-conscious deeds of real people. In other words, ethical life is the idea of freedom becoming a living reality through the operation of social institutions and the self-consciousness of individuals. The realization of freedom is a process in which the *idea of the good* becomes actual subjectively in the realm of individual self-consciousness, and objectively on the plane of social institutions. The idea of the good becomes actual on the subjective plane if human beings become conscious of the distinction between good and evil, and if they come to act on behalf of what they regard as good. When social institutions coincide with that which seems good, then the idea of the good becomes actual on the objective plane. Although ethical life becomes actual in the consciousness of individuals and the institutions of society, it must also be seen as a totality transcending historical individual consciousness and social institutions, and in a certain sense even dominating them.

The family, civil society, and the state may be conceived as successive stages in the evolution of human ethical consciousness. One stage does not, however, evaporate with the arrival of another. In fact, family and

civil society, the earlier stages of ethical life, endure after the formation of the state as elementary components of a total social formation. The formation of the state at once supercedes and conserves family and civil society.

Each mode of ethical life is characterized less by the social functions it fulfils and more by the kind of human relationship arising therein. Each mode has a distinctive principle of social integration, as well as a distinctive locus of operation.

The frame of mind characterizing the family is love which, according to Hegel, is "mind's feeling of its own unity" (Hegel, 1952:110). Since love is the principle on which the family is based and since unity is the essence of love, the family member experiences herself not as a separate individual, but as a member of a family unit. The family member gives priority to needs of other family members rather than to her own needs.

Civil society as understood by Hegel includes the entire system of economic production and exchange insofar as this takes place outside of the family. What defines civil society, however, is not economic considerations, but that within it people relate as separate individuals each pursuing her own ends. Egoism and particularism hold sway in civil society, principles of action which Hegel feels are highly contagious—so contagious, in fact, that a strict separation between state and civil society must be maintained lest the particularism of the latter pollute the universalism of the former.

Hegel conceives civil society as a complicated system of mutual interdependence governed by delicate self-regulating processes operating outside the realm of human consciousness. In fact, civil society offers a prime example of how the objective dialectic of reason can work without the intermediary of human awareness. Precisely because civil society operates in the absence of human awareness, it can never become the sphere of fully free (i.e., self-conscious) individual wills.

According to Hegel the progress of history is always from the particular to the universal. In history we find a succession of existing societies. These societies embody the universal nature of the concept in progressively clearer and more comprehensive form. Consider in this regard the concept of ethical life. Early human societies approached ethical life only through the family. Subsequent social formations added the institution of civil society to that of the family, thereby achieving a more developed, but still incomplete, version of ethical life. According to Hegel, a fully developed ethical life cannot antecede the formation of the state.

The state is the actuality of the ethical idea. It is ethical mind *qua* the substantial will manifest and revealed to itself, knowing and thinking itself, accomplishing what it knows and insofar as it knows it. . . . Since the state is mind objectified, it is only as one of its members that the individual himself has objectivity, genuine individuality, and an ethical life.

(Hegel, 1952:155-156)

The state is the embodiment of ethical life insofar as ethical life exists on the plane of universalistic social relations. Nevertheless, historically existent societies can never eradicate particularistic social relations, and

therefore the family and civil society (which are structures of particularistic social relations) will inevitably persist in the modern world. Although the state is the highest expression of ethical life, it must not, according to Hegel, interfere in the particularistic affairs of the family or civil society. By such interference, the state would destroy the particularistic character of civil society and impart to it the universalistic nature of the state. In other words, all social relations—the totality of society—would be forced into a uniform mold dictated by the exclusion of particularity. All genuine self-determination and, hence, all freedom would be eliminated. This was precisely Hegel's analysis of the French Revolution, to which we will return later.

Intolerance of particularism and consequent tyranny of universalism is, for Hegel, the essential flaw in Plato's political thought. Hegel attempts to integrate universalist and particularist modes of social life, assigning a definite sphere of legitimacy to the latter, but giving overall hegemony to the former. Tyranny emerges from either intrusion of particularism into the state, or invasion of universalism into civil society. Roughly speaking, the former tyranny appears as domination of the whole by a part, while the latter lies in suppression of the parts by the whole. The distinction between these two sources of tyranny furnishes a valuable hint for a modern morphology of dictatorship.

C. Class Structure

Hegel's concern about the relationship between the universal and the particular aspects of human societies is clearly reflected in his views on class structure. Class structure, in Hegel's view, emerges through the activity of work. Class structure exists as a crucial point of juncture between the particular actions of specific human beings and the universal needs of the social totality.

When men are . . . dependent on one another and reciprocally related to one another in their work and the satisfaction of their needs, subjective self-seeking turns into a contribution to the satisfaction of the needs of everyone else. That is to say, by a dialectical advance, subjective self-seeking turns into the mediation of the particular through the universal, with the result that each man in earning, producing, and enjoying his own account is *eo ipso* producing and earning for the enjoyment of everyone else. (Hegel, 1952:129-130)

Social classes are groups with common interests, common needs, and common types of work synthesized from the complex and interrelated processes of production and exchange.

The infinitely complex, criss-cross movements of reciprocal production and exchange, and the equally infinite multiplicity of means therein employed, become crystallized, owing to the universality inherent in their content, and distinguished into general groups. As a result, the entire complex is built up into particular systems of needs, means, and types of work relative to these needs, modes of satisfaction and of theoretical and practical education, i.e., into systems, to one or other of which individuals are assigned—in other words, into

class divisions. (Hegel, 1952:130-131)

Although class divisions arise through the process of production, social classes have a deeper reality not immediately apparent from their source of origin. The essence of class, like the essence of state, is common-will (8). A social class exists as a potentiality for corporate organization and as a distinctive mode of consciousness derived from participation in the activities of production and exchange. The class-will is far less comprehensive than the state-will, but it is a manifestation of universalism within the context of civil society. Through their membership in social classes, individuals can achieve a partial transcendence of self-seeking particularism. The existence of a social class transforms the pursuit of private interests into the pursuit of group interests, inducing thereby a limited universalism.

In contrast to Marx, Hegel does not regard class structure as historically variable. Since the inner reality of class is mode of consciousness and common will, forms of the idea, it should be possible to derive class structure from the concept of civil society. Civil society is a permanent ingredient of modern society and, hence, class structure must exhibit a similar fixity.

Hegel identifies three fundamental classes in civil society.

The classes are specifically determined in accordance with the concept as (a) the *substantial* or immediate [or agricultural] class; (b) the reflecting or *formal* [or business] class; and finally (c) the *universal* class [the class of civil servants] (author's italics). (Hegel, 1952:131)

Each of these classes is characterized by a distinctive mode of consciousness and a distinctive type of social bond. The social bonds which characterize the agricultural, business, and civil service class correspond respectively to the principles of coherence governing the family, civil society, and the state.

The activities of the agricultural class are largely determined by the rhythm of nature. Once the basic principles of agriculture are understood, the cultivator has little occasion for making autonomous decisions. Hence, reflection and independence of will have little part in the mode of consciousness characteristic of the agricultural class. This class finds a common bond in the disposition of family members towards unquestioning trust.

Hegel's business class includes everyone whose livelihood rests directly or indirectly on the "adaptation of raw materials" (Hegel, 1952:132). In discussing the composition of this class, Hegel alludes to craftsmen, production workers, and merchants. The activities of this class require intelligence and reflection, and thus its distinctive mode of consciousness emphasizes a spirit of utilitarian calculation plus the intrinsic value of work. Like civil society as a whole, the cohesive principle of the business class is found in the interdependence of modern production itself.

Hegel identifies his third class, the class of civil servants, as the "universal class." Civil servants constitute the universal class because their particular interests as functionaries of the state are also the interests of society as a whole (the state being the actualization of the universal will implicit within the social order). Marx also uses the concept of a universal

class, but in his analysis of capitalist society he identifies the proletariat, not the civil service; for him, the universal class is the revolutionary subject of human history which will act to realize the universal interests of humanity.

For Hegel however, the existence of a universal class does not entail the revolutionary dissolution of the other spheres of society. The family and civil society must persist as institutionalized mediations which shield the individual from domination by the state, and even more from a devastating sense of political impotency. When individuals relate to the state directly, without mediating institutions, Hegel contends that they become conscious mainly of their own weakness. This consciousness emerges in systems of government based upon direct political representation.

Though intended as an expression of pure democracy, direct representation actually convinces the voter of her own powerlessness, denies her meaningful sustained participation in the political process, and makes her skeptical about the value of democracy. Representation of this kind leads almost inevitably to the paradoxical reality characterized by democratic form and oligarchic substance, and even the democratic form may wither away as people turn their backs upon a hollow privilege of voting. The state is confronted by a formless conglomeration of conflicting demands which provide little coherent information about the needs of civil society, and equally little basis for the formation of viable policy. Far superior, according to Hegel's analysis, would be a mediated system of representation which at least held out the possibility of establishing meaningful ties between the individual and state.

Hegel maintains that individuals should (and actually do) relate to the state through class-based organizations rather than directly. Class organization helps people become conscious of their own interests and enables them to act rationally in defense of these interests. Within class-based organizations, individuals are not powerless; they can exert influence. Furthermore, these organizations can often affect state policy. Insofar as the individual identifies with the organization, she will acquire a sense of potency—mediated potency to be sure, but nevertheless potency—and, hence, a consciousness of her own freedom.

The principle of mediation which Hegel has in mind may require a more articulated organizational structure. That is, a class organization may confront an individual member as an overweening power and induce within her the same sense of impotency as did the state itself. This would simply necessitate subclass level organizations, but the basic principle remains unaltered. What the principle requires is a structure of organizations, starting with the individual and ending with the state, such that a few simple conditions are satisfied. The individual must experience her own efficacy within that lowest level organization in which she participates directly. Each organization within the structure must be subject to influence by the lower level organizations which form its constituency, and must exert influence upon the higher level organizations in which it participates. If these conditions hold, the processes of identification and mediation will provide meaningful linkage between individual and state, and the state will appear as the actualization of the individual's own freedom. Hegel does not regard social structure as the antithesis of freedom,

but as an instrumentality necessary for its concrete existence.

State and Revolution

Hegel was by no means oblivious to the evils of modern society. As Avineri points out, Hegel developed a cogent analysis of pauperization, social polarization, economic imperialism, and colonization (Avineri, 1972: 154). Despite his awareness of these depravities, Hegel—especially in his later writings—remained quite unsympathetic towards revolutionaries' movements aimed at abolishing poverty, inequality, and domination of foreign peoples.

Hegel's hostility towards revolutionary movements must be viewed in the context of his reaction against the Jacobin terror in France. Recall that Hegel understands the ultimate content of history to be the unfolding consciousness of freedom. The idea of freedom actualizes itself subjectively in the individual consciousness, and objectively in the form of social institutions, especially the state. The relationship between the abstract concept of freedom and the freedom actualized in the consciousness and institutions of a concrete social formation is always complex, and under certain circumstances, can be perverted. Such perversions are particularly dangerous if they derive from a misunderstanding or a one-sided understanding of what freedom means. Hegel felt that the French revolutionaries misunderstood freedom in two fundamental ways: (1) they equated negative freedom with the totality of freedom, and (2) following Rousseau, they confused will conceptualized at the level of individual with will conceptualized at the state level.

The concept of will as understood by Hegel has three moments: a moment of negative freedom, a moment of positive freedom, and a moment of self-determining freedom. The moment of negative freedom is essentially the will's ability to determine its own content. The will is not dominated by what exists here and now. No matter what an individual's present cognitions and present state of mind, the will can conceive alternative cognitions and alternative states of mind. Thus, the will can distinguish its own existence from every determinant state of mind, and can dissolve in thought (and possibly in action) every concrete restriction. Negative freedom represents the totally unrestricted aspect of the will, its ability to transcend every given content, the element of pure indeterminacy which arises from the very existence of the will. Positive freedom embodies the ability of the will to create a definite content and to exist within the confines of the content it has created. Positive freedom arises through the cancellation of negative freedom. Self-determining freedom means the ability of the will to unify negative and positive freedom. It does this by recognizing its ability to dissolve all determinate contents, by nevertheless affirming a particular determinate content, and by recognizing that the acceptance of a determinate content represents a phase of the will's authentic self-determination.

The Jacobins, Hegel argued, by comprehending freedom one-sidedly as negative freedom, unleashed an orgy of destruction which could experience liberty only by annihilating all hitherto existing institutions and also everything created by the revolution itself.

Only in destroying something does this negative will possess the feeling of itself as existent. Of course it imagines that it is willing some positive state of affairs, such as universal equality or universal religious life, but in fact it does not will that this shall be positively actualized, and for this reason: such actuality leads at once to some sort of order, to a particularization of organizations and individuals alike; while it is precisely out of the annihilation of particularity and objective characterization that the self-consciousness of this negative freedom proceeds. Consequently, what negative freedom intends to will can never be anything in itself but an abstract idea, and giving effect to this idea, can only be the fury of destruction. (Hegel, 1952:22)

French revolutionaries understood themselves as a manifestation of the universal will striving to realize absolute freedom. But pure universality can exist only as abstract idea and never in the form of a particular state. When the universal will, in the form of a revolutionary movement, becomes gripped by a misguided desire to exist as a concrete historical state, it exhibits a frenzied passion to obliterate everything except itself, and proceeds to annihilate all structures which mediate between the individual and the state. The end result is a totalitarian reign of terror which ultimately cannibalizes the revolutionary movement itself.

The revolutionaries' second misunderstanding of freedom was their uncritical acceptance of Rousseau's social contract theory, which makes the state derivative from individual consent, and hence subordinates state will to individual will. By embracing the private notions of freedom current among contemporary French intellectuals, they ignored the concept of freedom as manifested in the movement of world history. Although these private notions of freedom may have been widespread, they had no foundation within either the development of French consciousness conceived as a self-determining logical process, or the prior evolution of French social institutions. These notions confronted French reality as an abstract alien force which could be implemented only through the dissolution of the pre-existing state (for Hegel, the embodiment of concrete freedom) and the massive use of terror.

For Hegel, the dynamic of history ultimately derives from the internal logic of the concept which animates a historical epoch. The tragic errors which doomed the French Revolution—exclusive emphasis on negative freedom and substituting individual will for state will—are interpreted by Hegel as flaws intrinsic to the concept of revolution itself. The Jacobin "reign of terror" was no accident. On the contrary, it flowed naturally from the very idea of revolution, and constitutes a dire warning to all would-be revolutionists and muddle-headed champions of freedom.

In some ways, Hegel treats the state itself as a functional substitute for revolution. The classic conception of revolution treats it as a simultaneous historical product and historical intervention (i.e., a process transcending the subject-object duality) which, in times of social malaise, reasserts the claims of universality (i.e., of society as a whole) against the rapacious and chaotic particularisms (i.e., the welter of special interests) which previously dominated society. This conception, however, closely parallels what Hegel views as the function of the state. The state is related to civil

society, but is nevertheless independent of it. The state represents the claims of universality and restricts the scope of particularism. The state is the instrumentality through which society mobilizes itself to deal with collective problems. Thus, when confronted by rampant poverty, conflict, imperialism, and the like, Hegel does not, as would Marx, embrace revolution as the agency of a transforming amelioratory universalism. Instead, he embraces the state itself as that collective will which stands above class divisions, and which embodies whatever realistic hopes history may offer for the rectification of existing evils. Unlike revolution, the state guarantees the existence of mediating social structure. Without institutions like family and class structure to mediate between the individual and the state, Hegel argues the social order will simply collapse with disastrous consequences for everyone.

VII. Hegel and Marx

In several of his early manuscripts, Marx undertakes a systematic examination of the Hegelian dialectic in the course of which he formulates three interrelated criticisms. First, the Hegelian dialectic is viewed by Marx as being completely abstract. It takes place on the level of thought. Its categories are categories of logic or metaphysics, not categories which pertain to concrete reality. Second, because Hegel's dialectic moves within conceptual rather than historical space, it fails to recognize that the ultimate reality is the practical activity of concrete individuals. Thirdly, the very negativity of the Hegelian dialectic, its criticism of what exists, conceals within itself a potential apology that uncritically affirms the existing order.

The appropriation of man's objectified and alienated faculties is thus, in the first place, only an *appropriation* which occurs in *consciousness*, in *pure thought*, i.e., in abstraction. It is the appropriation of these objects as *thoughts* and as *movements of thought*. For this reason, despite its thoroughly negative and critical appearance, and despite the genuine criticism which it contains . . . there is already implicit in [*The Phenomenology of Mind*], as a germ, as a potentiality and a secret, the uncritical positivism and uncritical idealism of Hegel's later works—the philosophical dissolution and restoration of the existing empirical world [author's italics]. (Marx, 1964:201)

This passage summarizes Marx's criticism of the Hegelian dialectic. Later Marx explains more precisely why the dialectic of Hegel must fail to transcend human alienation. Instead of making historically active human beings the subject of the dialectic process, it relegates them to the condition of mere predicate of a transhistorical world spirit.

. . . this [dialectical] process must have a bearer, a subject; but the subject first emerges as a result. This result, the subject knowing itself as absolute self-consciousness, is therefore *God, absolute spirit, the self-knowing and self-manifesting idea*. Real man and real nature become mere predicates, symbols of this concealed unreal man and unreal nature [author's italics]. (Marx, 1964:214)

The subject of the Hegelian dialectic is thus exactly what Marx regards the quintessential embodiment of alienated human spirit, namely, the inability of human beings to recognize the potency of their own actions. Thus, alienation becomes incorporated into the heart of the dialectic itself, which hence remains impotent to dissolve human alienation even on the level of thought.

Marx's third criticism is that the negation of the negation, a central notion of Hegelian dialectics, ends up by affirming rather than negating what exists. As used by Hegel, the negation of the negation sets up a sequence of negations or supersessions, which lead from a relatively specific to a highly abstract mode of existence, but that gets played out on the conceptual level. Within this sequence of negations, each notion is negated, but since Hegel conceives the result as a totality, i.e. a recapitulation of the entire process, each notion must persist to be contained and preserved in the final totality.

The act of *supersession* plays a strange part in which *denial* and preservation, denial and affirmation, are linked together. Thus, for example, in Hegel's *Philosophy of Right*, *private right* superseded equals *morality*, morality superseded equals the *family*, the family superseded equals *civil society*, civil society superseded equals the *state*, and the state superseded equals *world history*. But in *actuality* private right, morality, the family, civil society, the state, etc. remain; only they have become "moments," modes of existence of man, which have no validity in isolation but which mutually dissolve and engender one another. They are "moments" of the movement [author's italics]. (Marx, 1964:211)

Thus the Hegelian dialectic reveals itself as a logic of totality rather than a logic of process. That is, it proves far more suitable for posing and answering questions pertaining to the coexistence of complex and seemingly inconsistent moments within a single totality, than for posing and answering questions relating to the dynamics which compel a historical sequence of social totalities.

The Hegelian dialectic unfolds itself in conceptual rather than historical space. In terms of historical temporality, as Marx points out, the entire process of thought embraced by the Hegelian dialectic can have a simultaneous existence. One gets little sense of conflict from the outcome of Hegel's dialectic. Nor is this accidental. Hegel's search for a resolution is a search for mediations: mediation between opposites, mediation between conceptual incompatibles, mediation between different levels of analyses. It is not a search for the ultimate antagonistic contradictions inherent in class societies, that can only be resolved by the historical struggle of opposing forces. Hegel certainly does not intend his dialectic as an equilibrium of opposing forces, but equilibrium emerges as a negative totality in which conceptual opposites figure as moments unified through a process of conceptual negation. These moments, in the words of Marx, simultaneously "dissolve and engender one another," creating a total effect virtually indistinguishable from the notion of equilibrium, which permeates most branches of bourgeois science.

Hegel and Marx hold utterly divergent views on the nature of the state.

Hegel understands the state as an entity which can and should be outside and above civil society, and which restrains the conflicting particularist passions which arise within civil society. At the level of social totality the apparent conflicts among the various components of civil society are resolved in the existence of the state. The state is for Hegel the totality that cannot be interpreted as the agent of any specific sector.

Marx interprets the state as a creature of civil society whose actions clearly reflect the interests and tensions arising therein. Although Marx does not postulate a complete isomorphism between ruling class interests and state policies, he analyses the state as guardian of a historically specific social formation, a social formation which necessarily produces and reproduces a hierarchical class structure. *Eo ipso* the state is also guardian of this class structure and protector of the ruling class. Occasionally particularistic impulses may blind the ruling class (or at least the bulk of the ruling class) to its own long-term interests and to the functional requirements of the system of which it is chief beneficiary. Paradoxically, such blindness can generate a clash between state and ruling class, a clash which, if superficially observed, mystifies the true relationship between the two.

Hegel regards the state as both inevitable and desirable. Marx sees the state as only conditionally necessary—it did not always exist and need not exist under circumstances which may arise in the future—and as oppressive by its very nature.

VIII. Critique of Avineri

The relationship between Marx and Hegel is a central theme in Avineri's book, *Hegel's Theory of the Modern State*. Although he identifies significant differences between Marx and Hegel, he explores so many similarities—and his phraseology suggests additional similarities not explicitly mentioned—that the intellectual difference between these two thinkers is minimized.

The recent renaissance of interest in Hegelian thought is an important corrective against mechanistic renditions of history, a corrective which reemphasizes the role of consciousness in the unfolding of dialectical processes, which fortifies the conceptual armory at the disposal of Marxist thought, and which helps us formulate a theory sufficiently complex and subtle to comprehend the present historical epoch.

However, a joint enthusiasm for Hegel Marx sometimes creates the impulse to minimize the differences between these thinkers, or to seize upon superficial methods of reconciliation. Avineri's work seems to suffer from this impulse. For us, on the contrary, the importance of the relationship between Marx and Hegel is the creative tension that serves to illuminate two archtypal modes of interpreting social reality. In one of these modes, consciousness is causally prior to, and the foundation of social existence. The other reverses the causal ordering, using social existence to explain consciousness. But both alternatives share the same fundamental categories of conceptual thought, particularly the duality between subject and object. If history is indeed a dialectical process entailing continual interaction between subject and object, then both interpretations can en-

hance out understanding of reality.

Professor Avineri has produced an eminently comprehensible study of Hegel which should render his political thought accessible to a much larger audience. One is continually impressed by Avineri's astute choice of words which eliminates awkward verbiage and illuminates obscure passages. Avineri's method of organization, which often separates topics treated together by Hegel and arranges them in a logically compelling sequence, contributes significantly to the overall clarity of presentation.

Clarity is by no means the only virtue of Avineri's book. Another important virtue lies in Avineri's sensitive interpretation of the process by which Hegel's political thought developed and the various stages which it reached. Thus, Hegel's theories are presented and explained as the outgrowth of a creative struggle in which a powerful, original, and politically engaged mind confronts the changing historical realities of his time while simultaneously reflecting on its own previous path. We find in Avineri's book not one Hegel, but several different Hegels, the linkage between them being both the internal process of intellectual maturation and the revolutionary upheavals which transformed European society during Hegel's own lifetime.

Avineri is familiar with the entire corpus of Hegel's work, including material not yet available in English. Nor has he confined attention to narrowly defined political topics. On the contrary, a broad range of social, economic, psychological, and philosophical issues fall within his purview, and rightly so since they impinge directly upon Hegel's theory of the state.

Avineri differentiates between Hegel's "political writings" and "systematic writings."

... Hegel's political writings present a consistent and progressively unfolding panorama of the way in which his political theory evolved through constant confrontation with historical reality. His systematic writings, on the other hand, reflect an attempt to develop the general theoretical framework within which his theory of the modern state could be defended. (Avineri, 1972:81)

Hegel's Theory of the Modern State offers a fine exposition of Hegel's political writings, but a rather indifferent discussion of his systematic writings. Actually, Avineri fails to present Hegel as a systematic thinker. His exposition depicts the process of Hegel's intellectual development, but not the inner logic of Hegelian philosophy itself. From reading Avineri's book, one gains little appreciation for the overall coherence of Hegel's thought, let alone for the nature of a Hegelian system and the way in which Hegel's political thought fits into such a system. Instead, the reader finds a collage of viewpoints unified, if at all, by stylistic convention, terminological peculiarities, and certain recurrent thematic concerns.

A related weakness stems from the methodology Avineri uses in presenting Hegel. Avineri, from his examination of Hegel's writings, identifies certain key passages, and then analyzes Hegelian theory on the basis of these passages with relatively little reference to the larger texts from which they are culled. The resulting interpretation often seems one-sided, overly schematic, and bereft of crucial qualifications obvious in the com-

plete text. The detailed interpretation of quoted passages tends to disrupt the conceptual unity intended within the original, to miss central themes spread diffusely through the entire work, and to elevate tangential comments to a position of central importance. For example, Avineri underemphasizes Hegel's view of the state as a form of will, and the consequences which naturally flow from this outlook. Brief discussions of the relationship between state and will appear in Chapters 5 and 9. These occur relatively late in the exposition and totally belie the centrality of will in Hegel's political thought (9).

Avineri's intentions in reanalysing Hegel include a desire to rescue Hegel from the undoubted exaggerations of those who would interpret him as a philosophical advocate of authoritarian rule (or as a forerunner of such advocates). Avineri, however, leans too far in the other direction of interpreting him as a progressive liberal and of denying that his writings have any possible authoritarian implications.

Consider, for example, the way in which Avineri treats Hegel's ideas on war. The main thrust of Hegel's thinking about warfare seems to be a critique of the Kantian notion of perpetual peace as "an ideal towards which humanity should strive." Though himself critical of militarist tendencies within the Prussian state, Hegel sharply attacks the view which holds war to be an unmitigated evil. Typical of Hegel's statements in this regard is the following:

War is not to be regarded as an absolute evil. . . . War is the state of affairs which deals in earnest with the vanity of temporal goods and concerns. . . . This is what makes it the moment in which the ideality of the particular attains its right and is actualized. War has the higher significance that by its agency . . . 'the ethical health of peoples is preserved in their indifference to the stabilization of finite institution; just as the blowing of the winds preserves the sea from the foulness which would be the result of a prolonged calm, so also corruption in nations would be the product of prolonged, let alone "perpetual" peace.' (Hegel, 1952:209-210)

Avineri interprets this and similar statements to mean that Hegel regards war as a test or indicator of a nation's moral condition. He insists that Hegel does not believe that war can have a salutary effect on a nation's moral or political health. Hegel's own writings on this topic are far more ambiguous than Avineri's insistent interpretation would warrant. Hegel does not say that *every* war is a good thing and thus should be eagerly welcomed. But he does urge that—at least in principle—war can have a beneficial influence on the nation which wages it quite irrespective of its territorial or narrowly political outcome. War, Hegel feels, can have a beneficial influence because it places definite limits upon the selfish particularism of civil society, and temporarily forces the citizens to subordinate their own particular private interests to the common interest of defending the nation state. Thus, war functions to purge the nation of corrupt and irrational practices arising from the blind self-seeking of individuals, and strengthens the moral ties between members of society. It dramatically reminds people that the state is not merely an instrumentality to further their private interests, but an association

whose existence is a *sine qua non* for the very possibility of comprehensive ethical life.

Another interpretation of Avineri's which bends Hegel in the direction of modern liberalism is his reconstruction of Hegel's attitude toward the Prussian state. The most unfortunate thing about this liberalized revision of Hegel is not that it misrepresents specific positions—misrepresentations are easily corrected, and furnish in any case a valuable stimulus to controversy—but rather that it misconstrues the basic political message of Hegel and obscures the intense Promethean ambivalence of his thought which is, in fact, the nexus of his creativity and the reason why we still find it valuable to struggle through his difficult texts. We may at once applaud Avineri for rendering Hegel more accessible to a broader public, and regret that in so doing, he underemphasizes the tensions both within Hegel's own writings and between Marx and Hegel.

IX. *The Contemporary Relevance of Hegel*

Hegel, like Marx, was animated by a passionate love of freedom and an urgent desire to comprehend the conditions under which freedom could flourish. Hegel understood that freedom was a far more complex and overarching concept than alleged by liberal ideology. He also understood that material necessity and social constraint were not absolute antitheses of freedom, but essential stages in a rational historical process moving towards human liberation. Hegel's critique of liberalism is not couched in the cautious, anti-revolutionary, backward-looking spirit of Burke, but on behalf of a fuller, more genuine freedom than humanity has ever known before.

Hegel fully realized that liberalism, even the purest, most consistent liberalism, is not a satisfactory solution to the problems of modern industrial society. At best, it could create a formal instead of a substantive freedom, or establish a small niche of everyday existence in which the individual enjoys a private sphere of freedom, while confronting an incomparably larger public realm dominated by coercive necessity. Moreover, liberalism will camouflage its inadequacies by mystifying the nature—indeed, the very existence—of unfreedom. The upshot of mystified unfreedom can be existentialist despair about the human condition, aggression against the self (depression and ultimately suicide), or aggression against the other (legitimated or non-legitimated crime). Although Hegel does not articulate such a fully developed critique of modern liberalism, it emerges as a straightforward extrapolation of his thought.

Hegel's analysis has much relevance for contemporary underdeveloped societies. The institutions of liberal democracy have repeatedly demonstrated their incompetence for dealing with the pressing problems of these societies. Progressive movements in underdeveloped societies repudiate all forms of tyranny and servitude, and confront the task of bringing a form of social organization that embodies genuine freedom, a freedom which is able to cope effectively with the real bondage of the people—the pathology of underdevelopment forced upon them by the advanced capitalist societies.

In the last analysis, Hegel did not understand how freedom could achieve a concrete institutional embodiment in the modern world. As a result, his writings on politics are replete with glaring lacunae and latent inconsistencies, some of which Avineri discusses. The tension between the poverty systematically generated by capitalism and Hegel's stricture against state intervention in civil society is but one example of these latent inconsistencies. Hegel sought to circumvent such difficulties by linking freedom to the state. Although this linkage is theoretically suggestive, as an approach to the solution of concrete problems it seems hopelessly abstract, incomplete, and possibly misleading. Nevertheless, Hegel's attempt to emancipate the concept of freedom from its liberal individualistic integument by formulating a dialectical notion of freedom which transcends the freedom-necessity, freedom-authority, freedom-constraint, freedom-responsibility antinomies, represents an enormous advance over the eighteenth century ideas articulated by Locke, Rousseau, and Jefferson.

The task of formulating an adequate concept of freedom and of comprehending the relationship between freedom and the state is still very much with us, and has enormous political significance in the contemporary world. The answer to the deceptively simple question of whether or not freedom exists in China and North Vietnam depends on one's concept of freedom. Each concept renders some information highly salient and other information quite irrelevant.

Those who embrace the individualist notion of freedom which premises the ultimate reality of the individual ego and the absence of deliberately imposed constraint as a core of liberty, will tend to deny the existence of freedom in China and North Vietnam. In justifying their position, they will perhaps point towards constraints on potential individual actions, even if these constraints have an abstract character in that they do not limit behavior which people actually wish to undertake or regard as intrinsically valuable. The standards of freedom, they will contend, are essentially unitary and, hence, the same standards should be applied to China and North Vietnam as to the United States and western Europe.

In rejecting the individualist notion of freedom as excessively rigid and incomplete, we would argue that the appropriate criteria of freedom depend upon the problems and possibilities associated with a historically specific social formation. This alternative concept of freedom emphasizes the ability of the Chinese and the North Vietnamese to undertake collective projects with broad popular support which are designed to cope with the major problems confronting their respective societies; the extent to which Chinese and Vietnamese people have taken responsibility for their own fate and escaped the pitiful condition of impotent victimage which afflicted them earlier; and the deep satisfaction and strong sense of collective identity which Chinese and Vietnamese derive from their new found effectiveness. Institutionalized procedures for exerting control over the state and abstract rights, defined in opposition to the state, are less important than a prevailing spirit of unity between masses and state and a sense that the revolutionary state, far from being an alien body to be kept in check by a formal constitutional structure, genuinely embodies the collective will of the toiling masses. These criteria of freedom which are

ignored by the individualist notion of freedom, affirm the existence of freedom in China and North Vietnam.

Rejecting the individualist concept of freedom certainly does not mean denying the importance of individual freedom. It simply means rejecting the position which identifies individual freedoms as the invariant sum and substance of the freedom concept. Because of the absence in the USA of a well worked out alternative formulation, the rejectors of the individualist concept find themselves in a theoretically vulnerable position *vis-a-vis* the defenders. One resolution has been retreat to a nihilistic moral relativism which denies the possibility of discovering any firm grounds for social criticism. Another response, different in content but similar in spirit, has been adoption of an apologetic stance *vis-a-vis* certain—usually post-revolutionary—governments. Accordingly, the policies of these governments become tantamount to absolute standards of freedom, and persons adopting this response are sometimes constrained to defend deeds of the most appalling sort.

As Hegel correctly saw, the nature of freedom is the fundamental question at issue. A satisfactory concept of freedom must steer between the Scylla of ahistorical individualism and the Charybides of apologetic and moral relativism. The concept must have a critical content and must be relevant to the conditions of the modern world. Whether Hegel succeeded in formulating such a concept remains a matter of dispute, but he realized more clearly than any previous thinker the dimensions of the problem and the inadequacies of existing concepts. The work of Hegel still furnishes the best starting point and some of the most suggestive material for the endeavor to construct a suitable notion of freedom.

1. This section may be difficult for readers having little acquaintance with German Idealist Philosophy. We have striven for philosophical precision which accurately captures the subtlety of Kantian and Hegelian thought.
2. Throughout this paper we use feminine rather than masculine pronouns. Although the reader may find this usage jarring, we think it important to combat routine linguistic indoctrination which presents a male actor as the generalized subject, and reinforces thereby the consciousness which accepts the continued subordination of women.
3. In his complementary doctrine of Practical Reason, Kant discusses another level of cognition in which the autonomous subject may overcome the split between knowing subject and known object, at least with regard to moral and practical activity.
4. Perhaps the easiest way to intuit what Hegel was driving at with his dialectical mode of cognition (which he regarded as the only true way the knowing subject could reunite with and comprehend objective reality) is through Hegel's metaphor comparing dialectical reason with the growth of a plant:

The bud disappears when the blossom breaks through, and we might say that the former is refuted by the latter; in the same way, when the fruit comes, the blossom may be explained to be a false form of the plant's existence, for the fruit appears as its true nature in place of the blossom. These stages are not merely differentiated; they supplant one another as being incompatible with one another. But the ceaseless activity of their own inherent nature makes them at the same time moments of an organic unity, where they not merely do not contradict one another, but where one is as necessary as the other; and this equal necessity of all moments constitutes alone and thereby the life of the whole.

(Hegel, 1967:68)

5. We will not treat separately the third or "speculative" stages of Hegel's logical doctrine. Our characterization of dialectical reason actually embraces the key feature of speculative cognition, namely, the process of totalization or unification. Hegel describes the highest level of the logical doctrine thus:

The Speculative stage, or stage of Positive Reason, apprehends the unity of terms (propositions) in their opposition—the affirmative which is involved in their disintegration and in their transition.

(Hegel, 1975:119)

6. The reader should not confuse the notion of positivity as it appears in the rationality-positivity dialectical category with the third or "speculative" stage of Hegel's logical doctrine, which he sometimes refers to as the stage of Positive Reason.

7. Hegel uses the term "merely existing" to characterize empirical phenomena, in contrast to "being actual" which signifies the underlying true reality. True reality is always the concept. Reason shows that empirical phenomena are actually embodiments of the concept, and that reality is a process of becoming, leading towards an ever more perfect realization of the concept. Thus, true reality may be understood as the realm of reason.

To recognize reason as the rose in the cross of the present and thereby to enjoy the present, this is the rational insight which reconciles us to the actual. . .

(Hegel, 1952:12)

T.M. Knox, Hegel's translator, offers the following interpretation of this famous passage:

If the actual is rational, then however tragic the actual may seem to be, reason will be able to find joy in it, because it will find itself in it as its essence.

(Hegel, 1952:303)

8. Hegel regards any entity capable of social action as, conceptually speaking, a form of will. This interpretation provides a direct, though frequently overlooked, link between Hegelian idealism and contemporary social scientific action theorists such as Talcott Parsons. Another and even more obvious link arises from the dialectical categories discussed in section two. If these categories are stripped of their dialectical character, they bear a remarkable resemblance to the Parsonian pattern-variables. These linkages help explain why certain modern social theorists, strongly influenced by Hegel, have also been attracted by the work of Parsons. Hegelian ideas, we might note, enter modern social science through at least two opposing channels: via Marx on the one hand, and via Max Weber on the other.

9. We should underscore, lest this paragraph invite misunderstanding, that the key passage approach does not always generate error and misunderstanding. It can be a useful way of concentrating attention on the main issues and gaining insight about the central intent of an author. But unless used with much circumspection, it is vulnerable to the dangers noted in Avineri's analysis.

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MODES OF CLASS STRUGGLE AND THE CAPITALIST STATE

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ABSTRACT

This paper explores the interconnections between class struggle, state structures and state policies. Rather than view the state either as merely an instrument manipulated by the capitalist class, or as an apparatus determined by the structures of capitalist society, it is argued that the capitalist state must be analysed as an object, a product and a determinant of class struggle. In particular, the paper examines two aspects of this interconnection between the capitalist state and class struggle: 1) the ways in which class struggle shapes, in contradictory ways, the *structure* of the state, and reciprocally, the ways in which the structure of the state shapes class struggle; 2) the ways in which the content of state *policies* shapes and is shaped by the content of the demands raised in class struggle. The paper attempts to develop a conceptual framework within which such issues can be analysed, specifically focusing on the distinction between *production* and *circulation* politics, *commodity* and *noncommodity* politics, and *reproductive* and *unreproductive* politics. A series of brief case studies are provided to illustrate this conceptual schema.

I. CLASS STRUGGLE AND STATE STRUCTURE

The relationship between class conflict and the structure of the state in capitalist society has been analyzed in a variety of ways. We shall review four perspectives: pluralist, instrumentalist, structuralist, and political class analysis (2).

Pluralist, Instrumentalist and Structuralist Perspectives

A liberal perspective, long dominant in American social science, views

the state as a pluralist, aggregating mechanism in which agencies, programs and legislation are substantive responses to the demands and interests of competing groups. The relationship between class structure and the state has generally been viewed in two ways, both perspectives viewing the state as a political market place. The first sees class and interest conflict mediated through party competition and generally assumes an automatic responsiveness of politically neutral state agencies (see for example Lipset, 1960; Lipset and Rokkan, 1967). The second pluralist approach sees state agencies as directly accessible to interest groups and classes for particularized, non-electoral control, and thus as bases of political power (e.g. Dahl, 1961; McConnell, 1966). State bureaucracies become the battleground for specific interest groups, and competition between agencies for limited funding either reinforces or supplants party competition. The proliferation of programs and agencies on the one hand, and the differentiation of state levels on the other, is viewed as providing greater access for any interest to block gross injustice and at least secure a minimum foothold in the state (e.g. Rose, 1967; 1963) (3).

A second tradition sees the state as an "instrument" of the ruling class or dominant elite. This approach starts from a specific interpretation of Marx's superstructural view of the state:

The bourgeoisie has, at last, since the establishment of modern industry and the world market, conquered for itself, in the modern representative state, exclusive political sway. The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie (Marx, 1955).

A contemporary example of this view can be found in Sweezy's *The Theory of Capitalist Development*: "... state power must be monopolized by the class or classes which are the chief beneficiaries." Sweezy sees the state as, "... an instrument in the hands of the ruling classes for enforcing and guaranteeing the stability of the class structure itself," (Sweezy, 1942: 243). Frequently this view infers the power of capitalists from the class composition of the personnel who hold key administrative or legislative roles within the state. Miliband summarizes the conventional Marxist position:

... it has remained a basic fact of life in advanced capitalist countries that the vast majority of men and women in these countries has been governed, represented, administered, judged and commanded in war by people drawn from other, economically and socially superior and relatively distant classes. (1969: 67)

We shall refer to this approach as *instrumentalist*. The theory of "corporate liberalism" is a sophisticated version of this approach (e.g. Hayes, 1964; Weinstein, 1968; Domhoff, 1970). This theory stresses the ability of progressive fractions of capital to preemptively determine the limits of reform through corporate financed, controlled and staffed policy research and policy formation groups which originate model legislation and set the ideological boundaries within which partisan battles will be contained.

The theory of corporate liberalism thus allows a political analysis of institutionalization and the cycles of capitalist participation.

A third general perspective on the state views state structure as determined by the systemic constraints and contradictions of capitalism. These constraints and contradictions need not affect state structure and function through overt political struggle and participation by individuals, interest groups, classes or parties. Rather, to the extent that the survival of the system is dependent upon the containment and solution of recurrent crises, overt class participation may not be required at all. The emphasis of the *structuralist* Marxist approach is on the inherent dynamics and imperatives of the social formation in which the state is embedded. We will distinguish two structuralist Marxist approaches to the state, a political and an economic one.

The political variant of structuralism has been most fully developed by Poulantzas (1973, 1974, 1975) and Althusser (1971). As Poulantzas has written:

The relation between the bourgeois class and the state is an objective relation. This means that if the function of the state in a determinate social formation and the interests of the dominant class coincide, it is by reason of the system itself; the direct participation of members of the ruling class in the State apparatus is not the cause but the effect, and moreover a chance and contingent one, of this objective coincidence. (1972: 245)

Poulantzas argues that the state functions as the factor of cohesion in a social formation, that the bourgeoisie is incapable of achieving sufficient political unity as a class to attain hegemonic domination and therefore that state power must organize this class, and that state power only attains a unity to the extent that it corresponds to the bourgeoisie's interests.

In its more historical and dynamic forms, this structuralist approach attempts to locate destabilizing consequences of adaptation through changing state structure and function in accordance with the political economy as a whole. In its more mechanistic forms this approach is unable to locate specific actors and historically dynamic class conflict as a motor of structural change.

The economic structuralist approach to the state locates a series of functions that the state must perform to temporarily resolve economically determined contradictions. For example, Baran and Sweezy, in *Monopoly Capital*, attribute to the state the function of guaranteeing effective demand to avert realization crises to which monopoly capitalism is particularly prone. Altvater argues for the functional necessity of the state as an institution not internally constrained by the imperatives of surplus value production:

... the state can thus be conceived neither as a mere political instrument nor as an institution set up by capital, but rather as a special form of the accomplishment of the social existence of capital along with and besides competition, as an essential moment in the social reproduction process of capital (1973: 99).

Thus the state is residually defined by the functions capital units cannot perform (4).

Both structuralist approaches to the state do not locate power in decision-making processes, elite preemption and cooptation, or the conversion of economic power into observable political power. Rather power is located in the ability of the state to reproduce class relations and class domination through structural relations that need not be immediately visible. Thus while the apparent determinants of state action may involve the political defeat of the bourgeoisie, the consequences of that state action reproduce and reinforce that class' domination. Poulantzas writes:

. . . a line of demarcation can always be drawn within which the guarantee given by the capitalist state to the dominated classes' economic interests not only fails to threaten the political relation of class domination, but even constitutes an element of this relation. (1973: 191)

A major analytic problem with the structuralist approach is its inability to explain *class action* that arises from class consciousness (5). Class located individuals respond to the stimuli born out of the systemic logic, rather than act on the basis of self-conscious political practice.

On the other hand, the instrumentalist approach to the state tends to rely too heavily on observable class input into, and control of, policy formation. The instrumentalist perspective does not identify systemic constraints and imperatives that operate at all levels of society, including the state, which define and limit the range and form of possible class action. Thus, the instrumentalist perspective will tend to ignore the extent to which the demands and interests of the dominant class must take into account the limits of direct manipulation imposed by a historical social formation: internal state structure, state-economy relations, and economic structure.

The problem with both structuralist and instrumentalist approaches is, in fact, a much larger methodological one. To begin with, "systemic constraints" or "systemic imperatives" are not metaphysical abstractions. Rather, they are primarily products of historically specific struggles for class dominance. Present class action, class dominance, and class interests must be seen as present struggle arising out of and defined in terms of a structure which is historically determined.

Thus, an overemphasis on "structure" or "systemic logic" will tend to view class originated inputs and demands as "passive" responses to stimuli born out of the structure. On the other hand, the class instrumentalist perspective will tend to be somewhat situational and voluntaristic since it does not relate present class action to the historically determined constraints of the system. The instrumentalist view of the state stresses the *political input* into the state and the importance of the unequal class distribution of power. The structuralist view of the state stresses the *political output* of state activity by which capitalist domination is reproduced and the cohesion of the social formation assured (6).

Neither approach contains a theory of the mechanisms that link political inputs and systemic constraints to the outputs of state activity. Neither

approach can analytically distinguish the extent to which class action meditates between constraints and state structures, generates those constraints and structures, or at times is irrelevant to the relationship of economic constraints to the state (7).

Political Class Struggle: An Alternative View of the State

A fourth perspective is possible which focuses on state structure as an object of class struggle. The capitalist class attempts to create state structures which channel working class political activity in ways that do not threaten capitalist political dominance and objective interests. Working class challenge makes the success of such attempts problematic. A political class struggle perspective on the state tries to locate the state within the dialectical relationship between class dominance and systemic constraints.

There are two theoretical tasks to be accomplished in developing such a theory of the state. First, it is necessary to elaborate the nature of the internal structures of the state and their relationship to systemic contradictions. Second, it is necessary to understand the ways in which class struggle shapes, and is shaped by, those very structures.

An important approach is found in Claus Offe's work (1972, 1972, 1974). Offe attempts to analyze the extent to which the internal structures of the state permit it to pursue the interests of capital as a whole while simultaneously acting *with a degree* of "relative autonomy" from direct class domination, thereby assuring the legitimacy of its intervention. Offe distinguishes between the allocation and production functions of the state. Both functions support the process of private accumulation. The important difference lies in the way policies are made for the two functions. The allocation function refers to the ways that the public budget is allocated to regulate the capitalist market. Allocative policies are subject to direct political conflict, and therefore most clearly "instrumental" in character. Production policies, on the other hand, are more complex. These refer to state intervention to solve specific bottlenecks, externalities or crises due to breakdowns in private capital investment upon which accumulation in the system as a whole is contingent. Production intervention involves some form of physical input into the production process. Due to lack of capitalist class cohesiveness, the state takes on responsibility for managing crises through production policy. With no direct class-originated policy guidelines, the state itself is forced to devise decision rules that reproduce private capital accumulation.

However, while Offe extensively discusses the internal structures of the state, he fails to relate them systematically to class struggle. This is apparent in his analysis of the welfare state (Offe, 1972). Offe tends to view the modern welfare state as a mechanism directed at "endemic systemic problems and unmet social needs" (1972: 42). The welfare state is not seen as the product of political and ideological class conflict; rather Offe points to its development in "relative independence from political controversy and ideological debate" (1972:45). Welfare state structures

exist independently of conscious political will and have thus some degree of autonomy to "compensate" for new problems which are byproducts of private capitalist growth. The state is seen as independent of direct class control, a technical apparatus for absorption of "newly created insecurities of political control which create immediate measures that avoid the socially destabilizing problem of the moment" (1972: 42) (8).

Offe's conception of autonomy and his primary focus on the consequences of state intervention as a crisis-solver, leads him to ignore the extent to which classes are differentially able to shape the state machinery and voice specific demands for state action. In other words, the power and ability of the state to resolve recurrent crises does not seem to originate from people as much as from systemic "push-effects" (1972: 45).

Jim O'Connor's work on the fiscal crisis of the state is one of the few attempts to deal both with the relationship of internal structures of the state to contradictions in the accumulation process and with the relationship of class struggle to those state structures. O'Connor analyzes how crises of corporate profitability are transformed into crises of state bankruptcy given the constraints of a tax-dependent state. He also analyzes the ways in which class struggle limits the state's ability to rationalize capitalism and the ways in which state structures have been reorganized to make them more impermeable to working class challenge.

O'Connor suggests that the decline in Congressional power, long ago noted by Mills (1956), and the concentration of power in an increasingly depoliticized executive is required for state rationalization of capitalism. Various structural changes accomplish this centralization of state power: the use of revolving funds; refusal to prohibit transfers between appropriations; lump sum appropriations; the ability of the executive to mingle appropriations and bring forward unexpended balances of former appropriations; and the allocation, program planning and policy controls increasingly vested in the Bureau of the Budget, Domestic Council and the Office of the Management of the Budget. The consequences of this centralization of power within the national state structure has been to increasingly depoliticize, technicalize, if not make invisible, major decisions about the structure and level of taxation and expenditure.

We shall elaborate the theory of the state implicit in O'Connor's and Offe's work by arguing that the internal structure of the state is simultaneously a *product*, an *object*, and a *determinant* of class conflict. State structure is itself a source of power. The organization of political authority differentially affects the access, political consciousness, strategy, and cohesion of various interests and classes. State structure is not neutral with respect to its effects on class conflict. The structure of the state intervenes between social needs and the way these needs are translated into political demands, between demands and state outputs, and between specific outputs and the ability to organize and raise new demands in the future.

Class struggle has repeatedly taken the form of political conflict over the structuring of state authority. As opposed to the "shell" requiring sudden and totalistic destruction posited by Lenin, Gorz (1964) has pointed to the critical role of structural change in the capitalist state as a

starting point for the transformation of capitalist society. Gorz's strategic objective is *structural reform*, where the working class comes to control, if not constitute, new centers of state power with authority to make decisions that respond to needs beyond the capabilities of capitalism—e.g., controls over profit levels, rates of investment, technological change, and social investments (9). While it is very problematic whether or not the working class could actually control pieces of state power within the capitalist state, the critical point in the present discussion is that political challenge by the working class shapes the historical development of state structure. The actual structures of the state are thus not a simple reflection of capitalist interests, but a contradictory reflection of the class struggle between workers and capitalists.

The problem facing advanced capitalist social formations is *how can the capitalist state be structured so as to perform functions dictated by economic contradictions given the actual or potential existence of a politically organized working class?* As the state comes increasingly to be a necessary force in the development and regulation of the capitalist economy, as economic concentration and centralization render small disproportionalities and downturns increasingly dangerous and volatile, the political neutralization of an organized working class through structural change in the state has become more imperative for capitalist growth. Such structural change will always be contradictory, never completely successful. How successful such structural changes will be is contingent on the level of contradictions in the accumulation process and the organization and content of class struggle.

We shall review three historical examples of neutralization of politically organized and challenging segments of the working class through state structural change: the emergence of urban reform government; federal intergovernmental transfer programs for the central cities; and corporatist structures for national planning. In each case, structural change neutralized the political threat working class organization presented to capital accumulation.

Structural Change: Urban Reform Government

City government has been restructured towards a reform government since the Progressive Era. This illustrates the ways in which state structural change allows the performance of functions critical to capitalist development despite the existence of a politically challenging working class. The movement for reform government was controlled by capitalist elites operating through the National Civic Federation and other corporatist policy organizations, who feared the rise of an urban, working-class based Socialist Party movement (see Weinstein, 1968). Further, they were chary of the inefficiency and autonomy of political machines, the high cost of securing their own influence, and the potentially high ethnic working class influence over city expenditures and personnel. Given the need to radically expand city government functions at a time of rapid accumulation, industrialization and urbanization, the reform governmental structure effected a political neutralization of city government unique in capitalist democracies, just when political challenge seemed most threat-

ening (see Hays, 1969; Alford, 1973).

The reform movement developed a package of structural reforms which functioned to depoliticize city politics and insulate allocation and decision-making from class and ethnic political control: city manager form of executive, non-partisan and at-large elections, and small city councils. Through these various mechanisms reform government minimized the political organization, participation and influence of working class and ethnic groups concentrated in the city, while at the same time increasing the influence of dominant interests over decision-making and allocation.

Non-partisan and at-large elections resulted in the elimination of party organization in general, and Socialist Party political organization in particular (Hamilton, 1972). At-large elections made it increasingly expensive for candidates to enter campaigns, thus favoring those with sufficient private resources to pay election expenses and those people most likely to be socially conspicuous in the community. Ward-based elections had increased the likelihood that local working class or ethnic leadership would be generated and decreased the electoral opportunities of middle or upper class candidates due to the restrictiveness of residential requirements based on relatively class homogeneous wards. At-large elections decreased the probability of electing working class party candidates because the percentage of the city as opposed to the ward determined election to the council, thus requiring a higher level of aggregate working class turnout in the city as a whole (see Williams and Adrian, 1969). Non-partisan elections made it difficult for any party organization to survive in local politics and, in contrast to most Western European countries, effectively dissociated city political conflict from national partisan politics. Working class candidates must rely on party organization for electoral financing, organization, visibility and ideological identification through party label in order to get elected. Lacking a local, class-based party organization, manual workers have constituted a very small percentage of city council members in the U.S. in contrast to their percentage in the population. (10)

Under reform government, dominant business interests have more influence both at the city council level and through direct access to city agencies (see Miller, 1958a, 1958b; Morlock, 1973; Cornich, 1973). Reform government functioned to increase the autonomy of city agencies from partisan electoral accountability. Agencies were thus more permeable to the most intensely interested, best organized and economically most powerful interests. Because agencies are more autonomous from partisan control, they are more vulnerable and must seek out interest groups upon which they can institutionalize relationships of political support.

The city machines supplanted by reform government had functioned to politically incorporate the mass migration of working class ethnics, many of whom brought with them socialist ideology and party identification. (11) As Katznelson points out, the machines controlled both the political organization of social groups and the delivery of distributive outputs to those groups. While capitalist elites dominated the party machines, the high cost and uncertainty of that domination brought these structures into question. Hays (1969) has shown that it was the high cost of corruption for distributing favors for business that was one of the interests leading to capital support for reform. Scott (1969) argues that the machines required substantial financial support from capitalist elites in return for support of

critical policy developments, while the machine controlled votes through delivery of patronage and distributive benefits to working class ethnic constituencies. The reformist restructuring of the city government is one illustration of how state structures have developed which effectively insulate areas of decision-making and allocation critical to capitalist interests from political accountability, thereby maximizing the translation of capitalist economic power into patterns of allocation and non-decisions favorable to those interests, while simultaneously minimizing the need for those capitalist interests to participate in manifestly political ways.

However, like all state structural change, the development of reform government has been internally contradictory. On the one hand, the departisanizing of city politics effectively destroyed the urban political party as an effective social control mechanism without providing a satisfactory replacement. Thus, the new black urban proletariat which emerged during the post-WW II period was not initially politically absorbed, which was one of the important factors contributing to the violent and politically costly rebellions of the 1960s. On the other hand, reform government destroyed the politically powerful mayor as the centralizing role in the city political system. As a result, it is much more difficult in the reformed city to effectively rationalize and coordinate the fragmentary maze of highly autonomous city agencies (see Newton, 1973, 1974). The new forms of urban pork barrel politics have consequently pushed the city towards fiscal crisis without making the city a location for efficient production for capital as a whole.

Structural Change: Intergovernmental Grants to the Cities

Presently, the central cities of the U.S. face a fiscal crisis which impinges upon city functions critical to capital and undermines the political domination of capitalist elites. As industry and upper income residents decentralize into a municipally fragmented metropolis, dissociating fiscal capacity from social needs, the central city fills up with an especially poor and often black segment of the working class. With their concomitant electoral power and potentially explosive demands for expenditures for adequate levels of basic social services, structural mechanisms (e.g. non-school special districts, regional authorities, inter-governmental project grants) have developed which insulate from popular control areas of policy-making and allocation upon which regional capital accumulation is dependent (see Feshbach and Shipnuck, 1973).

The structure of the federal inter-governmental transfer programs to the central cities was in the 1960's a particularly effective way by which state structures were politically insulated from challenging segments of the working class. Federal inter-governmental transfer programs and especially project grants located the origins of urban policy, and thus the limits of urban expenditure, outside the city. This favored those interests best able to organize on a national level—corporate policy groups, capitalist fractions like insurance companies, mortgage bankers, home building associations—and insulated policy formation from the poor and black who have been able to create electoral and non-electoral challenges only on the local level. At the national level, black groups for example, have been loose

ineffectual federations of local groups confined to legislative lobbying once the limits of substantive policy variation have already been defined (see Wolman and Thomas, 1970).

Further, the development of federal grants-in-aid have insulated urban agencies from political accountability. Federal programs have contributed to the proliferation of politically autonomous agencies with direct linkages to the federal bureaucracies and their administrative elites, making agencies more permeable to dominant capitalist interests which are best organized and have most at stake; and making any unitary, programmatic attack on urban problems impossible, thus contributing to the political fragmentation of lower class client groups. Without a unitary structure with the capacity to act, people who have most to gain from serious change have little incentive to politically participate (Newton, 1973).

Structures such as reform government and federal inter-governmental transfer programs depoliticize major segments of state power. Capitalist elites have been able to control the structure of city expenditures in ways that do not impinge upon the city functions critical to the continued profitability of the central city location, and which generate new fiscal resources without threatening the class-fragmented metropolis (Hill, 1974).

The proliferation of intergovernmental project grants for the cities has also been internally contradictory. For if such federal grants decreased the possibilities for political influence by the urban working class, they have also made rational policy formation by national and city executives even more difficult. At the national level the swelling national bureaucracies which resulted from the new federal urban programs were increasingly able to avoid Presidential control and become autonomous centers of policy formation. At the city level, both city managers and mayors were unable to control the federally funded city agencies because of these agencies' direct lines of communication to their federal sponsors. The erosion of urban executive power which resulted led finally to yet another structural change, revenue sharing, which promises new conflicts and contradictions.

Structural Change: Corporatism

The emergence of corporatist structures to politically incorporate the organized working class, given the increasing role of state intervention in the economy, is a third example of structural change that attempts to insulate the political regulation of the economy from working class control.

A variety of analysts have linked the attempts at political incorporation of the organized working class into subordinate positions in corporatist structures to the increasing imperatives for state planning of capitalist development. Shonfield (1965) has argued that the emergence of the positive capitalist state which attempts to maintain full employment, regulate labor conflict, control inflation and stabilize business cycles has been associated with the institutionalization of class conflict. Schmitter (1974) has analysed the emergence of societal corporatism in advanced capitalist nations. Corporatism in general is characterized by:

... singular, non-competitive, hierarchically ordered, sectorally compartmentalized, interest associations exercising representational monopolies and accepting (de jure or de facto) governmentally imposed or negotiated limitations on the type of leaders they elect and on the scope and intensity of demands they routinely make upon the state (1974: 99-100).

Schmitter argues that societal corporatism, a form of interest structuring not centrally imposed by an authoritarian state, emerges out of the decline of advanced pluralism. The institutionalization of class and interest conflict through societal corporatism assures state control and predictability of class conflict, the cooptation of working class elites in exchange for state guaranteed monopolization of working class access to state power. The process of corporatist development involves a variety of forms:

The modalities are varied and range from direct government subsidies for association, to official recognition of bonafide interlocuteurs, to devolved responsibilities for such public tasks as unemployment or accident insurance, to permanent membership in specialized advisory councils, to positions of control in joint public-private corporations, to informal, quasi-cabinet status, and finally to direct participation in authoritative economic and social councils (Schmitter, 1974: 111).

Warren (1972) also has suggested the importance of politically incorporating the working class as a political requirement for capitalist planning given the need to assure wage control in the context of international trade competition. Political incorporation was critical if the politicization of profit levels and class shares of income was to be averted. The solution, according to Warren, was,

The institutionalized integration of a bureaucratic trade union movement into the planning process, exchange for limited, but continuous economic and other gains for the working class—provided *all* independence of the movement is surrendered except over minor matters (Warren, 1972: 8).

Warren suggests that the early adoption of wage policies in Norway, Sweden, and Holland were only possible because social democratic parties were in power and could induce trade union wage control. Warren points out that after the failure of deflationary measures in response to inflationary wage-price spirals, the United Kingdom, West Germany, Belgium and Italy,

... all ushered in planning plus wage policies under the aegis of newly formed social democratic governments or governments with social democratic participation; in all cases major sections of the ruling class specifically opted for social democratic participation in government; in all cases a certain political resurgence of the working class occurred at the same time as inflation was accelerating, and followed the exposure of the irrationalities of previous stop-go type policies, thus making the strategic problem of the integration of the working class into the new capitalism rather more urgent (1972: 13).

Warren goes on to point out that with their incorporation into state planning, social democratic parties abandoned the socialist elements in their programs and stressed the efficiency with which the party could manage state planned, full-employment capitalism.

Corporatism is also an internally contradictory mode of incorporating the working class. The premise of a corporatist strategy is that the inclusion of selected leaders of working class organizations (especially unions, but also on occasion left parties) in formal state planning processes will reduce working class opposition to state policies without requiring massive concessions to popular demands. This outcome will occur only if two things happen: first, the incorporated leadership must be seen as legitimate by the working class, and second, the leadership must be sufficiently insulated from day-to-day mass pressures to accept the imperatives of planning in the interests of capital accumulation. And here lies the contradictory quality of corporatism: If the leadership of the incorporated working class organizations is sufficiently isolated from the working class so that state planning is insulated from popular pressures, then that leadership will tend to gradually lose legitimacy and thus cease to function as a means for integrating the working class. If, on the other hand, the leadership maintains close ties to the working class and remains a legitimate instrument of real working class organizations, then corporatist planning will be hampered by the constant pressures for accommodation with mass demands. The first of these possibilities undermines the cooptive function of corporatism and will tend to accelerate the disintegration of the incorporated organizations. This can already be seen in the case of Social Democratic Parties in several European countries. The second of these possibilities undermines the planning function of corporatism and brings class struggle into the administrative heart of the state apparatus itself. In either case, corporatism, like other attempted structural solutions to political class struggle, remains an intensely contradictory strategy for the capitalist class.

In summary the three historical cases of reform government, federal intergovernmental urban transfer programs and corporatist planning all suggest the importance of analysing state structures as they mediate the relationship between classes (i.e. as a product and determinant of class conflict). Methodologically, this means that one cannot study a particular agency or legislative act in isolation from class struggle and the ways in which class struggle is internalized within the state. Consequently, in order to assess the contradictory ways by which state structure reproduces capitalist political domination it is necessary to analyze the location within state structures of the control of different policies and the location of political incorporation into the state of different class interests. Otherwise the state is likely to be seen as a neutral instrument or a functionalist thermostat for capitalist society.

The political struggles of the working class thus gain analytical importance absent from the "instrumental corporate liberal" and "structuralist" approaches. Political class struggle becomes the central determinant both of the restructuring of the state itself and of the con-

tradictory consequences of that restructuring. To paraphrase Marx, capitalists may manipulate the state, but they do not do so just as they please. The instrumental domination of the capitalist class is constrained by the structures of the state formed out of past class struggles, by the exigencies of current class struggles and by the contradictory consequences of state activity for future class struggle. (12)

II. THE LOGIC OF POLITICAL CLASS STRUGGLE

Our analysis so far can be summed up in several propositions:

1. State structures must be seen as the outcome of class struggle rather than as ahistorically given, perfect mechanisms for reproducing capitalist society and repressing the working class.

2. These structures mediate, in contradictory ways, the relationship between instrumental inputs into the state from the ruling class and functional outputs.

3. When successfully shaped by the capitalist class, these structures accomplish two critical tasks: a) they limit state interventions within bounds compatible with the imperatives of capital accumulation; b) they politically neutralize the working class in the sense of making its political demands congruent with the reproduction of capitalist social relations.

4. However—and this is very important—these structures are inevitably contradictory. They never provide a totally unproblematic solution to the challenge of political class struggle. The working class can never be perfectly incorporated, totally neutralized. The political question for the working class is never whether or not contradictions exist within the state, but rather how intense those contradictions are and how they can be exploited by the working class.

Our discussion thus far has largely focused on only one half of the dialectic between state structures and class struggle, namely the ways in which these structures are shaped by class struggle. It is equally important to see how the forms and directions of class struggle are shaped by the state. It is ultimately out of a dialectical theory of the relationship of class struggle to the state that a complete understanding of both will emerge. We will therefore now shift ground from a focus on the structure of the state to the nature of the political class struggle itself.

We will begin by discussing the range of possible types of political class struggle. Once we have elaborated these possibilities, we will return to the analysis of the state and see how these divergent forms of political class struggle pose different problems for the capitalist state and how the response of the state in turn poses constraints on political class struggle. Finally, we will look at the new patterns of emergent contradictions within the advanced capitalist state and discuss what new possibilities for working class political struggle appear on the horizon.

A Typology Of Political Class Struggle

In the following pages we will try to develop a typology of political class conflict. The typology is based on three dimensions in terms of which poli-

tical demands and struggles of the working class vary: the *level* of social relations at which those demands are directed; the *form* of state activity implied by those demands; and the *structural consequences* of the demands.

Level refers to the specific sphere of class relations which is affected by the political demands. Capital is a social relationship, a mode of relating labor to the means of production. That social relationship can be conceptualized at two interpenetrating levels: *the level of production* refers to the actual organization of the production process, the ways in which the means of production and the labor process are controlled and surplus value is generated and appropriated. *The level of circulation* refers to exchange relationships between commodities, whether such commodities be different goods or services or in fact exchange relationships between capital and labor. Whereas surplus value is generated and appropriated at the level of production, it is realized at the level of circulation. Political demands that impinge on market relations, that concern the value of labor power, the distribution of taxation, the regulation of utility rate structures, etc., all represent demands at the level of circulation. Political demands, on the other hand, which concern the regulation of the labor process, the production of certain goods and services by the state, and so on, represent demands at the level of production. Demands about *what* is produced and *how* it is produced constitute demands at the production level; demands about the *distribution* of what is produced are demands at the circulation level (13).

Political demands do not merely have an object; they also, either explicitly or implicitly, concern the *means* by which they are to be met by the state. Whereas level refers to the object or location of political demands (i.e. whether they concern relations of circulation or production), *form* refers to the ways those demands are met by the state. A particularly important distinction in these terms is between what can be termed a *commodified form* and a *noncommodified form* of political demands. A commodity is something which is produced for exchange rather than simply for use. Political demands which take a commodified form are thus demands for the state to work through and reinforce market mechanisms to accomplish some objective. The noncommodified form of political demands, on the other hand, push the state to work outside the market or even to directly oppose market mechanisms. Thus, state subsidies to private businesses to provide certain goods or services would represent a relatively commodified form of state intervention, whereas the state directly producing those same goods and services would constitute a relatively noncommodified form. Obviously, many state activities represent mixed cases.

The final dimension of political demands is perhaps the least tangible, yet most important. By "structural consequences" of a political demand we refer to the extent to which it tends to be *reproductive* of capitalist social relations or *unreproductive*. Reproductive demands are demands which, if met, tend to reinforce, stabilize and expand the basic social relationships of capitalism. Unreproductive demands are demands which tend to weaken, destabilize, and undermine those social relationships. (It should be noted that we have defined "unreproductive" demands in a strictly negative way; there is no necessary implication that such demands are positively

constitutive of socialist social relations, but merely that they undermine capitalist ones.) (14)

Taking these three dimensions together we can construct a formal typology of political class struggle. This is illustrated in Chart 1 on the following page. Several preliminary comments on this typology are necessary. First, the typology is not meant to be exhaustive of all political class struggles. In particular, many struggles which are primarily directed at state structures per se cannot be classified as production vs. circulation or commodified infrastructure by contracting on the open market with private capital. Take, for example, highway construction. Particularly in the United States, the economic activities. Second, although the dimensions on the chart have been labelled as polar types (circulation vs. production level; commodified vs. noncommodified forms; reproductive vs. unreproductive consequences), it is obvious that in reality these dimensions are much more continuous. Individual state activities can bridge levels, can be partially commodified and may be somewhat unreproductive. Indeed, a particular policy may fall into more than one slot in the chart. Third, where a particular demand falls in the chart cannot be defined abstractly. A demand which is reproductive under certain circumstances may be highly unreproductive under others. The typology is only useful when it is joined to a historical analysis of class struggle and state intervention in a particular social formation. Fourthly, and perhaps most importantly, the typology is *not* a theory of class struggle, but merely a conceptual schema. It provides, we hope, a set of categories in terms of which a theory of class struggle and the state can develop, but in and of itself it is no more than a typology.

Before actually using the typology as a device for examining the dialectic between class struggle and the state, it will be helpful to go through each of the cells of the chart and give examples of the kinds of demands that would be characteristic of each combination. We will begin with the upper left hand corner and move towards the lower right hand corner.

Reproductive-Commodified-Circulation politics. Probably the simplest example of this category is tax-cuts. Tax-cuts under Keynesian state policies represent an attempt to bolster aggregate demand (a circulation objective) by giving people more money to spend in the market (a commodity form of intervention) and thereby stabilize the process of surplus value realization (a reproductive consequence). Other working class demands also fall into this category. For example, demands for unemployment payments or minimum wage laws, by themselves would generally constitute a form of reproductive-commodified-circulation politics. By giving workers money—either in the form of unemployment checks or in the form of higher minimum wages—the state deals with a problem at the level of circulation (imperfections in the labor market) with minimum disturbance of normal commodity relationships.

Reproductive-Commodified-Production politics. The classic example in this category is the demand that the state provide certain kinds of infrastructure by contracting on the open market with private capital. Take for example highway construction. Particularly in the United States, the state does not itself generally build highways, but rather contracts out such construction projects to private companies. Such a state activity is certainly reproductive in that it provides certain essential infrastructures that could

REPRODUCTIVE OF CAPITALIST SOCIAL RELATIONS

FORM of state intervention implied by political demands

| | | COMMODIFIED FORM | NON-COMMODIFIED FORM |
|-------------------|--|--|--|
| CIRCULATION LEVEL | | Tax-cuts; price supports and other government subsidies; unemployment payments; cash forms of welfare. | Libraries; free goods and services provided by the state; welfare in the form of free goods. |
| PRODUCTION LEVEL | | Government contracting with private capital to build economic infrastructures; Nationalized profit-making industries (e.g. Renault). | National health services; free public education. |

UNREPRODUCTIVE OF CAPITALIST SOCIAL RELATIONS

FORM of state intervention implied by political demands

| | | COMMODIFIED FORM | NON-COMMODIFIED FORM |
|-------------------|--|---|--|
| CIRCULATION LEVEL | | Adequate guaranteed income (not restricted to retired workers) sufficient to undermine the commodity status of labor power; wage demands combined with profit and price controls. | Community control of public services; community controlled rent boards. |
| PRODUCTION LEVEL | | Demands for infrastructure construction under conditions of the fiscal crisis of the state. | Workers' takeovers of factories which restructured the labor process in ways which increase worker control within production; tenant control of public housing construction. |

CHART 1: THE CONTENT OF POLITICAL CLASS DEMANDS

LEVEL of social relations at which political demands are directed

not be provided by private capital. It operates at the level of production, since the intervention is designed to actually produce something which would not otherwise be produced. And it takes a relatively commodified form since the state works through the market to produce the highway.

Reproductive-Noncommodified-Circulation politics. Whereas unemployment benefits in the form of cash represent a commodified form of circulation demands, welfare grants that take the form of free goods represent a noncommodified form of reproductive-circulation politics. When the government distributes free surplus food to the poor, for example, it is organizing the distribution of use values, not merely facilitating market mechanisms of distributing exchange values. The substitution of food stamps for free food in the 1960's is thus an example of the partial recommodification of a relatively noncommodified form of state activity. The political demand for public libraries represents an interesting example of this same category. Libraries represent a way of circulating books (to each according to his/her need) which is the antithesis of commodity exchange (to each according to his/her income). Libraries constitute reproductive state intervention because of their role in research, education, dissemination of ideology, etc., and because of their relatively limited use. If libraries were to become the main mechanism for distributing books, and if they began distributing a wide range of other use-values as well (records, tools, recreation equipment, art works, etc.), then in fact they would probably begin to be unproductive. This is a good example of how the same political demand can be reproductive or unproductive depending upon the magnitude of the demand and the particular circumstances in which it is made.

Reproductive-Noncommodified-Production politics. There are occasions where the state actually organizes production. If such production is still organized primarily on exchange value criteria, then in fact such production politics could still take a commodified form. This is the case in certain kinds of nationalized industries (such as Renault in France). But when such state production is fundamentally organized around use-value criteria, then we have a case of noncommodified production state activity. Working class demands for a national health service would be a good example. Equally, public education falls into this category: it represents the production of skilled labor power organized outside of market relations. While it is true that labor power is a commodity, the schools themselves do not generally exchange that commodity on the market.

Unreproductive-Commodified-Circulation politics. We characterized unemployment insurance as a reproductive-commodity-circulation demand; an adequate guaranteed income for all workers, on the other hand, is clearly an unreproductive demand. While still resting basically at the level of circulation and relying on a commodified form of state intervention, such a demand would seriously undermine the status of labor power itself as a commodity. If workers could live well without working, one of the critical elements of capitalist social control, wage discipline, would be undermined (see Piven and Cloward, 1971). This is not to say that such a demand, if won by the working class, would automatically lead to capitalist collapse, but it would undermine labor discipline, reduce the efficacy

of the labor market, undermine the role of the reserve army of the unemployed, etc. Again, as in the earlier example of libraries, the magnitude of the demand is critical for assessing its reproductive/unreproductive consequences. A minimum guaranteed income might well be reproductive, being merely a form of welfare, whereas an adequate guaranteed income could be unreproductive.

Unreproductive-Commodified-Production politics. As was stated above, the typical reproductive-commodity-production demand is for the state to build social infrastructure through contracts with private capital. To call such activity reproductive assumed that, in fact, the state had the fiscal resources to build such infrastructures. However, under conditions of "fiscal crisis" when demands for state spending expand more rapidly than the capacity of the state to finance such demands, such infrastructure contracting can become unreproductive (O'Connor, 1973). More generally, when working class political demands for government spending on infrastructure cease to be subordinated to the requirements of accumulation and attempt to authentically serve working class interests, they will tend to become unreproductive. Again, this is especially the case under conditions of fiscal crisis.

Unreproductive-Noncommodified-Circulation politics. Political demands for expanding free goods and services distributed by the state become unreproductive beyond a certain point. The demands for community controlled boards to control the operations of various public agencies (police, schools, libraries, etc.) also can become unreproductive depending upon the political uses to which that control would be put. A good example would be the establishment of tenant controlled rent control boards which set rents and enforced building standards in such a way that residential real estate investment was no longer profitable. If such boards only induced disinvestment and evictions, they probably would be reproductive. If on the other hand such boards were able to force state or tenant controlled property development, as appears to be developing as a strategy of the Italian working class, they would potentially become unreproductive.

Unreproductive-noncommodified-Production politics. Political demands for worker's control of the labor process, and ultimately for workers' control of the entire production process, represent the purest form of unreproductive-noncommodified-production politics. To the extent that workers authentically control the apparatus of production, it becomes possible for use-value criteria — and furthermore for use-value criteria geared to working class interests — to gradually replace exchange value criteria within the production process itself. Under conditions where such control is limited to individual units of production, but not the entire system, such noncommodified production would remain highly constrained by capitalist commodity production in the society as a whole. Ultimately, therefore, unreproductive-noncommodified-production politics require not merely workers control of individual production units, but workers control of the entire apparatus of production, and this requires workers control of the state.

The Class Content of Political Class Struggle

It should be clear from the above discussion that the different cells in the typology of political class struggle have very different implications for class interests, and therefore bear very different relationships to the capitalist state. As a first approximation, the distinction between reproductive and unreproductive politics corresponds roughly to the distinction between capitalist class and working class interests. This does not mean that class struggle is absent *within* the reproductive half of the typology. Many struggles are fought over which of several reproductive policy alternatives is to be adopted and some of these may be less inconsistent with working class interests than others. To call a policy "reproductive" therefore, does not imply that it is completely antagonistic to working class interests; what it does mean is that when the working class makes political demands that are reproductive, working class interests have in some sense been subordinated to those of capital, and thus inevitably, they have been distorted.

A good example of the class content of reproductive politics is the demand for a National Health Service (reproductive-noncommodified-production politics). A National Health Service may well be in the interests of the working class in the United States, but it nevertheless represents a way of meeting working class needs for health care which subordinates those needs to the reproductive needs of capital. Various structural features of National Health Services guarantee this: bureaucratic organization, control by professional medical boards, insulation from working class participation in direction, etc. In the area of health, state intervention has primarily been limited to the level of health care delivery, rather than the production of health itself. This is a commonality between those countries like England and Denmark which have nationalized health care and the United States which has limited its intervention to the level of circulation, stressing the mass availability of health insurance programs. In all cases, this treatment of health care reinforces the individual as an *object* of state intervention through curative as opposed to preventive, social medicine.

For a national health service to serve the interests of the working class it would have to be controlled by workers and would have to deal with the causes of illness and thus preventive medicine. And such a health care system would inevitably generate conflict over production relations, the consequences of which — pollution, industrial accidents, poverty, the organization of personal careers, and the alienating structure of work — are the causes of many diseases (15). Such a health service, needless to say, would be highly unreproductive from the point of view of capital. To the extent, therefore, that the working class restricts itself to political demands that there are reproductive of capitalist social relations, it must inevitably distort those interests through their subordination to the needs of capital.

The class content of political demands can be analyzed beyond the simple distinction between reproductive and unreproductive politics. The distinctions between commodified and noncommodified politics, and even

between circulation and production politics, also have important class implications. The type of political demands most compatible with capitalist class interests is represented by reproductive-commodified-circulation politics (the upper left hand cell in the typology). This type of state intervention flows most naturally from capitalist social relations, impinges on capitalist prerogatives in the least obtrusive ways, and enhances the realization potential of capitalist production.

Furthermore, commodified-circulation politics tend to be the most divisive for the working class. The working class is most differentiated and stratified in terms of labor market relations. Educated vs. uneducated workers, white vs. black workers, male vs. female workers, specialized vs. unspecialized workers, etc. may all share a common situation in terms of relations of production, but occupy very different positions in the market for labor power. When the working class restricts its political struggle to the commodified-circulation level, it does not engage in combat around issues which bear out the common conditions that define the position of the working class. The state's response to commodified circulation demands — for example, the proliferation of highly differentiated employment programs and wage legislation for different categories of work — tends to reinforce the myriad interest group divisions within the working class, and make a class conscious working class movement more difficult. Thus reproductive-commodified-circulation politics have tended to be the most compatible with capitalist class interests, both because they intrinsically pose the least potential threat to capitalist prerogatives and because they tend to most undermine the cohesion of the working class.

The primary organization around which working class reproductive-commodified-circulation politics are centered is the labor union, or *trade union*—a conceptualization which better conveys its political substance. Commodified-circulation politics, especially organized around the trade union, become primarily directed at individualized consumption, while divorced from *work* itself. As Gorz writes,

Trade unionism. . .confines itself to demanding higher individual purchasing power and at the same time greater leisure—in other words, non-work, in compensation for the fact that where his work is concerned his worker is a non-man. (1973: 85)

State intervention at the level of production, even when it is still reproductive and maintains a commodified form, poses greater potential problems for the capitalist class. When the state constructs infrastructure, the political issues of what kinds of infrastructures should be built, whose interests should it serve etc. are necessarily raised. All of these issues become posed in much sharper forms when the state not only intervenes at the level of production, but does so in a non-commodified way. When the state is not only involved in deciding what should be produced, but also in how it should be produced, the political criteria for production become more explicit, potentially making it much harder to maintain the fiction that state activity serves the interests of the whole people. Non-commodified production by the state means that production is at least partially or-

ganized around use-value rather than strictly exchange-value criteria, and this immediately poses the question of class interests served by these criteria. The general resistance of the capitalist class to direct state participation in production at least in part reflects the intuitive reasoning by capitalists that such policies are intrinsically more precarious than commodified forms of state intervention in general, and commodified-circulation policies in particular.

Still, noncommodified production politics remain only potentially threatening to capitalist interests. In the absence of working class political organizations challenging the class interests served by such state activities, they can remain substantially reproductive of capitalist social relations. So, the crucial question becomes what is the relationship between noncommodified-production policies by the capitalist state and the development of class conscious working class organizations. While this is a very complex issue and ultimately can be answered only in terms of the concrete analysis of specific historical cases, one generalization seems possible. The working class is potentially much more unified at the level of production than at the level of circulation. It would be expected, therefore, that noncommodified-production interventions by the state would tend to reinforce market based divisions within the working class less strongly than commodified circulation interventions. Political struggles around noncommodified-production policies would therefore more easily tend to crystallize around class issues than only around interest group issues. This does not mean, of course, that divisions within the working class would spontaneously disappear during struggles over noncommodified production policies, but rather that such struggles would tend to build working class unity to a greater extent than struggles over circulation-commodity policies. This reflects the contradictory quality of the capitalist state: because of the imperatives of legitimation and accumulation, noncommodified-production interventions by the state may become necessary (e.g. nationalization of inefficient segments of capital, creation of a national health service, provision of universal public education, etc.), but those identical policies may in turn contribute to the political unity of the working class which makes the capitalist state—and ultimately the capitalist system—more precarious.

If reproductive-commodified-circulation policies represent the purest form of capitalist politics, unreproductive-noncommodified-production demands represent the purest form of class conscious working class politics. When the working class is organized around these kinds of demands it challenges the very premises of capitalist society. The working class becomes a class "for itself," and class politics must involve conflict for generalized power, involving ever larger segments of state power and state apparatus, calling into question not only the structure and legitimation of private production, but also the structure of the state. Political demands around social needs can no longer be reduced to the better commodification of labor power, and these demands can no longer be satisfied through consumption and non-work alone. In short, working class political struggle around noncommodified, unreproductive production demands naturally moves towards political struggle for socialism.

The other types of unreproductive political demands also directly or in-

directly undermine capitalist social relations, but in general they do not as sharply pose an alternative to those social relations as do unreproductive-non-commodified-production politics. In particular, unreproductive *commodity* politics at either the circulation or production level may tend to weaken capitalism, but they still reproduce the logic of commodification and thus fundamentally remain within the logic of capitalism.

Political class struggle can therefore be conceptualized as a struggle over which of these types of political demands will dominate, that is over the content of class conflict itself. The capitalist class tries to push demands towards commodified forms and away from the production level, and tries to exclude unreproductive demands altogether; the working class, on the other hand, moves toward noncommodified politics, production politics and, ultimately unreproductive politics. Needless to say, the movement towards this revolutionary pole has often been thwarted, and in periods of relatively uncontested capitalist hegemony, may remain only a latent possibility. It is therefore a question of fundamental importance for the development of revolutionary struggles around the state to understand the conditions under which circulation politics become transformed into production politics, commodified politics into noncommodified politics, and most importantly, reproductive politics into unreproductive politics. We will now turn to an examination of a number of examples of such transformations.

Transformations of Political Class Conflict

Three ways by which political class struggles may be progressively transformed seem especially important under conditions of advanced monopoly capitalism: 1. The breakdown of commodified-circulation politics at the factory level caused by crises or accumulation within individual firms. 2. The breakdown of the state's capacity to pay for commodified-circulation politics as a result of the fiscal crisis of the state; 3. The deepening nature of capitalist contradictions which make pure commodified-circulation policies inadequate even from the point of view of capital. We will examine examples of each of these and then turn to a more detailed discussion of the transformations of political class struggle and state interventions in the case of one advanced capitalist country, Sweden.

1. *Commodity politics breakdown at the factory level.*

Recent years have witnessed a number of occasions in which commodified-circulation politics at the factory level temporarily broke down and led to the emergence of working class production politics. Such, for instance, has been the case with a number of factory take-overs initiated by workers due to plant closures. The 1974 Lipp factory take-over in France is a case in point. Faced with the threat of sudden unemployment and disruption of retirement benefits by the new management's decision to stop production of the famous Lipp watches, the workers turned to their unions, the CFDT and CGT, which failed to reverse the management's decision. Given the impossibility of further commodified-circulation pol-

itics in this situation, the only feasible alternative left to the workers who saw the enterprise as economically sound, was to take over control of production themselves, dispense with management and the board of directors and, instead, organize production through a system of collectivized decision-making. In this way workers effectively smashed the existing production relations within their work place, relations no longer sufficient to maintain the consensus of commodified-circulation politics upon which the bargaining process rests.

The Lipp case has since been replicated in a number of factories throughout Western Europe, such as the Triumph Motorcycle factory take-over in Great Britain and two factory take-overs in Denmark in 1975. The latter provide an interesting contrast with respect to our discussion. Two factories, the Rank-Arena television factory owned and controlled by a British corporation, and the Uniprint factory owned by Danish capital, were both to be closed down, not due to inefficiency or lack of an "adequate" rate of return, but rather to potentially higher profitability of location in other countries. Both factories were taken over by the workers, but the politics of the factory take-overs contrasted sharply. In the first case, the workers occupied the factory while negotiating with different sources of capital to maintain production. Private capitalists and the labor unions (LO) were asked to buy shares in the enterprise to avoid its closure. Thus, in this case the critical transformation towards working class production politics aimed at control was missing, and objectively the incident was directed at shoring up the principles of private capitalist ownership. The role of the LO is in this case highly illustrative. The LO offered to invest in a portion of the necessary shareholdings out of its pension fund. However, severe restrictions are imposed on how such funds can be used for productive investment:

- a) it would only hold shares up to 15% of the total capital, thus insuring that the enterprise remains under "private control."
- b) LO would only invest its funds in enterprises which are listed on the stock market.
- c) such investment would only occur under conditions where the firm has a "sound" financial rating.

The Uniprint incident provides a contrast to the extent that the workers declined any opportunities of strengthening the capital base of the firm through enlarged private shareholdings. Instead, in line with the Lipp case, the workers demanded full control over the management of the firm, thus alienating any potential union support—and for that matter any media support, which incidentally had been readily forthcoming in the Rank-Arena case. What the two cases serve to illustrate is that under the same conditions, the working class may react in politically totally different ways: either towards re-establishing the viability of commodified politics under occurrences of breakdown, or towards pursuing a radically different line of struggle, the outcome of which is highly uncertain and the support for which is still very meager.

2. *The fiscal crisis of the state.*

As we argued earlier, reproductive-commodified politics, especially at

the level of circulation, are the most compatible with capitalist class interests since they simultaneously maximize divisions within the working class and minimize the possible threats to capitalist prerogatives. As long as the state has an ample tax base, commodified politics can continue apace. The difficulty is that there are intrinsic tendencies within advanced capitalism for commodified interventions by the state to expand more rapidly than its capacity to finance them. The result is the fiscal crisis of the state.

The underlying dynamics of the fiscal crisis have been extensively analysed by O'Connor in *The Fiscal Crisis of the State*, and there is no need for us to recapitulate his arguments here. The critical point we wish to make is that as the fiscal crisis of the state deepens it becomes progressively more difficult for the state to restrict its interventions primarily to the commodified-circulation level. Simply to finance its commodified-circulation politics, the state is pushed towards intervening at the level of production. At a minimum this entails greater state involvement in coordinating and planning private commodity production (commodified-production interventions) in order to expand its tax base, but it may well move towards more basic state involvements in direct production of use-values (decommodified-production interventions).

3. *The contradictions of commodified-circulation politics.*

The pressures for movement away from simple commodified-circulation state interventions are more profound than simply the incapacity of the state to pay for such policies. Even if the state could find the wherewithall to continue commodified-circulation politics unabated, there would still be strong tendencies pushing the state towards production level politics because of the contradictions within the accumulation process itself. It is a common observation that in recent years there has been a gradual deterioration of the trade-off between unemployment and inflation. Often this is treated as merely an artifact of government policies, especially fiscal policies. In fact, this deterioration reflects the fundamental contradictions of accumulation in monopoly capitalism, some of which involve the state, but which cannot be reduced to "problems" in state intervention. Three aspects of these contradictions are especially important (see Wright, 1975):

- a) with technological development, especially within the monopoly sector, there has been an increasing tendency for the "surplus population to expand. Part of this pool of displaced workers has been absorbed in the competitive and state sectors of the economy, but in general there has been a tendency for higher unemployment for any given level of economic activity.
- b) Growing concentration and centralization of capital has increased the tendencies for monopoly pricing in many sectors of the economy and thus for any level of economic activity there is likely to be more inflation.
- c) This inflationary tendency is further heightened by two aspects of state intervention. First, as a consequence of the growth of the sur-

plus population (among other social pressures), the state has greatly increased its spending on welfare, police and other "social expenses," to use O'Connor's expression (i.e. state spending that is absolutely unproductive in the sense that it does not even indirectly lead to an expansion of surplus value). Secondly, Keynesian demand maintenance policies by the state have tended to create guaranteed markets for many monopoly corporations and thus reduce pressures for productivity increases. Both of these factors have contributed considerably to the increase in inflation for given levels of economic activity.

None of these tendencies can be dealt with effectively through commodified-circulation politics. The state must somehow become involved directly in organizing production, increasing productivity, employing the surplus population. Such intervention is made more difficult by the state's fiscal crisis, itself in part of a consequence of the very commodified politics that are incapable of handling the contradictions of accumulation.

It is ironic that the requirements for the reproduction of capitalism may necessitate a state which itself negates the commodity satisfaction of social needs, refuses to be subordinated to the market, and is thereby increasingly forced to enter into production both to meet those social needs and to finance that production. The fiscal crisis of the state points towards nationalization; only working class struggle will determine if it points towards socialization.

The Case of Sweden (16)

Sweden provides perhaps the best example of how a capitalist state, facing a working class which is highly organized around reproductive-commodified politics, especially at the level of circulation, is forced to adopt decommodified-production policies to an ever greater extent because of the deepening contradictions of advanced capitalism. The story of Sweden is a story of how Social Democratic governments have, by the single-minded pursuit of commodified-circulation politics, eroded the possibilities of restricting state activity to commodified forms at the level of circulation (17).

The Swedish labour movement in the form of the Social Democratic Party and the confederation of Swedish trade unions (LO) is in its essence based upon commodified-circulation working class demands. The ideological foundation rests upon the idea of "creeping socialism," which basically implies that skillful and strategic manoeuvre within the confines of bourgeois institutions by an increasingly organized proletariat will progressively secure larger and larger slices of the state structure for the working class ends. By progressively seizing structures of the capitalist state, the working class will eventually come to exert "structural power," i.e. state power to shape the structure of capitalist institutions for working class ends. With such power it is believed that "systemic power," i.e. power to transform the system of capitalism into a system of socialist production, will increasingly be realized (18).

In our terminology, social democratic theory postulates that the social democratic movement will gradually move from the politics of consumption relations towards the politics of production relations. The critical political question is whether or not this will be done in ways which merely reproduce capitalist relations of production at higher levels of efficiency and manageability, or whether social democratic policies contain the possibility of radically unreproductive political demands. An examination of the Swedish case may help to answer this question.

Sweden was the first country to adopt the method of deficit public spending as a means to alleviate the problems of mass unemployment and the lack of aggregate demand during the early 1930's. From then on deficit budgets became an institutionalized part of state intervention under continued Social Democratic regimes throughout the 1940's. However, by the late 1940's the inherent limitations of "pure" Keynesianism began to manifest themselves in the form of spiralling inflation. In other words, the trade-off between full employment and price instability began to encroach upon the wage position of labor as well as upon the functioning of the economy in general. As a result, the legitimacy of such state intervention began to dwindle. The Social Democrats had nothing to respond with but wage and price controls.

After a few years of wage-stagnation, the LO refused to further support such measures, and instead pressured the Social Democrats to pursue a package of economic policies which to a much larger extent broke with the traditions of standard Keynesianism and a "free market economy." The "Rehn-Model," as their policy came to be known, involved large-scale government involvement with the mobility of labor. The idea was to pursue a policy of structural reform of the economy in order to solve the trade-off problem between unemployment and inflation by shifting resources from the least efficient and least profitable sectors of industry towards the most profitable ones. A comprehensive public Labor Market Exchange was established to retrain manpower rendered redundant by bankruptcies in inefficient enterprises and to redirect labor power efficiently to the most profitable sectors. The rationale for this type of intervention, with its focus on the mobility of labor rather than merely on the circulation of money, was to actively restructure the economy into one of a homogeneously high level of productivity. The objective was to weed out, rather than continue to subsidize, low productivity capital units which lagged behind in their ability to match profit expansion with wage increases. However, no attempts were made to transcend the realm of exchange relations, since it was still believed that further modifications in the market would be sufficient to solve these problems.

By the late 1960's, the Rehn model of state intervention began to prove inadequate due partially to technical-administrative difficulties of implementation, but mainly to the inability of the state to link any viable manpower policy to the uncertainties of capitalist investment decisions. Since it is impossible to reliably forecast (let alone influence) the volume and direction of private investment flows, an active manpower policy will at best be a patchwork solution. The failures of the Rehn model were blatantly visible in the form of rising unemployment rates throughout the country, strikes and labor unrest, and general economic stagnation.

Therefore, to protect its market position, labor began to pressure for solutions to the crisis which contained a higher degree of control over the mobility of *capital* as well as labor. A vehicle for this was, in fact, ready at hand in the form of massive savings in the relatively idle Pension Funds. The idea was to use these funds in a selective manner to steer investments in such a way as to strengthen the technological advantages of Swedish monopoly capital in international competition, thereby also acting to protect Swedish labor. This policy of indirectly allocating investment capital was accompanied by direct state investments in key sectors such as steel.

Thus it is clear that due to the constraints and contradictions in the accumulation process, an active Keynesian policy was pushed in Sweden from a primitive level of intervention in the mobility of money, through the mobility of labor, into the regulation of the mobility of capital. It was increasingly realized that the stabilization of the unemployment-inflation contradictions necessitated state regulation of capital.

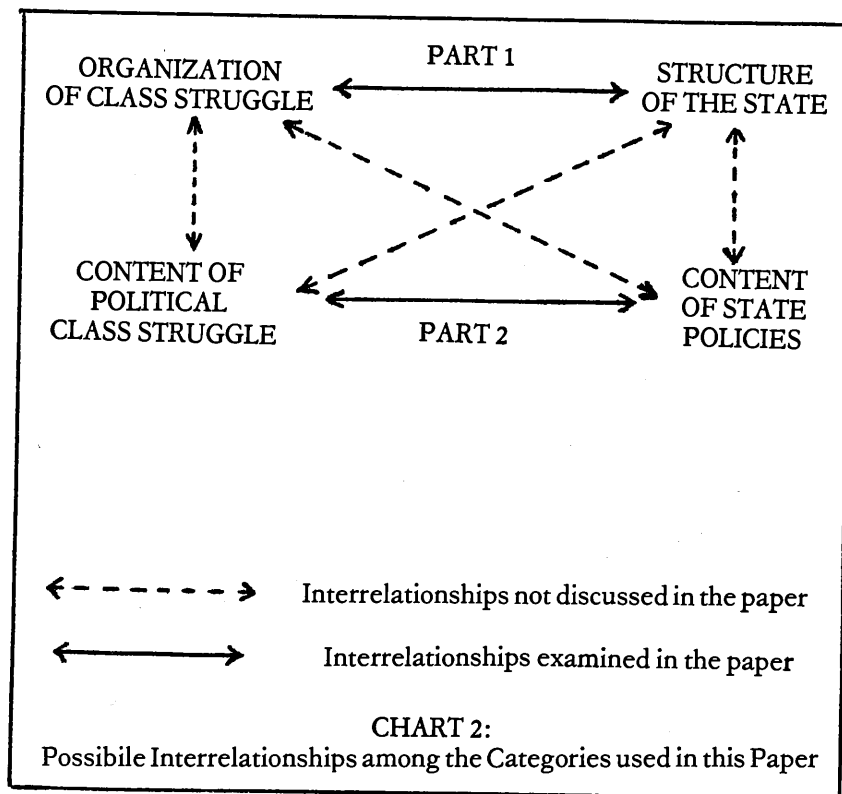
Here is a case, then, where a capitalist state has gradually moved towards intervention at the level of production. The result, however, has not been to further politicize class relations. The Social Democrats and the LO find it opportune, if not a necessity, to wage the struggle in technicalized rather than politicized terms. Instead of struggling for autonomous centers of working class power, the general tendency has been for the expansion of corporatist structures. The net effect of the Swedish variant of the social democratic state policies has thus been to restructure and reproduce the system at a higher and more efficient level, thereby muting and diverting class struggle and reinforcing tendencies toward monopoly in the process of Swedish capital accumulation. Simultaneously, however, such policies have the effect of channeling class conflicts away from the private economic level towards the public. In these terms, we are again confronted with the double-edged character of state intervention: as production becomes more political, politics are increasingly depoliticized.

So, the question remains whether or not the Swedish working class, whose relationship to the state has for so long been mediated by the Social Democratic Party, will move beyond the limits of the emergent *re-productive-noncommodified-production* politics. In some ways the corporatist integration of the working class into the Swedish state, which has characterized Social Democratic politics, makes such a prospect seem unlikely. Nevertheless, such a corporatist strategy is highly contradictory, for while it appears to provide a basis for stable accommodation, it also potentially brings class struggle into the administrative heart of the state apparatus. The Swedish working class has already shown its capacity to influence both state policies and state structures within the limits of re-productive state interventions. Whether or not it will be able to shatter those limits while remaining within the framework of Social Democracy is perhaps the most pressing issue facing the Swedish working class.

III. SUMMARY AND CONCLUSION

The basic logic of the analysis of this paper is schematically laid out in

Chart 2. This chart indicates which of the possible interrelationships among the fundamental categories of our analysis we have examined, and which we have left largely undiscussed.



In Part I of the paper we focused on the relationship between the *organization* of political class struggle and the *structure* of the state. (By organization in this context we mean the capacity of the working class to organize politically vis-a-vis capital). We argued that state structure is not neutral but is a critical element in the mediation of class domination. Thus the structure of the state should be analyzed as the outcome of historical patterns of class struggle over the organization of the state apparatus. Working class struggles which potentially threaten the political domination of capital or the execution of state functions critical to the accumulation of capital necessitate ruling class restructuring of the state to preserve capitalist political domination and to insulate critical functions from working class influence.

In Part II we focused on the relationship between the *content* of political class struggle and state *policies*. We distinguished between three different aspects of political demands for state intervention: the level of intervention (production versus circulation); the form of intervention (commodified vs. noncommodified); and the consequences of intervention (reproductive or nonreproductive for capitalist social relations in the society as a whole). We argued that demands for state intervention which were at the level of circulation and capable of a commodified response were the most compatible with capitalist interests; whereas demands for state intervention at the level of production in noncommodified ways were the most likely to become unproductive and serve working class interests.

A number of important relationships illustrated in Chart 2 remain largely unexplored in our analysis:

1. *The relationship between the organization of class struggle and state policies.* We have briefly touched on one aspect of this relationship, namely the ways in which commodified state interventions (especially at the level of circulation) tend to be divisive of the working class, whereas noncommodified production politics tend to provide a basis for more unified working class political organization. It is equally important to explore the other direction of the relationship, the ways in which the organizational strength and cohesiveness of the working class has an impact on the content of state interventions. This has been the focus of most traditional Marxist analyses of "concessions" won by the working class from the capitalist state.

2. *The relationship between the content of class struggle and state structures.* Working class struggles at the level of commodified-circulation politics have tended to be associated with the proliferation of fragmented, insulated state agencies. In a real sense the anarchy of commodity production and circulation is reproduced in the anarchy of state structure (19). The question then arises how will this fragmented state structure change as political class struggle moves away from pure commodified-circulation politics? And reciprocally, as more centralized executive structures of the state develop (in response to the changing requirements for accumulation), what will be the consequences for the content of political class struggle?

3. *The relationship between the structure and policies of the state.* It is clear that certain kinds of policies are much more likely to develop under certain state structures than under others. Thus, the anarchic, fragmented structures of the "pluralist" state are quite un conducive to the emergence of coordinated, effective, reproductive-noncommodified-production state policies. There is considerable evidence that at the present time in many advanced capitalist countries a profound contradiction exists between the historically evolved structures of the capitalist state and the kinds of policies that are rationally required by advanced capitalism. As Offe has argued (1972), much of the attempted rationalization and reorganization of state administrative structures should be interpreted as attempts to make effective production policies more likely. In the terms of our analysis, the capacity for the state to generate reproductive interventions may be contingent upon the existence of certain kinds of structures.

4. *The relationship between the organization and content of political class struggle.* Considerable Marxist theory has been devoted to this particular problem. In particular, Lenin's classic statement about the relationship between trade union organization and economistic (i.e. commodified circulation) demands deals directly with the link between the nature of working class organizations and the content of class struggle. The link, however, operates in both directions: not only do certain kinds of organizations tend to generate certain kinds of demands, but certain kinds of demands tend to reinforce or undermine given kinds of organization. In particular, as we have argued, commodified-circulation demands make class-wide organization around the common conditions of the proletariat more difficult, whereas noncommodified-production demands facilitate class organization. Political class struggle as a dynamic historical force must always be treated as the consequence of the interaction of both organization and content, rather than being reduced to either.

5. *The relationship between class struggle and the interaction of structure and policy.* This is the conceptually most complex relationship among the categories of our analysis. Political class struggle—as the outcome of the interaction of organization and content—not only influences state structure and state policy, but the very relationship between structure and policy. The capacity of a given state structure to generate reproductive policies itself depends upon the organization and content of working class struggles. The most rational and well-engineered state structure cannot guarantee rational policies for capital, since the state is always confronted by the potentiality of organized working class opposition. This does not mean that state structures can never function rationally (reproductively) in the interests of capital, but that such rational policy formation is historically contingent upon the nature of class struggle.

A full exploration of political class struggle and the state must involve a careful theoretical and empirical investigation of each of these relationships. Furthermore, it is critical to explore the overall historical transformations of the entire system of relationships pictured in Chart 2. We have indicated one sequence of such transformation in our discussion of the contradictions inherent in commodified-circulation politics which push the state towards production politics (20). The analytic problem and promise remains to specify the potentiality of apparently reproductive political demands to ultimately generate progressively unreproductive consequences. And on the other side to determine what, in the first flush, appear as unreproductive demands yet result in the reproduction of capitalist power.

FOOTNOTES

1. We are grateful for the constructive and stimulating comments and criticisms of the Madison, Wisconsin Kapitalistate Group, the Bay Area Kapstate Group and the Michigan Kapstate Group, as well as the individual help of Michael Aiken, Robin Blackburn, Manuel Castells, Randall Collins, Jens Christiansen, David Cray, William Domhoff, David Gold, Eugene Havens, Alex Hicks, Edwin Johnson, James O'Connor, Michael Schulman, and Maurice Zeitlin.

2. Since we are only dealing with that part of an author's work that deals with the state, and since we extract elements of their work to illustrate these perspectives, we realize that we do not do full justice to the theoretical and empirical complexities of their contribution to this underdeveloped subject. Thus we ignore the historical location and specific political intentions of the different analysts of the capitalist state.

3. An excellent review and critique of the dominant American perspective can be found in James Sharpe, "American Democracy Reconsidered," *British Journal of Political Science*, 1973.

4. Another example is Mandel's recent book, *Der Spatkapitalismus*. Mandel sees the state as occupying a relatively autonomous position vis a vis *individual* class actors in order to secure the continued hegemony of the capitalist class as a whole. This autonomy has, to Mandel, structural causes:

Capital cannot in terms of its own activities produce the social character of its existence; it needs on its basis a special arrangement, which is not subordinated to its own (capital's) boundaries, which in this sense is a special arrangement (existing) beside and outside bourgeois society, and while never challenging capital, will simultaneously respond to the immanent necessities of capital, which capital itself has created. (1972: 436)

The structure of the state is determined over and above the compositions of personnel and strong capital-agency interlocks. This is reflected in the hierarchical division of labor in state institutions which parallel the prevailing relations of production. The increasingly autonomous power of the state to act corresponds to the increased difficulties of unhindered capital reproduction, and therefore "autonomous power" is *delegated* to the state out of the objective interest commonalities of the capitalist class.

5. For Poulantzas, people are "agents" of the social structure (1973: 206), and not conscious, existentially generative actors. Poulantzas writes, "... political class struggle has nothing to do with a ... process ... 'acted' by ... the class subject." (p. 77) Therefore it becomes impossible for this approach to specify the conditions under which the subjective interests of the capitalist class or members of it will coincide with the functions of the state.

6. We are indebted to Ralph Coates, Department of Sociology, University of Wisconsin, for this point.

7. For an extremely interesting critique of the instrumentalist perspective see Mollenkopf (1975). For a discussion of various strands of structuralist and instrumentalist theories of the state which parallels our analysis, see Gold, Lo and Wright (1975).

8. This position conflicts with Martin, Strachey and others who have paid more attention to the conflictual political aspects of the introduction of the welfare state.

9. In the U.S., black community movements have begun to realize the importance of structural change in the metropolis and city government as vital to their ability to politically organize for more generalized political power necessary to effect change. For example, May (1971) has described how a politically organized West Oakland community struggled not simply to assure community representation in programs affecting them, but to constitute a new center of power with *legitimate authority*, co-equal with the city council, to control all agencies relevant to their community. Not only the immediate political outcome but the capacity for future political organization, depends on the decision of whether to try to control existent state structures, or to restructure that apparatus.

10. In the four U.S. cities studied by Williams and Adrian, the median percentage of manual workers on the city council was 8%. Newton and Morris (1974) have pointed out that in Britain, where nationally integrated urban parties are organized around labor union support, manual workers and labor union leaders are much more likely to get elected to the council than in the U.S.

11. Katznelson writes,

This dual broker, buffering role of the machines was critical in the cities at the turn of the century because the mass migration of Catholic and Jewish workers from Europe and blacks from the South brought into question the traditional hegemony of the Protestant ruling class. (1976).

12. The general approach we have outlined allows us to understand how politics in advanced capitalist states has appeared pluralist despite the reality of capitalist domination of the state. Pluralism, as the phenomenal form of political conflict in capitalist societies, can be understood as one manifestation of the political neutralization of the working class. The empirical data of pluralist theory are thus saved, but raised to a higher analytic level.

13. This distinction between the level of production and circulation is the cutting edge between Marxist and bourgeois treatments of class structure. Weber, in particular, totally ignores the level of production regarding class structure as derived from market relationships. For Weber, class refers to,

"... any group of people ... (who have the same) typical chance for a supply of goods, external living conditions, and personal life experiences, insofar as this chance is determined by the ... power ... to dispose of goods or skills for the sake of income in a given economic order ..." (pp. 181-182) From Max Weber, (New York: Oxford, 1947).

The analytic and political implications of Weber's definition of class pervade virtually all individual mobility and poverty research.

14. James O'Connor (1975) makes the distinction between what he calls 'anarchist labor' and 'socialist labor.' Anarchist labor is labor which simply negates capitalist principles. Socialist labor, on the other hand, embodies alternative principles of social organization.

15. As Hyman points out for England, the magnitude of industrial accidents is staggering — in 1970 twice as many days were lost through industrial accidents than from all forms of strike activity. (1972: 34)

16. The following discussion of the Swedish case relies heavily on the very important research done by Andrew Martin (1973, 1974). We are also indebted to him for further clarification and explanation of his ideas.

17. It should be emphasized that the case of Sweden is somewhat unique in that the unions organize almost 90% of manual workers and perhaps 70% of all salaried employees. Further, the Social Democratic Party has held office continuously for more than 40 years. This should be taken into account when drawing lessons from Sweden about the probable development of production politics in other capitalist nation states.

18. For further discussion of the distinction between structural and systemic power, see Alford and Friedland, 1975.

19. Thus the fragmented structure of the American state should not be seen merely as an abstract elite social control process or as a form of symbolic politics. Rather, the structure is an abstract elite social control process or as a form of symbolic politics. Rather, the structure stimulating "social control" interpretation of the American health care structure, see Alford, (1975). For the "symbolic politics" approach, see Edelman, (1964).

20. Other examples of such sequences would include: where the working class has developed a production politics, the state has attempted to constrain and depoliticize its production interventions through particularly structured nationalizations (post WWII nationalizations in France, England). Where the state has been compelled to intervene in production because of the limits of capitalist initiative (e.g. nuclear energy development), it has often soon after acted to recommodify the product and return it to the level of capitalist circulation.

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I AM NOT AN "INSTRUMENTALIST"

A REPLY TO
"MODES OF CLASS STRUGGLE AND THE CAPITALIST STATE"
AND OTHER *KAPITALISTATE* CRITICS

By G. William Domhoff

The recent article on "Class Struggle and the Capitalist State" nicely transcends the "instrumentalist-structuralist" distinction introduced into the literature on state power by authors in the *Kapitalistate* group, a distinction I never saw as that firm or accurate. However, in so doing, it shows that alleged "instrumentalists" like myself are not instrumentalists at all. I always have held to the view proposed by Gosta Esping-Anderson, Roger Friedland, and Erik Wright.

The authors' view is that, "the actual structures of the state are . . . a contradictory reflection of the class struggle between workers and capitalists." The authors make a claim I am going to question, namely, that "the political struggles of the working class thus gain analytical importance *absent* [my italics] from the 'instrumental corporate liberal' and 'structuralist' approaches" (page 13). As one of those dubbed earlier in the paper as a corporate liberal instrumentalist, I protest. Class struggle is basic to what I wrote in the book they footnote. I will show through reference to the case studies in *The Higher Circles* that my analyses of specific cases are exactly like the analyses in the three examples presented by Esping-Anderson, Friedland, and Wright to exemplify their view. I will also comment on another article by *Kapitalistate* members, David Gold, Clarence Lo, and Erik Wright's "Recent Developments in Marxist Theories of the Capitalist State" (*Monthly Review*, October, 1975).

As for Anderson, Friedland, and Wright's example of intergovernmental grants to the cities, with its emphasis on politically autonomous agencies which depoliticize major segments of state power, this sounds to me exactly like what Weinstein wrote in 1968 about regulatory agencies and what I followed and only slightly supplemented in 1970. For example, I summarized my discussion of the origins of the Federal Trade Commission as follows. I will italicize the words which mean "struggle" and "depoliticized," for one of the reasons I think I get misinterpreted is that I try to use ordinary English instead of the standard code words so I can reach a wider readership:

That they were under *pressure* is freely acknowledged [i.e., by me], and was so at the time by NCF leaders. What pleased them was the way in which they handled that *pressure*. The Federal Trade Commission solved a number of their problems by dealing with legal-, small business-, muckraker-, and socialist-generated uncertainties. They were now *free* to regulate themselves by means of a governmental agency that was *safely removed* from courts and politics (*The Higher Circles*, page 206).

In case this quote is too cryptic on one point, I want to stress that I emphasized both the conflicts among capitalists (the need to "regulate" competition) and the conflicts between big capitalists and all others in the origins of the Federal Trade Commission.

The authors' discussion of "corporatism" as a means of institutionalizing class conflict strikes me as even more similar to my analyses. For example, in my detailed discussion of the origin of the Wagner Act, I point out that the problem for the ruling class was in containing and institutionalizing class conflict:

If we could force the general factors leading to the Wagner Act and collective bargaining into a single sentence, perhaps we could say the fact that final victory went to the NCF-type moderates within the power elite attests to their foresight in desiring to forestall *class politics and political violence*, their ability to profit from the British experience, their desire for stability and efficiency, and the oligopolistic position of their large corporations, which allowed them for several reasons to accede to certain *labor demands* at little or not cost to themselves (*The Higher Circles*, page 223) (1).

. . . All in all, organized labor, through the Wagner Act, did make some gains, particularly in its right to recognition, collective bargaining, and a voice in working conditions. The upper class, then, is *not omnipotent*; nor do all members appreciate what their farsighted leaders have done for them in channeling *serious discontent* into a moderate course. However, even after acknowledging that labor showed *considerable strength* in forcing the acceptance of the Wagner Act, the fact remains that the story of how labor acquired its rights is a very different one from what is generally believed . . . By making certain concessions and *institutionalizing their conflict with labor*, they avoided the possibility of *serious political opposition* to the structure of the corporate system (*The Higher Circles*, page 249).

I honestly do not see how these words can be taken as evidence that awareness of "class struggle" is "absent" from my analysis. What I did say, and continue to believe from recent reading, was that the AF of L did not pressure for this Act until it was well along the way, and that the working-class struggle was relatively unorganized, sporadic, and in some measure potential when the Wagner Act was passed. I would now add that many of the most heroic labor struggles of the 1930's occurred *after* the Act was passed, when John L. Lewis had his organizers out telling workers that "The President wants you to join a union." The whole story of the role of capitalists and workers in "the institutionalization of class conflict" has not been told, but when it is told it will conform more to my account, which Marxist historian Ronald Radosh found quite useful in his fine chapter on the New Deal in *A New History of Leviathan*, than it will to books like *Labor's Untold Story*, which doesn't even acknowledge that the clique of moderate capitalists who dominated the state had adopted a strategy to lead the labor movement into collective bargaining rather than risking the development of a labor or socialist party. That kind of "labor history" is as one-dimensional as the traditional liberal histories that equate "business" with the "National Association of Manufacturers" and assert that business was dead-set against any kind of accommodation with labor.

Put even more bluntly, you do not have to read Warren in 1972 or Schmitter in 1974, as "Class Struggle and the Capitalist State" implies, if you want to know about "corporatism" and the "institutionalization of the conflict with labor" unless you want it in comparative perspective. If you want it for the United States, read Weinstein in 1968 or Domhoff in 1970. In 1972 Warren wrote, according to Esping-Anderson, Friedland, and Wright, that the labor movement surrendered independence in exchange for limited but continuous economic and other gains for the working class. In 1970 I wrote:

With the NCF, then, the moderates of the corporate and labor communities got to know each other, and reached a sort of ideological bargain. From the side of capital, the concessions were collective bargaining (but no employer was to be forced by law to bargain), the right to organize unions (but no closed shops), protection against wage cuts, the possibility of gradual wage increases commensurate with increases in productivity and efficiency, and a real voice in the setting of working conditions. . . . The benefits to capital were several: greater efficiency and productivity from labor, less labor turnover, the disciplining of the labor force by labor unions, the possibility of planning labor costs over the long run, and the *dampening of radical doctrines* (*The Higher Circles*, page 225).

My analysis of the Wagner Act also includes consideration of the Esping-Anderson, Friedland, and Wright point that it is "equally important to see how the forms and directions of class struggle are shaped by the state" (page 14). I do this when I emphasize how the past precedents of the court system made it harder for the moderates to bring about accommodations with labor:

A third factor that must be considered, and that cannot be overestimated, is the role of the courts . . . business-dominated courts had developed a body of precedent which left little room for organized labor. These precedents were often built on the thinnest of tissue, but they did force the moderate members of the corporate elite to develop new constitutional avenues (rationalizations) when they decided that a more flexible policy toward organized labor was necessary. This in turn generated conflict over a larger issue, the role of the Supreme Court. . . . Constitutional law and the Supreme Court, then, are problems in their own right, and the struggle over unionism was complicated by this fact (*The Higher Circles*, page 222).

Lest the reader think this perspective is absent in my earlier *Who Rules America?* (1967), I would suggest that a careful reading would show otherwise. Although that book was meant as a *sociological* snapshot of the upper class, a point I tried to communicate to "friendly"

radical critics in 1972 in the *Insurgent Sociologist*, it did have a section on "restraints" which concluded as follows:

We also would agree that there are *restraints* on the power of the governing class, for the governing class is part of a *system* which includes other nation-states as well as other socioeconomic groups. We would even agree that members of the power elite often try to anticipate the reactions of other groups when they make their decisions. The potential power of angry, organized masses is well known in twentieth-century America thanks to foreign revolutions, the battle over women's suffrage, labor strikes, and the civil rights movement (page 152).

Before turning to an analysis of why I have been wrongly called an "instrumentalist," I want to say that I find Esping-Anderson, Friedland, and Wright more critical of the structural view than the alleged instrumentalist view, for their three examples show that class struggles won by and large by the corporate moderates or sophisticated conservatives of the ruling class created the "state apparatus" that is part of the "social formation." The key point of the Esping-Anderson, Friedland, Wright, Domhoff, and Weinstein view is that real people who are part of classes and interest groups are historically real actors who created and continue to create the "apparatus" that mediates and organizes.

There are three reasons why I have been labeled an "instrumentalist."

(1) I am misunderstood as an instrumentalist because sociological work on the ruling class often involves tracing individuals and their connections. Even though classes and institutions are the basic *conceptual* units, individuals are the basic *elements* for building the networks that make up the classes and that locate the institutions in sociological space. The questions asked in "power structure" research about class cohesiveness, policy formation, and processes of state domination are best conceptualized in terms of networks, and the basic elements of most networks are individuals and institutions (2).

(2) I am thought an instrumentalist because of confusion over my use of the fact that in America the ruling class has many of its members in government. I think that *overrepresentation* of the ruling class in the government is one type of *evidence* for the existence of a ruling class, but I never said its presence was necessary. Overrepresentation in government is one "indicator" of "power," and in *Who Rules America?* I used that indicator along with the wealth and income distributions. In *The Higher Circles* I supplemented these three indicators by demonstrating the institutional network of foundations and non-governmental policy-planning groups which set the context for governmental decision-making. In *Fat Cats and Democrats*, especially in the last chapter, I show how big capitalists dominate political parties in such a way that the government can be peopled by ambitious middle-class lawyers. In "State and Ruling Class in Corporate America," I summarize this previous work and add a consideration of the ideology process, showing further how the government can be responsive to capitalist needs without the personal presence of ruling-class members.

Where I went wrong earlier was in saying that I "define" a group as ruling class if it meets certain criteria. I should have said then, as I have for the past four or five years, that a ruling class is a class that dominates the society, and followed that vague general definition with a consideration of the "indicators" of power that are "evidence" for the claim. Even in 1967, however, I did not say the ruling class had to have its members in government, but only in "controlling" institutions and "key" decision-making groups. The "definition" was as follows:

A "governing class" is a social upper class which owns a disproportionate amount of a country's wealth, receives a disproportionate amount of a country's yearly income, and contributes a disproportionate number of its members to the controlling institutions and key decision-making groups of the country (page 5).

(3) Language. As suggested earlier in this reply, I think I am misunderstood because I do not use the conventional Marxian terminology. I do not start everything I write by saying that all history is the history of class struggle, and I use words like businessmen and workers and pressure and discontent instead of bourgeoisie and proletariat and struggle. Indeed, in *Who Rules America?* and *The Higher Circles* I used the term "governing class" instead of "ruling class," and in *Who Rules America?* I noted that the analysis, which was only intended to provide evidence for the existence of a governing class in America, was not beholden to any particular theory about the dynamics of history or the structure of society (page 3).

Esping-Anderson, Friedland, and Wright show that they are sensitive to my purposes in the mid-60's historical context when they write "Thus we ignore the historical location and specific political intentions of the different analysts of the capitalist state." However, I must

admit that it is not pleasant to be criticized as "personalistic" and of a low level of "sophistication" by Gold-Lo-Wright for a book that was written with a limited purpose in mind and intentionally used a great many names for purposes of exposition. This is especially the case because I had written as follows in an article that appears in the bibliography of the Gold-Lo-Wright "critique":

Because of its specific focus, then, my research admittedly needs to be fitted into larger contexts. It is *merely* supporting evidence for one aspect of the general theoretical perspective being developed by neo-Marxists and other radicals in and around such journals as *Monthly Review*, the now-defunct *Studies on the Left*, and *Socialist Revolution* (page 28, "Some Friendly Answers to Radical Critics," *Insurgent Sociologist*, Spring, 1972).

It seems to me I can be fairly criticized for adopting the approach I took, which can allow people to think of "class" in static, one-dimensional terms instead of as a relationship. I accept such a criticism and will avoid this mistake henceforth. But to think that my work is "personalistic," "voluntaristic," and unaware of social processes is incorrect.

If theorizing about the state and class struggles is to be politically useful, or if the unconvinced are to be convinced about the existence of a ruling class, it will be necessary to work at empirical levels as well. I have chosen to live at the more empirical level for some time now. However, I am not an instrumentalist, whatever that term may mean, and I am grateful that "Class Struggle and the Capitalist State" has given me a *Kapitalistate* category with which I can identify, for I agree with the general *Kapitalistate* contribution that state structures are more important than most Marxists have suggested.

1. I also would note that a summary like this packs into it a considerable amount of political economy. Such sentences can be found throughout my work, but are not given consideration by Gold, Lo, and Wright, who write that my work rests on a "personal level," does not have a "structural context," is "voluntaristic" because it does not stress "social processes," and does not provide "systematic analyses of how the strategies and actions of ruling-class groups are limited by impersonal structural causes."

2. This methodological point will be spelled out more fully in my forthcoming *Who Really Rules in New Haven?*, which is now nearing completion. Here I would note the use of networks and institutions to study corporate control, ruling-class cohesiveness, and ideological hegemony in the Spring, 1975, *Insurgent Sociologist*. I also would note that the policy planning network I propose in "State and Ruling Class in Corporate America," (*The Insurgent Sociologist*, Spring, 1974) provides the basis for study of capitalist ideology.

3. However, that the analysis was meant to *prepare* students for a sympathetic reading of Marxism, as was understood by most Marxists at that time, is evidenced by the concluding sentences of the book: "As Sweezy would say, this 'ruling class' is *based upon* the national corporate economy and the institutions that economy nourishes. It manifests itself through what the late C. Wright Mills called the power elite" (page 156). It should be noted that I had redefined "power elite" in class terms as the "operating arm" or "leadership group" of the upper or governing class.

STATE INTERVENTIONISM AND THE ECONOMIC CRISIS: THE LABOUR GOVERNMENT'S ECONOMIC POLICY, 1974-1975

By Robbie Guttman

1. *A brief outline of the post-war development of the major contradictions in the economy of Great Britain*

In order to come to grips with (a), the continuous relative decline of British Capitalism within the world market, (b) the specific nature of the basic contradictions in the structure of UK's economy and (c) how these contradictions determined the formulation of a peculiar framework for economic policy, we have to point out briefly the basic elements within which UK's economy developed. Britain had to face a range of problems and limitations which other developed capitalist nation states did not have to deal with or could overcome much more easily. The analysis of these particular points is essential, because otherwise one cannot explain the position of British Capitalism in an international context. Furthermore, one will not be able to explain the nature of state intervention concretely, without pointing out these peculiar problems. We will try to understand the role of the state not only in an abstract way as a theoretical category. This is why we have to start with outlining exactly those specific problems of British Capitalism.

Britain's post-war record of economic growth is by far less impressive than those of the other developed countries. The real increase of UK's GNP between 1959 and 1968 was only 32% (compared with the 64% increase both in France and Italy). Britain's investment level was much lower than that of West Germany, France or Italy—let alone Japan. The share of investment in GNP in the 60's was only two-thirds of W. Germany's and France's and only four-fifths of Italy's (see "National Accounts of OECD countries, 1950-1968," Paris, 1969). While Japan had an extraordinary average growth rate of industrial investment of 16.1% p.a. between 1955 and 1968, Great Britain did not manage more than 5.2%. In relation to this Britain's productivity increase was much lower than that of its major world market competitors. Output/worker (used as an approximate indicator for productivity increases) was growing in the UK between 1959 and 1968 at an average rate of 2.4%. In W. Germany, however, we can observe for the same time period a growth rate of 4.4%, in France 5.1%, in Italy 6.0% and in Japan 8.6%. Even in the US, which has now lost its position of absolute dominance, productivity grew faster, namely by 2.5% p.a. (data from "The Growth of Output 1960-1980," OECD, p. 35). From this it follows that Britain's growth rate was slower than the international average, that Britain was continuously facing a relative decline of its share in world trade and a chronic balance of payments deficit, and that Britain experienced phases of

accelerating inflation and/or stagnation earlier than its major competitors.

What were the basic underlying contradictions responsible for this decline of British Capitalism?

1. The loss of its political and economic position of dominance on the world market. The rise of major competitors for Britain at the turn of the century meant that the British Empire had reached its maximum and from then on had to experience decay; its monopoly of world trade was lost and with it all the major expansion possibilities for British Capitalism. The loss of its colonies was equivalent to a loss of cheap raw material sources, markets and easily exploitable cheap labor. It reduced the basis for extra-profitable production and expanding accumulation possibilities.

Simultaneously, Great Britain was not sufficiently able to adapt its obsolete institutional structure to the changing conditions of capitalist production and circulation (see below on the relation between finance capital and industrial capital), or to restructure its forms of exploitation in the former colonies effectively. Britain's role within the Commonwealth or the Sterling-Zone was more a defensive one and had to break down, once the other industrialized countries penetrated these markets. In no way had Britain the relative economic and political power to reorganise its relations to its former colonies towards the more efficient exploitation form of Neo-Colonialism, so as to gain a more advantageous position on the world market again.

The relatively earlier maturity of the British economy meant that the expansion of its resources after the Second World War was more restricted than in countries like Japan or Germany. These countries had vast resources of capital and labour-power at their disposal to be organised in the most productive and profitable ways. These countries could concentrate their resources mostly in growth industries (like cars, chemicals, pharmaceuticals, electronics, computers, etc.) and use the most modern techniques. They could expand into the world markets for the first time on a major scale, thereby applying the most effective methods; they could organise the training of their labour power, the political organisation of their workers, the institutionalisation of economic policy and the allocation of their resources very efficiently. In contrast, Great Britain was losing ground in world markets, was not able to reorganise its working class, its economic policy institutions and its industries, which would have enabled it to catch up with the more modern and profitable structures of other capitalist nation states. Most important of all, it did not have enough additional resources, both in capital and labour, to ensure favourable accumulation and expansion conditions.

2) The British Labour Movement was not crushed by fascism. After the war the working classes of major parts of Europe had lost their organisation forms and their militancy. Fascism (which Britain had not experienced) had destroyed workers' resistance and enabled capitalists to increase exploitation. One should not forget that fascism had made workers more docile, had taken away their ability to organise and express themselves. The post-war boom, where favourable accumulation conditions allowed real wage increases and therefore a rise in the living standards of the working masses, combined with very effective anti-communist propaganda, assured the con-

tinuity of effective control over the workers. In Great Britain, however, the working class was not destroyed by any form of fascism. It therefore had not lost its traditional militancy and its organisation forms. Thus it was difficult for British capitalists to intensify work and simultaneously keep real wage increases low relative to levels of productivity growth. So the basis of profitability, namely the increasing extraction of relative surplus value, was less favourably conditioned in Britain than in W. Germany or Japan. The British Labour Movement, unlike that in Germany for example did not have to be reorganised after the war. Germany managed to reconstruct its workers' organisations but in a form which was extremely advantageous for profitable production and the control of the working class. Unions were organised according to industrial branches and centralised in one major union body, with centralised nation-wide wage negotiations and with the state as the "neutral" arbitrator and mediator, if necessary. There was very restricted room for negotiations on the plant level, which implies that the workers' representative is bound to obey union orders and has no way of acting independently or according to the will of the workers he is representing. Strikes were restricted legally, especially wildcat strikes, and there was effective political control over the union leadership by the Social Democratic Party with legal restrictions against radicals. This, unlike the structure in Britain, allows for major state influence, for centralised agreements and their implementation on the plant level, for control over strikes and over political or economic opposition. In Great Britain there is still room for shop floor militancy and wildcat strikes, for reaction against intensification of work, for negotiating on the plant level which cannot be centrally controlled. This must seriously affect the profitability of firms and is one of the major barriers for the expansion of British Capital. It puts a limit on the long term ability of the capitalist to exact increases in the productivity of workers and to control their wages without simultaneously increasing workers' resistance.

Given this structural background, British capitalists could not assure very high returns on their domestic investments, which also implied low levels of reinvestment, a low extension of capitalist reproduction, insufficient productivity increases and small growth rates. Even these limited profit and growth potentials were endangered by worker's struggles for higher wages (e.g. in 1970 and 1972). The fact that British capital units were less productive, and hence more costly than their foreign competitors, led to a worsening of Britain's international competitiveness. Britain's export volume grew much less than that of its major international competitors— in 1955-68 at an annual rate of merely 3.2%, compared to France's 9%, W. Germany's 9% and Italy's 14.2%. This is reflected in a decline of UK's share in the total world exports from 7.8% (1966) to 6.1% (1969). Low productivity increases of British firms meant that they had to face increasing competition in their domestic market from overseas, and that many goods were imported because they were cheaper than those produced domestically. The increasing trade gap led to permanent balance of trade deficits. All this was made worse by Britain's exportation of immense sums of capital: direct investments abroad would bring higher profits than domestic investments and London's City was still very important in the world of international finance. Between 1946 and 1964 Britain exported about L5 billion, which was be-

tween 25% and 30% of its domestic annual investments. After 1967 there was a particularly large increase in foreign investment, from L250m. p.a. in the early sixties to over L400m. in 1968 and L550m. in 1969 (see Glyn, Sutcliffe, *British Capitalism, Workers and the Profit Squeeze*, Harmondsworth 1972, p. 149). This limited the expansion of domestic production capacity and economic growth, but also added to the chronic balance of payments difficulties. Another factor limiting growth and increasing the balance of payments deficits was the high level of military expenditure (in 1969 this amounted to 5.1% of total GDP, while in France this was only 4.4% and in Italy only 2.9%). The attempts to remain a military power are reflected in the 6 billion US-Dollars which Britain spent between 1958 and 1967 in overseas military expenditures. These expenditures are one of the reasons why Britain experienced an earlier and higher acceleration of inflation than other countries, as they used up existing productive capacities (e.g. in the aerospace, radio and electronics, and ship-building industries) and created supply bottlenecks for other economic units which also demanded the products of these industries. Low productivity increases meant that the costs could not be reduced sufficiently. Wage demands or cost increases in the purchase of constant capital elements could not be absorbed by increased productivity but had to be passed on in higher prices, which led to a new round of wage demands and price increases in other products. The UK Retail Price Index increased in 1969 by 7.5% (in Italy only by 4.5% and in France by 6%). This inflationary trend put additional strains on the balance of trade, as export prices were rising faster than the international average. The balance of payments deficits led to continuous crises (1955-57, 1961, 1964-67 etc.) This conflicted with another major peculiarity of British Capitalism: the efforts to maintain the pound as one of the leading world reserve currencies.

3) The role of London's City as a financial centre and the necessity of keeping the pound strong. Britain's finance capital and successive governments were trying to maintain the pound as a reserve currency and the City as a financial centre. In order to keep the pound strong and to attract foreign capital into the City, the official discount rates and other forms of interest rates had to be kept high. The increasing cost of debt was a definite limitation upon industrial capital from borrowing additional cash on a sufficient scale. The concern for a strong pound necessitated deflationary measures in order to keep demand under control. Excess demand could lead to rises in the rate of inflation and in imports, thereby endangering the balance of payments and reducing international confidence in the pound. The policy of high interest rates and demand deflation usually attracted short-term overseas deposits to London, which served British capital as additional investment funds. But short-term deposits used for long-term capital investments and payments of liabilities to foreign capital investors increased the risks of a currency crisis. The loss of confidence in the stability of the pound had to lead to a run in the pound whenever the balance of payments deficit reached a level where it undermined the confidence of these foreign investors. Very high short-term liabilities were not sufficiently covered by the existing currency reserves, so that the existing exchange rate of the pound had to be supported by loans from the IMF or other central banks. Those loans amounted in the period 1964-68 to 5 million US-\$.

But these loans were usually granted under certain conditions of policy, steps the UK would have to undertake to solve its balance of payments and currency problems. These policies were designed to restore the confidence in the pound after each crisis and led to the formulation of the so-called "Stop-go" policy.

4) The economic policy of "stop-go." An increase in its balance of payments deficit and a run-down of its reserves were usually counteracted by deflationary measures to increase exports and decrease imports. Higher interest rates were meant to stop the outflow of foreign capital and higher indirect taxation was means to reduce domestic demand for imports. But because of the relatively low productivity gains of British Capital, the possibilities for an export boom were always restricted. The more expensive credit terms were reducing the already low investment levels even more. So the result of these deflationary measures was the strengthening of the tendencies towards stagnation with only short-term improvements in the balance of payments. Once the stagnation had reached a certain point, the economy was reflat. The cycle, supported by measures to increase demand would then move upwards again. But the relative economic expansion and growth would cause prices and imports to rise faster, until the consequent increase in the balance of trade deficit was shaking the pound, leading again to a new round of deflationary measures.

Therefore, one stop-go policy cycle followed after another. The alternative increases and decreases of demand resulted in losses in economic growth without ever breaking the inflationary tendency. From the empirical data we can see that phases of boom were usually followed by much longer periods of economic stagnation:

| Time Periods | Annual Industrial Growth | Annual Growth of Gap |
|--------------|--------------------------|----------------------|
| 5/55 - 3/58 | 0% | 1.0% |
| 4/58 - 1/60 | 9.1% | 6.4% |
| 1/60 - 1/63 | 0% | 1.0% |
| 1/63 - 1/65 | 8.3% | 6.0% |
| 1/65 - 5/67 | .4% | 1.2% |
| 1/67 - 1/69 | 5.0% | 3.0% |
| 1/69 - 1/70 | 2.0% | 1.5% |

(data from Albers et al. *Klassenkämpfe in Westeuropa*, Rowehl, 1971, p. 199.)

The contradictions between the desire for profitable accumulation conditions and the policy goal of solving the balance of payments difficulties are always solved at the expense of the working class. In conditions of boom and full employment, wage increases are reduced by an accelerating inflation, and in phases of restrictive policy and stagnation the working class has to face higher unemployment, more indirect taxation and wage restraint. A typical example was the devaluation of the pound by 14.3% in November 1967, after 3 years of deflationary policy did not reduce the balance of payments deficit. The government decided to cut home demand further to provide more resources for export and therefore increased indirect taxation, cut public expenditures and introduced a wage freeze. The result was a balance of payments surplus in 1969 and 1970—but at the price of increasing unemployment, worsening stagnation and stronger resistance of the working class against any form of statutory or voluntary wage restraint. The fall of the Labour Government and the wage explosion of 1970 were direct results of this deflationary policy.

So far we have just pointed out that the central problem of British Capitalism was its long-run inability to increase productivity rapidly enough. This limited profits to a level where investment could not assure economic growth, competitive advantages and future profitability. The reality was that wage increases could not be financed out of adequate productivity increases, and the alternatives were either squeezed profits or price increases, which would introduce a new round of higher wage demands. Furthermore, Britain was losing more and more of its competitive position in the world market, which resulted in major balance of payments deficits and currency crisis. Britain's economic policy was mostly a *reaction* to the consequences of its major problems and was therefore more oriented towards solving the currency crisis than towards tackling the essential underlying weakness of its economic structure with a policy of increasing the investment levels and productivity. The limitations of monetary and fiscal policy were making an incomes policy necessary. Wage freezes or guidelines for wage increases had certainly redistributive effects, but they could not solve the problems in the long run either, as there existed no real effective political control over growing union resistance against wage restraint.

Before we turn to the concrete analysis of the present Labour governments economic policy in the context of the present crisis, we have to take a brief look at the Tories' attempts to restore the strength of British Capital between 1970 and 1973. This will give us some clues about the problems the Labour Government has to face now. It will also enable us to point out which policy steps are ruled out, because they have been failures in the most recent past.

2. The economic policy of the Tory Government 1970-1973.

Heath came to power at a time when Wilson's incomes policy had broken down. Workers were successfully fighting for higher wages and private capital faced a profitability crisis because of increased international competition, higher costs and low productivity increases. Investment was falling, strikes decreased output further and an export-led expansion was

limited by increasing recession in countries with whom Britain had the closest trade links (especially the USA). The Conservatives therefore introduced a number of measures to strengthen British capital again.

First of all, several steps were aimed at "rationalizing" British industry. The entry of Britain into the Common Market was argued on the one hand to improve the realization conditions for British products. On the other hand, the EEC entry meant increased competition, which should bring about a more efficient use of resources in British industries and should therefore lead to an enforced rationalization and modernization of production techniques. The Tory government followed a policy of pricing the products of the nationalized industries low, so that the basic production goods and raw materials produced there (like coal and steel) could be supplied cheaply to the private sector. This meant a decrease in the private sector's input costs. This policy led to deficits in the public sector, but the Government wanted simultaneously to limit the subsidies to these nationalized industries in order to control the public expenditure expansion and with it the public sector's borrowing requirements (as high public sector deficits compete with the private sector's demand for credit push up interest rates and are inflationary). So the government planned huge rationalization programs for these industries to cut down their costs and increase their profitability. Furthermore, the Tories abolished a number of former mechanisms for direct state intervention in private industry (like Labour's Industrial Reorganization Corporation) and proclaimed that "lame ducks" should be allowed to die, so that the industry as a whole would be strengthened (which is a return to the classical principle of the economic crisis as a "cleaning out" mechanism). The "lame ducks" policy should not only force capitalists to rationalize if they want to survive, but also posed a threat to the working class. The sudden possibility of mass redundancies could force workers to accept wage restraint or even cuts. In addition to that, there were also plans for the government to "re-privatize" profitable parts of the nationalized industries.

This policy of deliberately enforcing wide-spread rationalization was largely unsuccessful. The entry into the EEC increased imports more than exports and the growing competition from European industries posed a threat to the existence of some British producers (like machine tools industry, agriculture, etc.) The deficits of the nationalized industries, resulting from the "low price" policy, and the rationalization plans (especially for the coal and steel industries) made enormous amounts of credit necessary for the public sector. The "reprivatization" of parts of the public sector only happened on a negligible scale, because there was hardly a profitably run nationalized industry. Lastly, the "lame duck" policy failed, as the crisis forced the state to bail out or nationalize more and more large companies, which otherwise would have declared liquidation (e.g. Rolls-Royce, UCS, Harland & Wolff and the Liverpool docks).

Secondly, the government attempted to help private capital by trying to control wage increases. One way of doing this was the deliberate policy of letting unemployment grow. The Chancellor of the Exchequer with regard to his April 1971 budget measures, said the following:

"My broad aim is that these measures should after a time slow down

and later stop the rise in unemployment, but of course the progress of that aim depends on the progress of deescalation (of wage claims). . . . Later, when the pay settlements have returned to more sensible levels, it should be safe to allow output to grow at a rate sufficient to reduce the level of unemployment."

(cited from Glyn, Sutcliffe, *British Capitalism* . . . p. 172)

After the policy of statutory or voluntary wage controls had failed under the former Labour Government, the Tories returned to the classical concept of breaking wage demands by increasing unemployment. The official figures went over the million mark in early 1972, the highest figures since the 30's. But in the meantime the government was trying to break the union structure by force of law and was pushing the Industrial Relation Bill through the Parliament. The Industrial Relations Act (IR Act) was an effort to modify the union structures so that workers' militancy could be effectively controlled. With this, the Tories tried to remove one of the major barriers for a peaceful and profitable expansion of British Capitalism. The Act was an attempt to formalize collective bargaining legally, to limit the possibilities of strikes, to destroy democratic rank and file control in the unions, and to centralize the unions. The unions were forced to register with the Registrar, which automatically regulated unions' rights and duties. Wage agreements were made legally enforceable and disputes were to be solved within a set of arbitration bodies. Strikes could be frozen by the government, closed shops were abolished, a union could be heavily fined for its members' "unfair practices." This would effectively destroy possibilities for action on the part of the shop stewards, etc. By destroying shop floor militancy the IR Act would make sure that productivity deals and incomes policy would fulfil their purposes: reduction of rank and file control on the plant level and a general fall in the living standards of the British working class. While the Bill was being discussed for 20 months in Parliament, the Government started a policy of restricting wage increases in the public sector (the implementation of the N-I norm meant that each wage settlement with public employees should be 1% less than the previous one).

By and large, the government had failed completely by 1972 to reach the goals of reducing wage increases and controlling the unions by legal means. Unemployment did not lead to major restraints on the workers' wage claims. The N-I norm led increasingly to strikes in the public sector, which at first were not successful (e.g., postal workers' strike), but were radicalizing the working class as a whole, until the miners and then the railwaymen led successful strikes against the N-I norm in early 1972. But most important of all, the workers' reaction against the IR Act was steadily toughening and led in 1972 to a series of political strikes (e.g. the solidarity strikes in support for the dockers and for the release of picketers, who were imprisoned during the dockers' strike under charges specified in the IR Act). The strong reaction of the workers forced the TUC to boycott the IR Act and the government to retreat in several instances from applying the Act. In other words, it proved impossible for a government to impose legal controls on unions' rights without the approval and the cooperation of the TUC. Another attempt to gain control over wages and strikes had failed.

Thirdly, at the beginning of their rule the government was trying to redistribute resources from the public sector and the consumption side to the

private sector by means of fiscal policy. In its first budgets, it cut public expenditures by reducing social services (or increasing welfare charges, like cutting free milk, new pension schemes and higher health service charges). Furthermore, it offered smaller agricultural price guarantees (which meant reduced food subsidies and higher food prices) and lower housing subsidies (which meant higher council-house rents). The tax cuts it introduced mostly helped the rich (a tax cut on larger incomes, abolition of the capital gains tax at death and of the short-term capital gains tax. Introduction of the VAT would tax necessities more and would therefore hit the poor harder). In order to increase the cash-flow for reinvestment directly the government reduced the corporation tax and replaced the investment grant system with tax allowances. Furthermore, the government introduced a cut in the Selective Employment Tax and put an end to the double-taxing of dividends by corporation tax and by an *additional* income tax on dividends. But the government could not follow its policy of cutting down public expenditure and private consumption for very long, because rising public sector deficits, necessary investment programs in the nationalized industries and more subsidies for crisis-shaken private companies increased the necessity for state intervention and larger public expenditures. Once again, the high level of unemployment made necessary a reflation of the economy through tax cuts and other measures to increase private consumption in 1972.

1972 therefore saw the failure of major parts of the Tory Government's strategy to help private capital. The IR Act led to a wave of political strikes, which made its further application too dangerous for the ruling class. The N-I norm in the public sector was breached by the miners and the railwaymen, which led to an explosion of strikes in other industries as well. Unemployment reached levels where a reflation of the economy became necessary. Strikes (the 24 million "lost" strike days in 1972 represented the highest figure since 1926), cuts in direct taxation, increases in government grants including pensions, and credit expansion (the HP outstanding debt rose by 25% and the personal bank advances doubled in one quarter) led to an increase in real disposable personal income by 9.5% in 1972 (nominal wages increased on average by over 15%, while the Retail Price Index rose only by 7.7%—add to this the tax cuts). This meant that private consumers' expenditure was rising by 6.8%. Productivity rose by 7%, which allowed an output growth of 4%. This domestic consumer boom was supported by an impressive international recovery from the stagnation years 1970/71 (sources of data see A. Glyn *British Capitalism in 1972 and 1973*, Bulletin of the Conference of Socialist Economists, Spring 1973, pp. 49-52). Despite a boom, however, there were major underlying problems for British Capitalism. Glyn shows that after the recovery of the profits from the voluntary price restraint of the Confederation of British Industries (CBI) in the second half of 1971, where the total profits (before deducting an estimate for capital consumption, but after stock appreciation) as a ratio to total domestic incomes rose from 9.9% (2nd quarter 71—from now on written as 2/71) to 11.6% (3/71), the profit share fell again during 1972 to 10.2% (4/72). This low profitability, despite the boom and high productivity increases during 1972 could be a result of the massive wage increases and production losses because of strikes. Low profits also explain why man-

ufacturing investment fell by 10% in real terms between the third quarters of 1972 and 1973. This was accompanied by a deterioration in the balance of payments position, which moved from the L1000m. surplus 1971 to bare balance in 1972. The main reason for this was that the UK could barely increase its export volume (it rose by only 1% although world trade increased by 9% that year) while the import volume increased by 12% (as consumption rose by 6.8% and output by just 4%, imports had to go up). This indicates that the competitiveness of British Capital had not improved at all. In addition, the terms of trade deteriorated by 4% in 1972 because of the floating of the pound since June 1972 and because of rapidly accelerating world inflation. The balance was further burdened by a massive increase of UK capitalists' direct investment overseas from £100m. (1970/71) to £700m. (1972)—a further indication of the lack of confidence in the profitability of domestic production. This increase might have been facilitated by EEC regulations. Harrison sums up neatly the kind of pressures which the Tory Government had to face at the end of 1972:

To solve British capital's difficulties and create the conditions for an adequate rate of accumulation, the bourgeoisie needed to impose a substantial increase in the rate of exploitation on the working class . . . More direct state intervention was needed. Laissez faire policies and the "rule of law" had failed and Heath was now forced to intervene directly to control wages. (J. Harrison "British Capitalism in 1973 and 1974: The Deepening Crisis," *Bulletin of the Conference of Socialist Economists*, Spring 1974, p. 47.)

The new round of deflationary measures, introduced by the 3-stage incomes policy, at the end of 1972, was effectively preventing living standards from improving. The money earnings were increasing by 12.7% in 1973, but the retail price index jumped up by 10.2% and fiscal drag took another 2.4% out of money incomes, as the nominal incomes moved into higher income tax brackets. It is, however, noticeable that this incomes policy worked only in its first stage, where prices and wages were generally frozen. In this period, where money wages were not rising, British Capitalism had a period of unprecedented growth and boom. Prices increased faster than money earnings, which helped to boost profits. A massive monetary and credit expansion led to a big investment boom both in the private and public sector. A world-wide boom and high consumption expenditures (as a result of a falling saving ratio) in anticipation of the introduction of the value-added tax guaranteed a high level of demand for British goods. Productivity increases and longer work hours for the same real income indicate a higher level of exploitation. Under these circumstances it was not surprising that the company profit share rose from 10.2% (4/72) to 11.6% (1/73), that output increased in the first quarter of 1973 on an annual rate of 12% and capital accumulation on an annual rate of 25%.

From the second quarter of 1973 the difficulties started again to interfere with the expansion possibilities of British capitalism: a) There was no reduction of the balance of payments deficit. The boom at the beginning of 1973 caused quite a high demand for imported goods. Furthermore, there was an enormous 16.1% deterioration of the terms of trade, as the pound was further devalued and the raw material and food prices exploded on the world market. Both these phenomena pushed import prices up more rapid-

ly than export prices.

b) Consumer expenditures and hence demand fell, as the inflation accelerated because of the rise in the import prices and the VAT. This led to a slow-down of output growth from the 12% per year in 1/73 to 1% per year in 2/73 and -0.5% in the second half of 1973.

c) The policy of monetary expansion ended and made room for a restrictive policy, which was intended to bring inflationary pressures down. Borrowing became more expensive and the debts of companies increased. But the interest rates did not rise only because of economic policy measures in general. They will also go up in times of inflation, because otherwise private bankers would face negative real interest rates and a substantial squeeze in their profits. Interest rates will also be pushed up, if the public sector is looking for more loanable funds to finance their deficits, as it increases competition with the private sector and creates an excess demand for credits.

d) Demand was not only restricted by consumers but also by the attempts to lower public expenditures in order to fight inflation. But at that time this strategy faced major difficulties. In order to reduce the deficits of the nationalized industries, the government had allowed some moderate price increases in these industries. These price increases contributed to inflation, but they were, on the other hand, not substantial enough to make the deficits much smaller. These deficits had then to be financed out of taxes (which affected demand negatively) or out of increased borrowing (which pushed up interest rates and created acute credit shortages for the private sector).

e) Inflationary tendencies became stronger in 1973. Rapidly rising food prices and indirect taxation were eating up the workers' income-gains, won before the wage freeze, and were undermining the unions' willingness to accept the incomes policy. The explosion of the raw materials' prices increased the input costs of the capitalists.

f) The inflation forced Heath to take a soft line approach for his incomes policy. Money wages were allowed to rise modestly to keep up with inflation, because otherwise the unions would have resisted this form of wage restraint, which would have worsened the position of British capitalists significantly. Stage 2 (April-November 1973) had a norm of £1 + 4%, which was equivalent to 8% increases on average. Stage 3 (Nov. 73-June 74) had a £2.25 norm for money wage increases (equal to 7% on average), and in addition provided certain extras, e.g. a threshold of 40p for each 1% increase in the Retail Price Index over 6% in October 1973, allowances for productivity deals, equal pay for women, minimum wages, premiums for working "unsocial hours," etc. But the modest rise in money earnings was already posing a limitation to more profitable production. This indicates that only significant and persistent cuts in the living standards of the working class could lead to a long-run restoration of profitability in Britain.

g) Falling demand, higher input prices, modest rises in money wages (already leading to higher unit labour costs) and monetary restriction led to a fall in the profit share (from 11.6% in first quarter of 1973 to 9.6%, both in the third and fourth quarter of 1973). This went along with a decrease in the liquidity ratio (as debts increased and cash-flow decreased) and with a major decline in the investment activities. Therefore even before the oil

crisis and the dispute with the miners it became clear that Heath's incomes policy of 1973 has not been able to solve the particular structural problems which British capitalism had to face during its recent history. The conflict with the oil-producers and then with the miners only aggravated a crisis, which was already well under way before the end of 1973. The miners' strike, however, gave this incomes policy its final blow. Another attempt to restrain wage increases had failed as had so many of the other policy steps of the Tory Government.

3. Economic and Political Crisis at the End of 1973 and Beginning of 1974

We already mentioned that the economic situation worsened continuously after the short boom at the beginning of 1973. Investment, profits and output were falling or at least stagnating during the second and third quarters of 1973. Inflation was accelerating, thereby posing a threat to the Government's incomes policy and simultaneously increasing production costs, as imported raw materials faced the largest price increases. At the end of 1973, the situation deteriorated further, mainly at first because of the oil crisis.

The oil-producing countries imposed an embargo against the oil consumers, i.e. predominantly against the industrialized countries of the West. For Britain that meant a short-run shortage of oil products, which led to a further decline in output and industrial activity, resulting in the strengthening of already prevalent pressures towards stagnation. The simultaneous quadrupling of oil prices increased production costs for British companies even more and aggravated inflationary pressures. Not only were the companies' profitability positions seriously weakened, but inflation also posed a threat to Heath's incomes policy.

The Government reacted to this in two ways. First of all, in order to get the unions' further participation in this incomes policy scheme Heath had to make certain concessions to the unions and to allow modest money wage increases, some form of wages indexation and allowances for special cases in Stage 3. In addition to that, the Government attempted to fight inflation with a deflationary budget in December. This budget included cuts in public expenditures amounting to £1.2 billion, which went right across to all parts of the public sector, hitting nationalized industries, road building, hospital and health centre building, education, environment, etc. It increased prices for some of the nationalized industries (coal, electricity), introduced new taxes, and restricted credit facilities and the money supply through a number of measures. It was thought that demand (both private and public) had to be decreased, because supply was falling, and that this would put an end to the acceleration of inflation. The demand deflation would also help reduce the balance of payments deficit, which dramatically increased at that time because of the oil price explosion and the negative trade balance with the other EEC countries.

This budget, however, expressed very clearly the underlying dilemma, which Keynesian economic policy had to face in a period of stagflation. Not only are both fiscal and monetary policy helping to create stagnation, but these instruments are increasingly unable to be effective against the forms of the contradictions they helped to produce. Monetary expansion, state

intervention to save private capital units from bankruptcies, and permanently higher levels of public demand helped capitalists to realize their products at progressively inflated money prices, thereby producing the permanent inflation of the post war period. Keynesian economic policy was applied anti-cyclically and therefore tried to avoid recessions, in which unemployment would rise, capital (both variable and constant) devalued (as both prices and wages would fall) and many firms would go bankrupt. But it is exactly these elements of a capitalist crisis which would "clean away" the contradictions which led to this crisis in the first place. Devaluation of capital would lower the organic composition of capital (both in value and in physical terms), and wage cuts plus unemployment would enable capitalists to increase the rate of exploitation (both relative and absolute). But these "cleaning" crises were prevented by the post-war economic policy, so that all the stagnating elements within the capitalist mode of production were never allowed to be resolved "naturally" (in terms of the laws of the capitalist system) through a depression. Instead, recessions were always met by massive inflows of money and increases in public demand, which not only avoided real crises but made the creation of boom conditions more difficult. None of the stagnating contradictions were resolved by state intervention, but glossed over and delayed, until the next recession would make more state intervention necessary to have the same counter-cyclical effects. State intervention therefore never broke the inflationary tendencies, but allowed them to increase cycle by cycle. Each cycle, therefore, had more inflation and less growth potential than the one before. In the last two years we experienced an acceleration of the inflation in a world-wide boom, and then a further increase of inflation as falling output and restrictive monetary policy forced capitalists to meet the liquidity squeeze with rising prices. Another possibility, namely an effective incomes policy, which would stop real wage increases, was successful only in the short-run because further rising prices usually provoked workers' resistance against wage restraint. These price rises resulting from stagnation (and not because of a boom) only increased the recession, so that both stagnation and inflation conditioned each other. Economic policy, which certainly played a major role in this process, does not have the adequate tools to meet stagnation and inflation at the same time. It is institutionalized to undertake policy steps either against inflation (which would indicate boom conditions) or against economic stagnation (indicating a period of recession). That is, it can either, broadly speaking, reflate or deflate the economy. But in present conditions the following dilemma occurs: either policy makers consider inflation to be the major "evil" (as was the case in the early 1974 emergency budgets of most of the Western countries), and then they deflate the economy and restrict demand and the monetary expansion, which tends to worsen stagnation. Or they decide to fight against stagnation (which is now the case, as most of the developed capitalist countries had to face massive declines in their economies' activities); then they will reflate with the dangerous possibility of increasing inflation further. Chancellor Barber chose the first alternative. The budget had to be deflationary, because inflation was endangering the incomes policy and the enormous balance of payment deficit was forcing economic resources to be used overseas in-

stead of within Britain. In other words, this balance of payments deficit was reducing demand for home products and capital accumulation in the domestic private sector, so that a further increase of the deficit had to be avoided. But as the budget deflated demand and restricted credit expansion, it aggravated the fall in output and investment and worsened the corporate sector's liquidity position.

The budget did not only worsen stagnation, but was also not able to gain control over inflation. It did not remove the cost increases for the capitalists. Higher costs, however, meant falls in profits, as long as prices were not increased, which is itself a contradictory strategy in times of stagnating or falling demand. There is, however, another important reason why stagnation might actually increase inflationary pressures: the growing dominance of fixed costs. As this concept is usually ignored or underestimated in its importance, it is worth analysing the matter a bit more thoroughly.

We assume that within the development tendencies of capitalist production the use of constant capital increases relatively to variable capital. Furthermore, within constant capital fixed constant capital (i.e. machines, buildings) increases faster than circulating constant capital (i.e. raw materials etc.)—both in value and physical terms. While it is possible to reduce the use of both variable capital and circulating constant capital parallel to the decline in demand and output (e.g. through redundancies and/or lower stocks of raw materials), this does not hold to the same extent for fixed constant capital. Machines and buildings are relatively *fixed* cost factors, no matter on what capacity level the production takes place. We assume two capitals A and B with different organic compositions of capital and different ratios of fixed to circulating constant capital.

$$\text{Capital A: } 100v + 100cc + 100cf = 300 \text{ CP}$$

$$\text{Capital B: } 100v + 200cc + 300cf = 600 \text{ CP}$$

(v = variable capital, cc = circulating constant capital, cf = fixed constant capital, CP = cost price). If we assume a) that the costs of fixed capital will be reducible to maximal 80 per cent, no matter on what capacity level production takes place, and b) that production is reduced by 50 per cent, then we get the following equations:

$$\text{Capital A: } 50v + 50cc + 80cf = 180 \text{ CP}$$

$$\text{Capital B: } 50v + 100cc + 240cf = 390 \text{ CP}$$

With a production capacity use of only 50 per cent the cost price of A falls by 40 per cent, while that of B decreases only by 35 per cent, due to its higher share of fixed capital. If both capitals have a profit rate of 10% at full capacity (i.e. 30 money units of profit for A and 60 for B) and if A produces 10 pieces and B 30 pieces at full capacity, then the production price of A will be 33 (cost price of 30 plus profit of 3) and that of B will be 22 per piece (cost price of 20 plus profit of 2). With a fall in production by 50 per cent A produces only 5 pieces and B 15 pieces. But at the same time we observe that due to the higher proportion of fixed costs, which do not allow a cost reduction equivalent to the output reduction, the cost price per piece increases now for A from 30 to 36 (20% higher) and for B from 20 to 26 (30% higher according to the higher fixed cost share). If

both capitals want to keep their profit rate constant, when production falls below capacity, they have to increase the market price per piece (the price for A would have to rise from 33 per piece to 39.6 and for B from 22 to 28.6). So we can see that the changing nature of the composition of production cost can lead to increased inflationary pressures in times of stagnation. This is one of the clues to the understanding of the stagflation problem. (The numerical example was taken from an unpublished manuscript of E. Altvater on inflation, presented at the Free University of Berlin in the winter term 1974/75. The concept of the fixed costs was already developed in 1928 by E. Schmalenbach, the "father" of German Management Science). From our presentation above it should be clear that the December Budget of the Tory Government not only increased stagnation, but also the necessity of capital units to increase their prices.

The problems of imposing an incomes policy in a period of stagflation put finally an end to the Tory Government. At that time falling output and the balance of payments deficit made a fall in real wages necessary in order to reestablish favourable accumulation conditions.

If output cannot be expanded then profitability and accumulation cannot be improved without reducing real living standards. If exports must be increased (and/or imports reduced) to redress the balance of payments deficit then investment cannot even be maintained without either a substantial increase in output or a reduction in workers' living standards. (J. Harrison in *Bulletin of the Conference of Socialist Economists*, Spring 1974, p. 50.)

The interests of the capitalist class required a tightening of the incomes policy and not the sort of soft-line approach of Stage 2 and 3. The problem was that Stage 3 provided money wage increased of 7% (the extra amounted to an additional 4%) but inflation at the end of the year was approaching 15% per year. This discrepancy led to industrial action of the miners, railwaymen and power engineers, who wanted to settle substantially above the norm to compensate for real income losses in the past. The workers were dedicated, but so was Heath, who could not afford a victory of the working-class, as it would have put an end to wage restraint. A defeat of the the most militant parts of the working class would have opened the possibility for the Tory Government to introduce tougher wage controls. But Heath could not win, because the well-organized and widely supported strike of the miners dangerously exacerbated the energy shortage and the economic crisis. The miners' strike had three effects, which seriously weakened the ruling class of Britain: a) it put an end to Heath's incomes policy (another example of the difficulty to impose a policy of wage restraint on the working-class in times of accelerating inflation), b) it led to the 3 day week, which meant further falls in output, production and profits. As the supply of goods fell more than demand, prices were pushed up again and imports increased, which led to a record balance of payments deficit, c) The bourgeoisie went through a major political crisis, as they had to face the upsurge of workers' militancy and as a consequence, the fall of the Tory Government.

4. On the development of the Labour Party in 1973 and early 1974

The Labour Party includes different political forces. In contrast to other Social Democratic Parties (like in West Germany, Austria or Scandinavia) the British Labour Party is fairly decentralized (partly a result of the unique constituency election system). Therefore, the formulation of policy through Party Congresses, Manifestos and meetings of different bodies of the Labour Party (Committees, Parliamentary factions, Shadow Cabinet, National Executive Committee) is a relatively widely discussed process. For instance, there is no explicit party order which bans political cooperation of party members with Communists, as is the case in W. Germany and Austria. One of the most important features of the party is its relationship to the Trade Union Movement. Practically every Social Democratic Party in Europe bases its political existence on close links to the unions of its country. Traditionally these parties rely on the workers as their electorate. It is the function of Social Democracy within the political and economic structure of advanced capitalism to integrate the working class successfully through its ideology of "social reformism" and the "gradual approach to Socialism" within parliamentary democracy. It is therefore necessary for those parties to establish close links to the unions and to follow a policy which would not alienate the unions and their members. Social reforms are usually the price for social peace and a booming capitalism allows usually to a limited degree the financing of those reforms, but it often requires Social Democracy as a transmission belt.

The function of the British Labour Party and its relation to the unions is in principle not different from continental social democracy, but there are still some important differentiations in details. The major policy issues of the party are formulated in the annual congresses. These also form the basis of the election manifestos, in which the party spells out vaguely the policy it will pursue if elected. The decisions in these Congresses are taken by bloc vote, which gives the largest unions a very important voice in determining the party's policies. In order to implement its policies the Labour Party needs the unions' approval of its policy, while the unions themselves are much harder to control in the actions they take. As the unions gradually started to oppose the Heath Government more and more during 1973, the Labour Party had to formulate a more concrete and effective opposition policy.

The following political shift more to the Left was undertaken because of several reasons. For one, the unions started increasingly to oppose Heath's policy, especially with regard to his restraining of wages and cutting of welfare benefits, combined with reduced taxing of the rich and the companies. The Labour Party knew that once reelected it would have to meet some of the basic union demands (like an end to statutory wage controls, more social services and benefits, redistributive budgets) in order to stay in power. There was also the need to diversify from the policy of the Conservatives and to represent a credible and strong opposition. Therefore Labour started to attack certain key elements of the Tories' policy, like the conditions of the entry into the EEC, incomes

policy, their version of state participation in private industry, tax policy, cuts in social services. Simultaneously, alternatives were formulated. Some of the more sophisticated members of the party understood also that demand management and incomes policy have become less effective in the stagflation crisis, so that new approaches were necessary. This led to the formulation of increased state control in private industry with planning agreements, and industrial democracy as a way to integrate unions more successfully. A more progressive election manifesto and the strengthening of the Labour Left (the so-called "Tribune Group") did not mean, however, that the whole party stood behind a progressive policy (the Labour Party is a fairly split party and there is a continuous power struggle over certain issues, like Britain's relation to the EEC, to South Africa, Labour's policy towards the conflict in Northern Ireland, cuts in defence budgets, etc.) Nor did it necessarily imply that the Labour Government would follow the course of the party's majority decisions or would undertake actions it promised when it was in opposition.

When the Labour Party came into power in February of 1974, Britain was in the middle of its most severe political and economic crisis in four decades. This reality put a number of constraints to the government's ability to act. The 3 day week, the energy crisis, the deflationary December budget, and falling consumer demand (because of income losses during the 1973 policy of wage restraint), all led to a stagnating economy. The index of the GDP at factor costs and 1970 prices fell from 109.6 in the third quarter 1973 to 109.5 (4/73) and then to 106.3 (1/74) (1970 = 100). The index of industrial production fell from 110.7 (3/73) to 109.4 (4/73) and 103.4 (1/74) and the index for output/person employed at 1970 prices (indicating increases in the productivity) fell from 115.6 (3/73) to 114.2 (4/73) and 108.2 (1/74). Personal disposable income at 1970 prices (in £ million) fell from 10.114 (3/73) to 10.095 (4/73) and finally to 9.916 (1/74). Parallel to this we can observe a fall in the consumption expenditures at 1970 prices from 8.957 million (4/73) to 8.890 million (1/74). Unemployment started to rise again, namely from 516,000 (i.e. 2.2% of the labour force) in 4/73 to 570,000 (2.5%) in 1/74. Combined with this was an incredible squeeze on profits and company liquidity. The raw material price explosion pushed up the costs of manufacturing inputs. Manufacturers had to increase the wholesale prices of their manufactured products, which meant increased costs for the producers of consumer goods. This led finally to increases in the retail price index. The fantastic rise of oil prices added to the overall rise in costs. The energy shortage, the 3 day week and falling demand were causing a fall in output, which led to higher costs per unit output (on the relation between fixed costs and under-capacity, see above). Rising interest rates, a tighter money market and the rapid fall of share prices worsened liquidity positions even further. Empirical indication of this process follows from the figures for the net acquisition of financial assets. While the debt-asset position (in £ mio.) during the boom of the first quarter of 1973 was +127, it started to deteriorate and fell to -490 (4/73) and -512 (1/74). This shows that companies' debts by far exceeded their assets. Profits, as a share in

profits plus income from employment, in the manufacturing industries (post tax, net of stock appreciation and depreciation at replacement costs) fell from 12.5% in 1973 to -0.3% in 1/74. Inflation accelerated fast, especially at the beginning of 1974. The Retail Price Index (1962 = 100) moved from 180.6 (3/73) to 186.8 (4/73), but then in 1/74 to 194.6. The wholesale price index for basic materials input and fuel purchased by manufacturing industry (1970 = 100) rose from 150.9 (3/73) to 167.6 (4/73) and then to an incredible 212.5 (1/74). The manufacturers certainly passed their cost increases on to higher prices—the wholesale price index of output of all manufacturing products (1970 = 100) jumped from 124.2 (3/73) to 129.1 (4/73) and then to 138.3 (1/74). The deterioration of the terms of trade from 88.7 (3/73) to 75.3 (2/74) and the higher volume increase of imports over exports led to a worse UK balance of payments position (in £mio. a fall from -272 in 3/73 to -537 in 4/73 and then in 1/74 to -964). (Data on profitability and liquidity from "National Institute Economic Review, 4/74, p. 21f, the other data are from "Economic Trends", Feb. 75, p. 2ff). It was absolutely essential that the Government would undertake something effective to ease the situation. But there were political limitations, because it had to deal with the unions.

The unions opposed any statutory wage policy and they had just defeated one, so the government had to find an agreement with the unions for some form of voluntary wage control, known as the "social contract" (see a detailed analysis of the contract below). It was very important for the Labour Government to get the unions' approval of a continuation of Stage 3, until the details of the contract were worked out, because a wage explosion had to be avoided at a time when the capitalist economies faced their most severe post-war depression. In return for agreeing to the temporary continuation of Stage 3 and the social contract in the future, the TUC demanded higher pensions and income tax thresholds plus food subsidies to help the hardest hit by inflation. The TUC wanted in addition a further extension of social benefits, and higher taxes on the rich and the companies in order to be able to pay for the increases of social benefits. Heath's Pay Board, Industrial Relation Act and Housing Finance Act should be abolished, they claimed. To some extent the Government was also bound to undertake policy measures laid out in the Election Manifesto in January 1974. Besides most of the TUC demands this included a Rent Bill to protect tenants in furnished flats, a rent freeze, increased public housing, building and municipalization of privately rented property, lower mortgage interest rates, renegotiations of EEC terms and a referendum about Britain's future in the EEC, nationalization of development land, of the shipbuilding industries, ports and aircraft industry, state participation in the North Sea oil industry, regulation of the extension of public control also in profitable industry, and regulation of establishment of the National Enterprise Board, improvements in the health service, in the women's pay status, education and public transport, Employment Protection Bill, Industrial Democracy Bill, taxes on wealth, on capital transfers and on property speculation etc.

An additional moment was that Labour had only a minority government and early elections were likely. The Labour Party wanted to present itself

as the only party which could deal with the unions. The Wilson Government tried therefore very hard to get the Social Contract worked out and set up before the elections in the fall of 1974.

5. The March Budget and the Economic Crisis in the second quarter of 1974

Budgets are usually tools of economic policy, because they reflect the contradictory character of the capitalist economy. This is especially obvious in a stagflation crisis. Should demand be reflatated to make the economy grow again or should the budget be deflationary, which might lower inflation rates, but would increase stagnation? Should the state improve realization conditions and increase consumer demand at the expense of the company sector or should the profitability of production be improved, which might necessitate lower consumption and real wage incomes? Should the state increase its expenditures and limit the private sector through taxes and credits going to the state instead of being used for capital accumulation or consumption, or should public sector expenditures be reduced and the private sector spending expanded?

The March 1974 Budget included a number of measures which the Government had promised the unions in order to get their participation in a voluntary incomes policy. It contained food subsidies, higher pensions and an increase of the basic rate of income taxation to help the poor and those who suffered most from inflation. Chancellor Healey agreed to continue the thresholds of 40p for each 1% increase in the retail price index. But consumption was reduced by the increased indirect taxation, especially on beer, spirits, cigarettes and petrol. The Budget, however, squeezed the company sector most by increasing employers' national insurance contributions and corporation taxation and by toughening the Price Code. In total, this took approximately £1400m. from industry, including the price increases of public sector goods, which were ordered specifically for coal, steel, rail freight and postal services. This would allow for less subsidies to the nationalized industries and thereby lower public sector borrowing requirements. The budget did not revoke the public expenditure cuts of the Tory Government. On the contrary, in its overall effects it added to demand deflation by £200 m. In the context of the Budget Healey announced extensive borrowing from overseas to finance the huge balance of payments deficit (mostly loans from the Euro-Dollar-Market and the OPEC countries).

Government expenditures were increased by a total of £700m., but tax revenues were increased by twice that amount, namely £1400m. Higher income taxes for middle and high income groups, higher indirect taxes on a number of products plus higher prices for public sector products would redirect resources from consumers to the public sector. Tougher price controls and higher corporation taxes do the same with regard to the private companies. Reducing the public sector deficit and demand deflation were the classic fiscal policy measures to reduce inflation. The Government was not so much worried about stagnation tendencies, because it

believed that the end of the 3-day week would revive the economy significantly. This was, however, a miscalculation, because the measures did not reduce inflationary pressures. Price rises of public sector products and indirect taxes in excess of subsidies pushed the Retail Price Index further up. Similar effects on prices followed from increased employers' national insurance contributions, corporation taxes and threshold payments, which were partially passed on as higher prices. The squeeze on profits was worsened because of the continued credit controls, additional price controls and higher corporation taxes. If companies found themselves unable to increase prices sufficiently, they would have to cut down investment plans and sack workers. This resulted in increasing unemployment, low productivity and output growth and a general worsening of economic stagnation. Low public sector demand and a cut in consumption expenditures certainly did not help to improve the growth possibilities of the economy. The deflationary budget and the tightening of exchange controls were attempts to ease the balance of payments difficulties, but the figures below indicate that this did not work either.

The Budget (together with the announcement that the Industrial Relation Act and the Housing Finance Act would be repealed and the Pay Board abolished) contained only the minimum amount of concessions to the unions in order to get their support for the social contract. Several examples showed that the Labour Government acted against the interests of the working class. Healey, for example, did not revoke Barber's cuts in social services, which were beginning to have disastrous effects, especially on the health service and education. The increase of nominal income tax thresholds was still less than inflation, so that real income tax thresholds were still falling and hurting lower income groups. The Government did nothing to ease the fiscal drag, which eroded most workers' incomes further. The Budget increased pensions, but there was less of an increase for unemployment and sickness benefits at a time when increased redundancies were very likely. There were also no family allowances for one-child families and no help for one-parent families living mostly below the poverty line. Furthermore, there was a lot of mystification about the threshold agreements. The 1% rise in the retail price index meant a 1% rise in living costs of an average household, but a lot of workers' households are below the average. Workers, for instance, spend a higher proportion of their income on food, which recently had an inflation rate above average. But even abstracting from that, a major part of the 40p threshold goes automatically into payments of income tax and social insurance contributions, so that the net value of the threshold is estimated to be only 27p. The 40p threshold would not compensate for the 1% rise in prices, if the worker earns more than £40 per week. In the future, when continuing increases of money wages and prices will reduce the relative (to the total wage) and real value of the 40p, this threshold will compensate even less, as long as it is a flat rate of 40p. And finally, the threshold payments are ex-post, so there is no compensation for higher prices *during* the time they rise (see T. Cliff, "The Crisis—Social Contract or Socialism", London 1975, pp. 49-55).

The TUC wanted a growth target of 3½%, but that would have re-

quired a reflationary budget. Such a reflation would have increased demand and inflation, which would have led to a higher balance of payments deficit. This would have weakened the pound beyond Britain's overseas borrowing capacities. The stimulation of the economy also would have required lower interest rates, but they had to be kept above the international average in order to attract foreign money. Lower interest rates would limit Britain's overseas borrowing possibilities. The importance of imported inflation, of defining economic policy according to the balance of payments position and the weakening of the economy by a world-wide slump shows how limited domestic economic policy has become in the course of increased internationalization of the capitalist production sphere and the growing international synchronization of accumulation conditions.

The government had a formal agreement with the TUC to continue wage settlements under the Stage 3 norms, until both sides would have worked out a "social contract" by summer 1974. But there was evidence that more and more unions were pressing for settlements above the guidelines in order to overcome their real income losses experienced during the incomes policy of 1973 and as a result of accelerating inflation and higher taxation through the "fiscal drag." The miners' victory was certainly setting an example. High wage demands were concentrated in the public sector and during the general negotiation period in June 1974. The railwaymen (NUR) got a 25% offer, the engineers (AUEW) threatened an overtime ban to get higher wages, local government workers (NALGO) wanted a deal 10% above the Stage 3 norm, and teachers threatened to strike for a 37% increase. But even the private sector experienced strikes for above Stage 3 wage increases, like at British Leyland. Besides appeals from TUC officials like Len Murray (General Secretary of TUC) to keep within Stage 3 until summer and comments by Cabinet Ministers (Prentice, the Education Secretary, and a well-known Right-winger in the Cabinet, responded to the teachers' ultimatum that it would be "damned silly to strike"). There was not much the Government could do. At the end of June Stage 3 was dead and buried. The norm of wage increases (in money terms) had gone up to 20% or above (over 30% increases for British Rail workers, post-office workers, London Transport workers, and oil tanker drivers). The wage increases came at a time when the economic crisis would have required absolute cuts in workers' incomes to boost capital accumulation. They also came at a time when neither the Government nor private firms could afford another wave of strikes and therefore did not oppose these claims for very long. The increased claims merely tried to offset the losses of the year before and catch up with a runaway inflation and fiscal drag, but they increased unit labour costs because of already depressed output levels and hence threatened profits. So the crisis developed further after the March Budget.

There was some recovery after the 3 day week ended, but it was less than expected and certainly did not move the economy back to 1973 levels, which were themselves quite depressed. GDP (estimate) at factor costs and 1970 prices moved from 106.3 (1/74) to 109.4 (2/74), but was

less than the 109.5 (4/73). The index of industrial production was 109.8 in 2/74, as compared to 109.4 in 4/73 and 103.4 (1/74). Basic hourly wage rates (100 = 3/72), however, increased from 121.1 (4/73) to 125 (1/74) and then a large jump up to 132.2 (2/74). Inflation accelerated also, but this time less in basic materials and fuel and more rapidly in retail prices, namely from 186.8 (4/73) and 194.6 (1/74) to 206.1 (2/74). This jump was partly a direct result of inflationary March Budget measures. Personal disposable income at constant prices fell further (from 9.916m in 1/74 to 9.886m in 2/74) and consumer expenditures (in constant 1970 prices) were depressed too—they fell from 8.890m in 1/74 to 8.782m in 2/74. So the Budget had not only adverse effects on inflation, but also on consumption. At the same time gross domestic fixed capital formation fell significantly in the second quarter of 1974 (mainly in the public sector), in 1/74 (in £m) the total amount was £2561 (private: 1447, of which in manufacturing industries: 527, public: 1114) and in 2/74 only 2366 (private: 1443, manuf. ind.: 527, and public 923). (Data are from "Economic Trends", Feb. 75, p 2-5). The worst deterioration of all took place in the liquidity positions of the company sector. The financial deficit of the second quarter 1974 alone was higher than for any full year on record. The debt-asset position fell from the already depressed level of -512 (£ mil.) in 1/74 to an incredible -1246 in 2/74 (compared to the -1157 of the *whole* depression year 1970). The profit share (as defined above) hardly recovered. It rose from the disastrous -0.3% in 1/74 to 2.1% in 2/74 (the average 1972 and 1973 was 12.5%). (Data from the "National Institute Economic Review", 4/74, p. 21f.) The balance of payments deficit worsened slightly from -964 (£m.) in 1/74, to -990 in 2/74, which indicates that the Budget was not too successful in cutting the deficit.

Summing up, we can argue that the March Budget was a failure. Not only was inflation accelerating and stagnation worsening (because of weak aggregate demand), but the attempt to reduce the public sector's deficit could not succeed either. The price rises in the nationalized industries were not sufficient to prevent the losses in these industries from rising. Huge deficits as a result of enormous cost increases forced Healey to announce that more subsidies were necessary for these industries (e.g. high capital expenditures in the North Sea oil industry, on which Britain's future wealth and ability to repay present overseas borrowing largely depends, and huge subsidies for public transport). The March forecast of the amount of subsidies for 1974/5 was only £342m, but the national accounts show that by the third quarter total subsidies had increased by nearly £2 billion per year (see "National Institute Economic Review", 1/75, p. 30). The public sector deficit was also increased because of the number of substantial pay increases for public sector workers.

6. *The Mini-Budget of July and the State of the economy between July and November 1974.*

In July the Chancellor announced a Mini-Budget, which reversed the trend of the previous two budgets and reflected the worsening crisis of British capitalism. The goal was a modest reflation, which would increase

consumer expenditures and at the same time halt the acceleration of inflation. This was opposite to the March budget and a tacit avowal of the inadequacy of the measures in March. The value-added tax was lowered from 10% to 8%. Food subsidies were increased by £50m. Pensions were to be increased and the neediest got £60m. in rates and rebates. £150m. were to be given back to ratepayers, who previously had paid excess rates. The Government doubled the regional employment premium to help investment and employment in backwards regions, where the economic crisis hit the population the hardest. There was some help to companies through an easing of dividend controls. The Budget specified insufficient consumer demand and inflation as the main "evils" and its measures were adding £900m. to consumers' purchasing power. Simultaneously, it would help to reduce the rate of retail price rises by 1½%. These measures of demand reflation, in addition to more subsidies for nationalized industries and higher payments to public employees, were increasing the public sector deficit even further—a sharp contrast to the intentions of the March Budget. Healey announced a new loan of 1.2 billion US-Dollars from Iran and expressed the hope for further inflows of "hot" money (especially short-term deposits from OPEC countries) to finance Britain's balance of payments deficit. These loans and credits from overseas were to be paid back later out of Britain's North Sea oil revenues.

There were several problems that the Budget did not deal with. It provided no strategy against pressures for higher wages, which were likely to come after the previous period of wage restraint. The checking of wage demands was left entirely to the "social contract" between the government and the TUC. Furthermore, there was no removal or easing of price controls, which could have improved the liquidity position of private capital. Wages, rising faster than productivity, would cause a sharp increase in unit labour costs and the Budget did not provide additional sources to liquidity to offset this rise in unit costs. It was only a question of time before the government would be forced to help companies out of their financial troubles and try to restore profitability with direct measures.

The increase in the public sector deficit was certainly not sufficient. Even without reflationary strategy deficits would be forced to increase by present conditions. In periods of high balance of payments deficits the public sector deficit will have to be higher too, because otherwise the private sector would have to bear the burden alone. This would lead to a cumulative recession with rapidly accelerating unemployment. Another problem is that the public sector deficit must increase in times of inflation in order to avoid deflationary effects on total demand. Assuming state receipts of £28m and public expenditures of £31m (so the deficit is £3m), with an inflation rate of 20% the receipts would rise to £33.6m and the expenditures to £37.2m, so that the deficit would rise from £3m. to £3.6m without any expansive effects. Reflationary budgets require, therefore, larger public sector deficits, the higher the rate of inflation.

After July 1974, there was a temporary slow-down in inflation, due to the Budget measures and to relatively constant basic materials, fuel and

other input prices. The Retail Price Index, which in the three months before July jumped 11.5 points to 206.1, rose only to 211.3 in this quarter. Of greater concern to the ruling class was the level of post-stage three wage settlements. Basic hourly wage rates, whose index rose from 125 (1/74) to 132.2 (2/74), rose more rapidly in 3/74 to 143.8. This wage increase would not necessarily hurt profitability, if industrial production and productivity were also growing rapidly. But this was not the case. Output per person employed in all industries and at 1970 prices increased between July and October by only 1.3 index points and industrial production actually fell by 0.8 index points. This led to a rapid increase in unit labour costs. The index of wages and salaries per output of the whole industry increased during this period from 146.1 to 157.3 (which was an increase three times higher than during 2/74). This posed a serious threat to the accumulation conditions of the already crisis-shaken private capital units. The Budget and the wage increases helped real personal disposable income grow from £9836m, (2/74) to £10.271 (3/74), but this had hardly any effects on consumer expenditures. They rose (at 1970 prices and in £m) from 8.782 (2/74) to only 8.925 (3/74). Instead, there was an enormous jump in the savings ratio from 10.3% to 13.1%, as the majority of the British people preferred some financial protection in the future against spending money immediately on consumer goods. Only the balance of payments yielded good news. As exports were growing while imports fell because of the domestic recession, and the terms of trade remained fairly constant, the deficit was reduced from £990m (in 2/74) to £781m. (in 3/74) (data from "Economic Indicators", Feb. 75, p. 2-5).

To sum up, the budget helped to calm inflation and to avoid a further increase in the balance of payments deficit, but it did not add much to consumer demand. The reflationary measures were inadequate. Furthermore, there was no control of wage gains, which exceeded productivity increases and the ability of capitalists to increase the prices of their products. This added considerably to the financial deficit of firms, as unit labour costs were pushed up. Consequently, industrial production fell and investment activities slackened. The crisis finally started to bite into production, which is the motor of the economy's activity. Unemployment increased from 579,500 in the second quarter to 629,000 in the third.

7. The November Budget and the economic crisis at the end of 1974

In the period before the November Budget it became obvious that the economic crisis had changed in emphasis. Import price increases were no longer the main element of the inflation process. There was some slow-down of inflation in general and some improvement in the balance of payment. Consumer demand recovered only slowly, but at least did not pose such a limitation on the realization conditions of the consumption good sector as was the case earlier in the year. The crisis shifted towards industrial activity. Production fell, investments were reduced as well as stock-building (except stocks of finished goods, which could not be sold). As a result of the deterioration in production activity, redundancy and short-time work became more frequent. Britain followed the general pat-

tern of stagflation crisis in capitalist countries, namely from the price explosion of the overheated boom 1973/73 to stagnation plus further inflation in early 1974 and from there the rapid development of a slump with deteriorating economic activity and some ease of the inflation in the later part of 1974. A massive reflation (as took place in the USA and W. Germany) seemed to be the appropriate strategy. But Britain's economy had to face an additional problem, which others could handle more effectively: the problem of how to keep the wages down and thereby shift the solution of the crisis to the backs of the working masses. After the failure of the Tories' incomes policy, the ruling class was desperately in need of another form of effective control over wages. But the only politically possible solution was the social contract, which gave unions the power to fight successfully against further cuts in real earnings. The wage increases of that period could not be offset by increases in productivity and output in realizable products, resulting in higher unit labour costs. This would either reduce accumulation funds or lead to further price increases. The threat of another round of price rises at a time when inflation in other countries was falling, would have meant a serious weakening of Britain's international trade position. But at that time the Government was less concerned with future problems of inflation and trade deficits. Something had to be done about wage rises and about the liquidity position of firms in order to counteract a further deterioration of investment and production levels. Once the social contract was in effect and the elections were won, there was no problem for labour to massively help companies out. Wilson confirmed:

"... that Mr. Healey and Mrs. Williams, the Prices Secretary, have accepted that there is a need to help industry, particularly in relation to self-generated investment" (*Guardian*, Sept. 30, 1974, p. 8).

and Healey showed he got the message when he said that

... the private sector is likely to be responsible for the greater part of our economic activity as far ahead as I can see."

and he went on to add

... the most important thing needed in Britain is to create an environment in which business can be profitable if it is efficient, but has to be efficient in order to be profitable" (*Guardian*, Sept. 30, 1974, p. 23).

After this strong statement in favour of private property in the means of production, efficiency and profitability, he went on to "create such an environment" by setting up plans for a special bank, which would provide financial aid to industry in the form of long-term credits. Such a bank, in which the central bank, the major clearing banks and that state would provide initial funds up to £1000m, would undermine the future activities of the National Enterprise Board, which would link aid to industries with increased state participation and control over the activities of those industries.

In the meantime, the CBI (i.e. employers' association of the UK) argued that profits had fallen by 88% in the first half of 1974 (net of stock appreciation and capital consumption at replacement costs), that domestic borrowing requirements of industry and commerce for 1974 would be

about £5000m, and that since the end of 1972 net liquidity had fallen by £4300m. Companies' investment in fixed assets, stocks, and work in progress was believed to have exceeded profits (net of taxes and dividends) by £3000m in 1974. The CBI pressed Mrs. Williams to relax the Prices Code. Mr. Healey was asked to lower corporation taxes, so that the private sector would get the £3000m. to cover its financial deficit. The consequences of not getting enough help from the Government would be mass redundancies. Mr. Adamson, the CBI director-general, made this clear by saying that

... unless firms can retain more of the cash that they earn and be allowed to make reasonable and normal profits, then the situation will be that jobs will suffer and suffer fast (*Guardian*, Oct. 19, 1974).

The November Budget included major concessions to the company sector. The corporation tax was relieved through an increase of stock valuation, which would reduce the basis of taxing profits. The Prices Code was relaxed through a lower productivity deduction, which meant that a higher proportion of the wage increases could be passed on as higher prices, and through higher net profit safeguards. £1 billion was made available to industry through Finance for Industry. Measures to cut down the use of energy included a VAT (i.e. Value Added Tax) increase on petrol, higher allowances for insulating existing buildings and a relaxation of hire purchase on space heating installations. The old age people got pension increases and higher tax allowances. There was an increase of family allowances for second and subsequent children and a reduction of the tax threshold for investment income surcharge. Subsidies to nationalized industries were to be phased out, resulting in higher prices of electricity, gas, postal and railway services, etc. Estate duty and gifts tax were to be replaced by a capital transfer tax and the Oil Taxation Bill would introduce a new tax on profits from the North Sea oil industries. Over the next four years public expenditures should not increase by more than 2½% per year, especially local authority spending. This implied only limited construction of new houses and would worsen the housing crisis. The cuts in public sector spending are already hitting the school and university system and the National Health Service. The Government announced the expiration of exchange rate guarantees, which would devalue the pound further in order to help the export sector.

This massive redistribution of funds to private industry increased the public sector deficit enormously. But it was not at all clear whether the help to the companies would also increase investment and therefore the demand for capital goods. It would initially lead to a reduction of borrowing to finance investment programs already under way, so that the catastrophic debts-assets position could be improved. The budget was so one-sided in favour of private capital that sections of the Trade Union Movement said that nobody would have to obey the rules of the social contract any more after such a budget. The measures substantially reduced consumption expenditures and therefore the living standards of the working class (with the possible exception of the old age). The relaxation of the Prices Code, the higher VAT on petrol and the price increases of public sector goods accelerated inflation again. The government was facing the

following dilemma more and more: the measures to improve the profitability of production in the private sector (in order to solve the crisis within a capitalistic framework) contradict the political necessity for Social Democracy to improve the living conditions of the working class in order to keep them well integrated and maintain them as an electorate.

The fact that four budgets with very contradictory measures and effects were presented within a year shows the limits of Keynesian economic policy. Like all the other budgets described above this one was also incapable of finding a solution to the problems of Britain's economy. Even worse, the crisis reached new dimensions. There was hardly an economic indicator which did not indicate some deterioration of the economy until the end of 1974 or even after that (with the significant exception of the liquidity position of private capital). The Financial Times monthly business survey reported in December that the Budget had failed to halt the accelerating slide in investment intentions. GOP (on output basis) fell by 1½% in 4/74. Output in manufacturing and in construction fell by 4% during that time period (see *Guardian*, March 21, 1975, p. 15 for these data). Consumption was rising only slowly at the end of 1974. Unemployment was steadily increasing from October (when the figure was 613,000) and reached 768,000 in March 1975. Short time working went up from 72,000 (Dec. 74) to 220,000 (mid-March 75).

This time Britain's feeble world market position was made even more obvious, when the pound faced a temporary confidence crisis at the end of the year. During October there was a fall in the terms of trade by 0.5%, as export prices rose by 1%, while the import value index went up by 1.5%. Because of the domestic recession there was a drop in import volume, by 5½%, but the world recession and the deterioration of the price competitiveness of British export goods led to an even greater fall in the export volume, by 6%. This increased the visible trade deficit to £435m in October. The situation worsened during November and at the end of the month the visible trade deficit had reached a new record of £534m. This necessarily weakened confidence in sterling.

But the relative strength of the pound was and still is of critical importance to the British Economy, as most of its record 1974 balance of payments deficit of £3800m. and its huge public sector deficit were financed by massive overseas borrowing. The amount of capital which can be attracted from overseas depends, however, on international confidence in sterling. This confidence was increasingly shaken not only by the appalling trade figures, but also by the huge public sector deficit after the November Budget and by the prospects of accelerating inflation, which further deteriorated Britain's international competitiveness. Both the public sector deficit and the inflation threat implied further necessity to borrow from overseas, but simultaneously weakened the pound, and therefore the ability to attract exactly those foreign funds. At the same time Saudi Arabia announced that it did not want any further oil receipts from the world's largest oil consortium, ARAMCO, to be paid in pounds. This led to an immediate fall in the level of the sterling working balances held by the oil companies and was furthermore an important psychological blow to the pound. All this resulted in heavy selling of the pound on the inter-

national currency markets and a new record of the pound's effective depreciation against ten key currencies (since December 1971) down to 21.9% by mid-December. The pound lost about 5% of its relative value in a couple of weeks, although the Bank of England intervened with massive spending to support the spot rate. The crash of the pound endangered Britain's ability to finance its steadily rising deficits from overseas. Immediate action was necessary and Healey had to get personal reassurances from the leaders of Saudi Arabia that they would increase their investment holdings in sterling. But this might not work either, because higher inflation rates in Britain could lower the real value of the yields which the OPEC countries could obtain from their London investments. The City therefore expected the Bank of England to increase the Minimum Lending Rate. But this would be a blow to the economic policy of the government, as it would stop the relief of the burden on companies with big bank debts and would further limit the expansion of economic activity. The *Guardian* gave us an idea of what it considered to be the most effective strategy against all these difficulties:

"If the Chancellor is not to be driven into such desperate expedients as higher interest rates (with their bad effects on investment) or im-controls (inviting retaliation), or other measures which will screw the lid on industrial failure and produce more unemployment, we must increase our competitiveness rapidly. That means greater efficiency, restraint in wage claims, a minimum of time lost through strikes, an improvement in export performance, with a consequent growth in confidence and therefore investment."

(*Guardian*, Dec. 13, 1974, p. 12.)

This comment gives an adequate description of the main problems British capitalism has to face, namely its declining competitiveness, profitability and investment level. In this context the worst actual problems are the inability to restrain wages and the necessity to increase prices instead of productivity. Acceleration of the triggering of threshold payments and further increases in the rate of new money settlements pushed the index of weekly wage rates in December 1974 up to a wage "inflation" of 28.5% on an annual rate. Normal unit labour costs were pushed up during 4/74 from a rate of increase of 16.5% (in 3/74) to 19.1%. Price increases followed suit and accelerated. The rate of price inflation (Retail Price Index) which was 17-18% in the immediate pre-Budget period, increased to 19.1% in December 74. Further increases up to a rate of 20-25% were expected for the first half of 1975. Government officials and representatives of the CBI were increasingly worried about the chances of bringing inflation down with wage restraint. They made it explicit that unemployment would increase fast if the social contract failed to produce any deceleration of wage increases. It is exactly in this context that we have to make an attempt to come to grips with the importance and the implications of the social contract.

8. *The Social Contract between the TUC and the Labour Government*

In 1972 and 1973, the unions had successfully fought against the at-

tacks of the Tory Government on their members' living standards and rights to organize. Both the Industrial Relations Act and statutory wage controls had been defeated by the workers. It was then obvious that the Labour Government could not use these or similar methods again without provoking massive and militant resistance from the unions, on whose support its political power and existence as a party depended. But on the other hand, the crisis made some form of control over wages absolutely necessary. These controls had to be voluntary, because otherwise the unions would have started industrial action. The Labour Government, therefore, depended on a deal with the TUC, so that it could get the unions' approval for some form of guidelines in wage negotiations. This deal, developed and finally put into effect in mid-1974, became known as the "Social Contract."

In exchange for voluntary wage restraint the TUC asked the government for "constructive policies." In concrete terms the TUC demanded certain Budget priorities, like increases in pensions and food subsidies, stricter price controls, higher expenditures on housing and rises in the family allowances, a higher Regional Employment Premium, a more progressive income tax structure and new taxes on wealth and gifts. It wanted a reflationary Budget with increases in consumer demand and exports leading to an increase in output, GDP and investment levels in order to bring down unemployment. The government met the most essential demands in the March Budget, which satisfied the unions. The TUC further demanded the abolition of the Pay Board and repeal of the industrial Relation and Housing Finance Acts, which the government hurried to fulfill. The government also promised to introduce the Employment Protection Bill (to strengthen the legal rights of workers), to set up the National Enterprise Board and to nationalize a number of industries. It was also agreed that a White Paper on Industrial Democracy would be published. The establishment of an independent Conciliation and Arbitration Service to solve industrial disputes and the creation of the Royal Commission on the Distribution of Income and Wealth to undertake inquiries on Britain's distribution of income and wealth were also part of the contract. In exchange for all this the TUC promised to look for wage settlements which would only maintain the real living standards of the workers and not increase them. The TUC promised further that the guidelines would be based on pre-tax and not post-tax wages and that threshold agreements would be included in the guidelines. If this was applied strictly then fiscal drag (i.e. the higher income taxation of higher money wages in inflationary periods) would actually bring about a fall in real and net incomes. The TUC made it clear that it would press its member unions to agree to wage settlements, which would have "beneficial effects on efficiency and on unit costs." But it made an equally strong point that it would emphasize the reforming of outdated pay structures, improvements in job security, a L30 per week wage minimum, equal pay for women, increases in non-wage benefits such as longer holidays, sick pay, occupational pension schemes and an improved negotiation machinery.

Even if we conclude from the more complex and general problem that the improvement of accumulation conditions would require a substantial

increase in the exploitation rate, which would be achieved partly through a substantial fall in real wages (see below), we have to consider the inherent problems of the contract. First of all, the government ruled out a return to any form of statutory wage controls, so it depended completely on the TUC's handling of the contract. There were several statements by government officials in which the TUC was asked to make the contract work and in which the consequences of a failure of the contract were pointed out. For instance, a typical statement was made by Mr. Foot, the Employment Secretary, addressing the TUC's annual conference of non-manual workers:

"I ask you, in all your talks, discussions and negotiations, not only to take into account the interest of your own trade union but the interests of the trade union movement as a whole and the necessity of this Labour Government to succeed."

(*Guardian*, Dec. 5, 1974, p. 5.)

Another problem was the inability of the TUC to persuade certain unions to keep their demands within the social contract. This was important, because part of the union movement opposed the contract and in a number of instances unions like the NUM (miners), ASTMS (scientific, technical, and managerial staff), NUR (railwaymen), the postal workers' unions and other were deliberately ignoring the contract and successfully settling for wage increases above the contract's guidelines. The leadership of the TUC could only make appeals or send circulars to its member unions, reminding them of the contract's regulations. The TUC could not risk provoking a dispute among its members about the most appropriate strategy in wage negotiations by attempting to discipline unions after they had broke the rules of the contract.

A third problem was that the contract permitted a wide range of possibilities to increase wages, because it provided certain loopholes, which were necessary in order to win the support of more militant unions. The important point was that it did not rule out settlements which would provide sufficiently high price increases to compensate for the inflation for during the period for which the agreement holds. The crucial paragraph in the contract is the following one:

"An alternative approach would be for unions not to look backward to the last settlement but to negotiate agreements to keep up with the cost of living during the period of their new agreement."

(TUC, "Collective Bargaining and the Social Contract," June, 1974, p. 9.)

These so-called ex-ante agreements, unlike the ex post agreements which compensate wages for higher prices *always after and not during* the period of price rises, allow for real income increases without violating the contract. The real danger for the "economy" (i.e. the profit interests of the employers) is that in times of stagnating productivity and output these ex-ante settlements lead to even higher increases in unit wage costs. The anticipated rate of inflation, on which these agreements were originally based, becomes a self-fulfilling prophecy. Wage rates and inflation are

then accelerating with the social contract still appearing to work.

The social contract has also a number of exemptions, which for the capitalists make it an even more inadequate policy to restrain wages. These exemptions include productivity deals, equal pay deals for females, minimum wage settlements up to L30 per week, and pay rises in connection with reforming pay structures (e.g. from piece work to time work and vice versa). There are plenty of ways for the more militant unions to press for substantial pay increases within the contract. It is a matter of interpreting the contract. For example, the ASTMS based its wage demand for 1975 on anticipating an inflation rate of 23%. This was a very likely figure. The demand was an attempt to maintain the real and net income of the workers involved by compensating for the fiscal drag and the forthcoming inflation and was therefore within the contract. But at the same time, Mr. Murray, the TUC General Secretary, gave a very different interpretation of the contract:

"It is not our policy that unions should base claims on anticipated future price increases. . . nor has the TUC said that the unions should try to make up for the extra income tax which will be attracted by higher pay."

(*Economist*, Jan. 75, 1975, p. 71.)

This is opposed to the main goal of the TUC, namely to maintain real incomes through wage settlements within the contract's guidelines, because ex-post settlements and the fiscal drag necessarily reduce the net figures of real income which is what really counts to the working people.

The social contract, however, not only offered a relatively wide range of possible interpretations for different unions with regard to the basis of their wage demands. There was also hardly a possibility for the government, in certain cases, to prevent breaches of the contract. Strikes, like the ones at the Ford factories or in Scotland in the fall of 1974, where thousands of workers led by the lorry-drivers walked out, resulted in settlements outside the guidelines of the contract. In other cases, the government could not afford strike action by workers and therefore agreed to "substantive" pay increases above the norm of the contract, like the settlement with the miners. The record of the social contract by the end of November 1974 showed a number of deals with money wage increases above or around 30% and with a simultaneous breach of the general 12-months rule. The most significant example for this double-breaking of the contract were the deals with the nurses (30% wage increase), postmen (38%), railwaymen (30-50%), bank workers (33%), electrical workers (33%), London Transport employees (45%), workers in the car factories of Ford (33%) and Vauxhall (30%), the Scottish lorrymen (45%) etc. Other deals did not break the 12 month-rule but contained money wage increases well above the inflation rate, like the bakers (26% increase). At the time, when the contract was supposed to be the union leaders' voluntary contribution to the recovery of Britain's economy, the record showed a significant increase of strikes. The number of work stoppages between April and August 1974 increased by 12% over the same period of the year before, and the number of people going on strike increased by 22%. During this time period 3.5 million work-days were "lost" because of strikes,

a 35% increase compared with the same period a year earlier. In a number of strikes leading union officials were intervening and asking workers to go back to work, but with little success (like the appeal of Mr. Jones, leader of the Transport and General Workers' Union, to the striking Ford workers or the order of the Scottish TUC to the striking engineers to "go back"). A recent review, the survey in the magazine *Industrial Relations and Report* in March 1975, which collected statistical data on settlements reached for 52 groups of workers covering over seven million people from October 1974, came to similar conclusions about the state of the social contract. It found that the general level of settlements had been drifting up towards 30%. 45 out of 52 settlements provided pay increases for workers of more than 5% above the rise in the cost of living since their last pay rise, and 30 out of 52 more than 10% above it. There was, however, a significant "improvement" in observing the 12-month interval between major settlements, compared to the summer and fall of 1974.

Another threat to the social contract came after the official end of the cost of living threshold agreements, which gave workers an automatic 40p wage increase after each 1% rise in the Retail Price Index and had amounted to L4.40 a week at the end of November. Some unions, well aware of the fact that the next pay rise according to the contract would only be after 12 months and that accelerating inflation in the meantime would have reduced the real value of their pay increases, pressed for new and higher threshold agreements. The postmen, for example, got a 1% threshold for each 1% rise in the cost of living above 10%. This especially affects the public sector and the Department of Employment (with Mr. Foot on top) issued tough formal statements with regard to the new threshold. In general, money wage increases in the public sector (on average 25%) are much higher than those of the private sector (16%). The reason for this might be that rising unemployment in the private sector caused some restraint on behalf of the unions, which decided that "excessive" pay increases would seriously endanger the jobs of the union members. This fear with regard to employment might not be expressed to that extent in the public sector, where unions have to deal with a Labour Government. The significant difference in wage increases in the two sectors seems to be a further indication that the laws of the capitalist mode of production do not *directly* apply to the production activities of the state. Production of goods and services within the public sector is not producing, but consuming surplus value, as it is financed through taxation and/or borrowing from the private sector's accumulation funds. The public sector can therefore to some extent afford to operate at a loss and avoid redundancies for the sake of profitability. In this context, it is not surprising that the most recent threats to the social contract came from the wage demands of the miners, the railwaymen and the power workers, all employed in the public sector. Another advantage for public sector workers is that they work mostly in industries which, like energy or public transport, provide general material conditions in order for private capital to produce. Strikes in these industries would therefore have crippling effects on the economy as a whole. This gives unions a much stronger bargaining position.

So far we have pointed out the limitations and weaknesses of the social contract as an instrument to control wages for the sake of improved profitability. The social contract is the result of the relatively increased political strength of unions in general and persistent shop floor militancy in particular, which allows only limited form of incomes policy. There should, however, be no misunderstanding within the working class of Britain about the intrinsic nature of the contract as a mechanism of controlling wages and preventing rises in real living standards and as a device for the government and some union officials to successfully integrate the rank and file into the social democrats' form of "social partnership" and "reformism." It is therefore of utmost importance to combine the economic struggle against the restrictions posed by the contract with political action against the government's economic and social policy. This would require a demystification of the role of Social Democracy within capitalism and the formulation of a transitional strategy to move from the present conditions towards socialism.

The way in which the contract was handled by the unions represented major problems for the government. Given the accelerating inflation and the increasing fiscal drag with its depressing effects on net income, the rate of nominal wage rises was still not sufficient to avoid stagnating or even falling real net incomes. Large wage increases in the second half of 1974 were justified as attempts to compensate for the fall in living standards during Heath's incomes policy and during the enormous speed up of inflation in the first half of 1974. On the other hand, as the economic crisis worsened during 1974, profits and the "cash flow" position of British firms deteriorated. In the second half of 1974 this led to a cut in investment programs and a fall in industrial production. The insufficient use of existing production capacities (as a result of generally falling aggregate demand) prevented sufficient growth in productivity, so that even modest wage increases could not be absorbed. The consequence was a strong increase in unit labour costs, which either forced profits to fall further or prices to be increased, so that higher unit costs (of variable and constant capital) could be offset. But higher prices reduce, in the long run, companies' ability to sell their products, especially when an economic crisis is limiting the expansion of aggregate demand. Accumulation conditions therefore have to be improved by a decrease of unit labour costs, which in this present situation required lower money wage increases. There is no "wage inflation" per se, but only in the context of and relative to other aspects of the crisis (like insufficient demand for a particular firm's products, general inability to elevate investment levels, depressed productivity growth, etc.) So the problem is that wage increases which do not improve the living standards of workers and are therefore regarded by them as not sufficient, are on the other hand not allowing capitalists to make profits high enough to secure growth and expansion. This is the underlying dilemma in all the discussions about the (in-)adequacy of the social contract.

The National Institute of Economic and Social Research makes this point very clear. Concerning the fall in real net wages we can read the

following:

"The combination of past import price increases, the budget measures and 'fiscal drag' lead us to expect a further decline in real disposable income in 1975 of about 2 per cent; this despite a forecast that average earnings will rise by 23 per cent over the next year."

and:

"So far there is little sign that the social contract is achieving any deceleration of inflation. . . Our view, as the forecast makes clear, is that the price objective we have suggested (i.e. 15% in the second half of 1975 - R.G.) will not be reached, is that earnings have been rising, and are likely to continue to rise much too fast."

from NIESR, *National Institute Economic Review* 4/74, p. 3ff.)

The social contract's conflicts are reflected in the difficulties the Labour Government had in giving the contract some credibility and relevance.

1) Parts of the TUC are opposed to the contract and there is continuous pressure from certain groups of workers, who succeed in getting pay increases outside the contract. Very often, a deal with increases above the guidelines is used by other unions as their basic target (as in the case with the mienrs' deal for the power workers and railwaymen). The government tried to get the TUC's cooperation for a toughening of the guidelines and control of its members, but so far without success. The TUC did not commit itself (although it is equally interested in a working social contract) either in the meetings of the TUC—Labour Party liaison committee or in this year's TUC Economic Review. The government first asked unions to give the contract a chance and help the Wilson Cabinet succeed. Then ministers started to point out the advantages of the contract for the working class and promised rapid fulfillment of its part in the contract. Later on, when the fragility of the contract became more apparent, the government started to publicly express its dissatisfaction or disappointment with specific deals. And, when the threat of more breaches increased, especially in the public sector, the government expressed its annoyance with the situation more bluntly. An argument often used (especially by the Chancellor Mr. Healey and the Prices Secretary, Mrs. Williams), is that unemployment will go up unless there is some wage restraint or that the policies necessary to deal with massive wage increases would no longer safeguard employment. This is a return to the classical method to discipline workers and lower wage demands.

2) There is the often embarrassing problem for the government that it is split over this issue. Strong accusations by more right-wing ministers (e.g. Jenkins, Prentice, Williams) against unions breaching the contract forced Cabinet ministers with closer links to the unions (like Foot and Benn) to defend the TUC and its present handling of the Contract. Plans introduced by the government's right-wingers, the so-called "Manifesto Group", to improve control over wage settlements, like the setting up of a voluntary payboard as a watchdog for the social contract (so-called "umpire") or the additional taxing of workers, who receive "excess" payments or the use of the Prices Code to penalise employers who granted wage increases outside the terms of the contract, were "killed" for the

time being by the opposition of the majority in the Cabinet. The split in the government over the contract is, however, a clear indication of the contract's dilemma and of Labour's limited ability to impose an effective incomes policy.

3) The government had to defend the contract against attacks from the right. The mass media, the Tories and the CBI criticized not only the breaches of the contract, but also its basic concept as an inadequate attempt to solve the present crisis. The CBI made it very clear that they would regard falling real wages and cuts in the living standards of British workers as absolute necessities. But the CBI refused to specify how this could be achieved against the will of the TUC, remembering the failures of the past. See, for example, this statement of Mr. Bateman, the president of the CBI:

"If the government can't find the way, and it's their duty to govern, and the TUC can't find the way, it is not very likely that the CBI by itself could find the way."

(*Times*, Nov. 21, 1974, p. 17)

Instead, the CBI continued to point out that the consequences of the present rate of wage increases would be accelerating inflation and mass unemployment and that workers should reduce their wage demands if they want to keep their jobs. The political and economic use of unemployment for the first time since the 30's not only indicates the severity of the crisis in the 70's, but reflects, in addition, the breakdown of Keynesian economic policy and of the ideological concept of the "Modern Welfare State."

9. *The Industry Bill and State Participation in Private Industry*

The Government's plans to nationalize certain industries were spelled out in concrete terms only for the shipbuilding and aircraft industries. Both industries are especially affected by the crisis and their future expansion possibilities are limited, so that their nationalization is no big loss for private capital. Labour's plans to extend state participation to profitable industries included only the North Sea oil industry. State control over this industry is seen as necessary because the future wealth of Britain and its ability to repay overseas investors depends entirely on the North Sea oil industry. Another reason for the necessity of state participation in the North Sea projects is that the oil companies are powerful multi-nationals. Their sophisticated policies of restricting output and charging monopoly prices are a threat to every nation state. The oil companies, which generally oppose the Government's intervention plans, could on the other hand benefit from state participation if the oil discoveries were to outstrip the companies' capacity to develop them or if the enormous production costs, particularly in the smaller fields, were making the exploration of oil uneconomical.

In a period of economic crisis one of the more important functions of the state is to provide economic financial assistance to companies which find themselves in difficulty with regard to their liquidity positions. Since

Labour came into power a number of companies asked the Government for financial help. This included some of Britain's largest companies, like British Leyland, Burmah Oil or Alfred Herbert, the country's largest machine tool producer. There is, however, a noticeable difference between the way in which the Labour Government provides financial assistance and the more traditional way. Financial assistance to crisis-shaken companies under the Labour Government, rather than emphasizing credits and state loans, usually (as was the case in the rescue operations of Alfred Herbert, Burmah Oil and British Leyland) involves the State buying up a majority of the company's shares. This policy is an expression of Labour's plans to increase State participation *in order* to establish public control over almost every major decision of these firms. The Government's consent will have to be obtained before the undertaking of major capital expenditures, borrowings, market expansion, dividend payments, wage agreements, etc. The expansion of state control over private capital's production plans was one of the important elements of Benn's strategy. Another one is the extension of "industrial democracy," in which the state tries to provide the framework for increased union participation in management's decision-making. The nationalization plans for the shipbuilding industry, for instance, include provisions to expand the role of the Yard unions, so that they would participate in managing the yards and workers would be encouraged to hammer out their own proposals for the structure of the industry. This would then be a model for the restructuring of union-management relations in other nationalized industries. Furthermore, the Government asked the CBI and the TUC to help set up immediate and voluntary management-worker talks in major manufacturing companies on jobs, redundancies, investment and other key topics.

The emphasis on the extension of public control over private companies' most important decisions and on industrial democracy found its strongest expression and manifestation in Benn's Industry Bill. This Bill specified the role of the so-called National Enterprise Board, which would be created with new and inherited funds up to £1000m. in order to control or invest in profitable private companies. The Board would take direct managerial representation in the companies it gets involved with. The Bill provided the legal framework for setting up planning agreements between Government, industry and trade unions, in which the longer-term questions of investment strategies, employment, etc. of companies could be clarified among the three parties. In order to do this the Bill included new laws for the disclosure of information by companies to the Government and the concerned unions. The activities thus specified in the Bill (especially those of the NEB) would not be confined to manufacturing industries, but would theoretically be applicable also to other areas of commercial activities.

The main functions of the NEB, as defined in the Bill, would be assistance to the economy (especially the stimulation of investments during recession), the promotion of industrial efficiency and international competitiveness, and the provision, maintenance and safeguarding of employment. The planning agreements would on the one hand provide the Government with a flow of information, from which it could develop policies designed to help companies. On the other hand, those agreements would enable planning at the corporate level with the involvement of the trade unions. This would enable workers actively to participate in the decision making process over issues of their direct concern, thus being a step towards industrial democracy. The Bill is so far the strongest expression of the Government's strategy for more public control in the private sector and for more industrial democracy. What is behind this strategy?

We have already pointed out that both fiscal and monetary policy were in the past not capable of solving the problems of insufficient investment levels, productivity, efficiency and profitability. Nor did bank credits and state loans do anything to improve the weak structure of British industry. Keynesian economic policy tools are, as described above, increasingly limited in their ability to lead to counter-cyclical investment activity during recessions. Huge deficits, union militancy and rising inflation make the creation of boom conditions to end economic stagnation impossible. The Government, therefore, had to bring economic policy to a new level and the Industry Bill was thought to be the adequate legal framework for this. The possibility of directly controlling investment decisions by means of big share holdings, the activities of the NEB and planning agreements should allow a more efficient use of state intervention to improve the production conditions of private capital. As the indirect influence of Keynesian economic policy has failed the state now has to develop more direct means of economic policy through participation in decision making regarding those activities and conditions which it wants to affect.

Planning agreements and their implications for increased power sharing with the unions and "industrial democracy" are designed to tackle another problem: The militancy of workers and the difficulties in integrating the trade unions. Different forms of incomes policy and the Industrial Relations Act have failed to control wildcat strikes or to stop "irresponsible" wage demands. This "responsibility" should now be achieved by involving unions in company level decisions and by encouraging workers to discuss and to make proposals on how problems of management should be solved. The limit here is that workers will be represented by their unions in the consultations with management and will therefore have no direct control over the formulation of the planning agreements. There is certainly a possibility that unions might be able to succeed in getting concessions from management within the planning

agreements, but it is equally possible that unions will start to "understand" the management point of view and will start to identify themselves with the interests of profitability. This might lead to an integration process, within which the unions lose their function and ability to defend the interests of the workers. The Industry Bill might be, in that case, the most subtle and successful alternative to the Industrial Relations Act, incomes policies, and productivity deals which did not manage to integrate workers into the ideology of "social partnership." To what extent union officials might be mystified can be seen from an article by Mr. Barnett, General Secretary of the GMWU in the *Times*, in which he defended the Bill against attacks of the CBI:

The Industry Bill when enacted will do more to restore British industrial investment and industrial confidence throughout Society . . . It needs to be shown that those directions [of the Bill] are essential if we are to survive as a major industrial and trading nation without severe industrial and social upheaval and the likelihood of severe industrial conflict (*Times*, March 3, 1975, p. 14).

The Government also needs the Bill in order to improve its relation with the unions. In a time when it is increasingly difficult for the Government to avoid deflationary measures aimed at cutting the living standards of workers and helping companies' liquidity positions, and when unemployment rises, the planning agreements should include union-management discussion about employment problems. This might not stop unemployment from rising, but it could reduce the unions' opposition to redundancies and thereby make deflationary policy more acceptable to them. The strong union support for the Bill compensates for all the actual and potential sources of conflict between the government and the TUC.

But even these relatively modest provisions of the Bill are endangered by the furious opposition of the Conservative Party and the CBI. The Right views the Bill as equivalent to the abolition of private property and the starting point of centralized "socialist" state planning of the economy. It is especially hostile to the disclosure provisions as a threat to management's right to make its decisions in a confidential way. It fears the "irresponsible" use of information by the Government and the unions. This campaign of opposition and the threat of "non-cooperation" of the CBI once the Bill becomes law, forced the government to make concessions, like the appointment of Sir Don Ryder, a successful manager and former chairman of Reed International, to be the chairman of the NEB and the Government's promise that the NEB will invest in profitable companies only when the boards of such companies clearly give their permission.

10. *Theoretical Conclusion*

This paper should be seen as more than just a chronology of the "bus-

iness cycle" and of the economic policy events in Great Britain. Rather it is a descriptive analysis centering around the question of the contradictory relation between this country's structural economic crisis and the use of Keynesian intervention tools. Recent economic policy was evidently incapable of dealing successfully with the economic crisis. Furthermore, there were remarkable shifts in policy involving new "strategies," all of which failed. The limits of Keynesianism in general were realised. In this period of steadily worsening crisis the nature of State intervention changed its character. The fundamental question we have to ask is, therefore: why could British capitalism not overcome its structural problems with Keynesianism? In other words, why did Keynesianism not work?

A simple answer to these questions would be to say that the so-called Keynesian concept of State intervention, as put into practice after World War II in the industrialised "Western" world, was not designed to solve structural problems in the first place, and hence never had the power to do so. After the political upheavals and the economic restructuring of the 1920's and the world market crisis of 1929-34, certain economic realities became clear and were spelled out by theoreticians, like Keynes and Kalecki. First, capitalists were not developing their own markets and realisation possibilities sufficiently; it was then up to the State to create adequate demand. Second, single capital units reacted according to their own private profit interests which often would contradict the "public" or "national" interests, i.e., the interests of total national capital. Therefore a public sector and public investments or more general massive State intervention was needed to take over firms or industries which are too risky and/or not profitable for private industry, but which are essential for the expansion of private capital as a whole. Third, it was realised that the working class is not only producing the nation's wealth, but is also a latent political threat to the existence and development of the capitalist system. It was again up to the State to integrate the working class both ideologically and economically.

However, at that time, Keynesianism was not capable of fundamentally solving the crisis of capitalism. Roosevelt's New Deal in the 1930's did not substantially increase investments and failed to eliminate unemployment. Germany required fascism as a capitalist solution to the crisis. A fascist state goes much beyond Keynesianism—the State intervenes directly in industry, and exercises control, the creation of markets through the State goes much further by concentrating on armaments which need no realisation, and the working class is not integrated but is repressed and otherwise mystified by nationalistic ideology. Only the Second World War solved the crisis and created profitable accumulation conditions and room for expansion. There was enough demand for goods after crisis and destruction. Old ways of regulating international trade and world money had failed, were destroyed, and had to be replaced by new ones. In a

number of countries there was a relatively extensive restructuring of industry possible in the reconstruction period. Workers had been disciplined through fascism, war, the economic crisis, the lack of self-organisation possibilities, and the prospect of consumerism. The dominant role of the US helped the bourgeoisie of Western Europe because of direct US aid and from the political pressure the US exerted on potentially anti-capitalist parts of these societies. Furthermore, US domination allowed for the relatively swift institutionalisation of new international trade and monetary arrangements.

Only in such a period of long-run expansion, helped by new production techniques and new growth industries, could Keynesianism be institutionalised as an integral part of the capitalist system. Why? An answer to that question has two sides: on the one hand economic growth is required to finance the nationalised producers of basic materials supplied cheaply to private industry, the growing state bureaucracy and the "social wage" of the Welfare State. To finance these activities without sufficient economic growth would either limit private capital, squeeze the income of workers, or take place at the expense of both. Economic growth is, furthermore, a prerequisite for integrating the working class through increasing real wages, full employment policies, and the ideologies of social partnership, social peace, stability and rising living standards. On the other hand, the battery of Keynesian intervention tools does not directly affect production and the industrial structure of capital. The present world-wide economic crisis had made it clearer than ever that the traditional tools of Keynesian economic policy are not sufficient for solving a structural crisis. Within the particular institutionalisation of the state, leading to specific forms of economic policy, the range of policy tools is limited. In addition the resulting effects of this restricted number of tools relate only indirectly to the actual locus of the contradictions, namely the sphere of production. For instance, a policy of cheap money might or might not increase the firms' demand for externally-financed money. And this might not necessarily lead to increased investments. Or an increase in public demand might not result in an expansion of productive capacities and hence might not have large spin-off effects on economic growth.

Therefore Keynesian economic policy is not adequate for dealing with a structural crisis. In times of long-run expansion, however, it can suffice, because during such a period the nature of the accumulation cycles is not that of developed contradictions and crisis, but rather one of temporary and minor fluctuations. In such a situation, fiscal and monetary policy can give the impression of stabilizing the economy, and might even in reality be able to do so. But this is not a permanent phenomenon, as state intervention cannot halt the development of structural contradictions. It can even, at times, accelerate these contradictions and certainly gives the following crisis a particular shape. Keynesianism could not do much against

increasing international competition as production capacities increased more rapidly than markets. It could not stop the maturing of economies, or completely stem rising working class militancy reacting against capital's attempts to overcome technological and political limits of exploiting workers, etc. The increasing dominance of fixed costs in times of falling capacity utilisation and reduced cost absorption power, together with the money supply created by anti-cyclical economic policy led to the crisis-form of stagflation. Keynesian policy then, depends very much on profitable accumulation conditions.

The problem with British capitalism was that it faced a structural crisis after the war—the profitability of its industries was not sufficient for self-perpetuating expansion. Clearly, the world-wide boom, especially in the '50's and '60's, made it possible for Britain to grow as well, but during this period, the fundamental problems of the UK economy were not solved, only covered, postponed, or softened. The permanent existence of specific structural problems (which were outlined in the beginning of the paper) reduced the effectiveness of Keynesian economic policy in the UK early on. The limits of such a policy were determined by the difficulties of expanding state intervention without simultaneously harming private investment or consumption. Another reason for the insufficiency of this kind of state intervention in Great Britain was expressed in the fact that fiscal and monetary policy did not raise productivity, did not lead to massive investments and the reorganisation of British industry, and hence could not help to close the competition gap in relation to other countries. The medicine was not strong or large enough and sometimes it was even the wrong medicine and so exacerbated and accelerated the sickness.

Before we go into a more detailed analysis of the failure of Keynesianism in Britain, with some concrete examples of limits and problems, we have to mention two additional preconditions for the working of Keynesianism, which were not fulfilled here. First, state intervention of this type is an attempt at capitalist planning, that is, to "plan" indicatively for certain aggregated target figures without effectively controlling the economy to make sure that these targets become reality. Such planning requires at least the basic participation of both classes, especially some form of integration of the working class in the light of a policy *pro* capital. Any integration of this kind would be a product of the institutionalisation of working class participation into a centralized system of social partnership, together with a credible ideology of progress and stability and some reforms as an economic and political price for workers' cooperation. Due to the structure and the historically-developed consciousness of the British working class, which were not eradicated in the crisis of the '30's or by fascism, such a concept of class collaboration was not possible in the post-war period over long periods of time.

Second, the institutionalization of Keynesianism requires the support of

finance capital with regard to the money supply, interest rates, the credit needs of industrial capital and the external financing of investments. But London's City had its own international interests, which often contradicted national goals. The maintenance of sterling's obsolete role in the international monetary system, the dependency on foreign investors and overseas deposits, and the strong political organisation of the City, often prevented the formulation of the economic policy required by the state or private industrial capital, as both were dependent on the banks for financing industrial investments and government debts.

This dependency on the banks to finance investments and debts was in fact a dependency on foreign money mediated through British banks. A weakening of the pound's exchange rate in the course of a balance of payments deficit or a speculation wave could stop the inflow of foreign money. Therefore the balance-of-payments and the exchange rate became the main targets for policy, rather than investment, industrial structure, and production.

Balance of payments crises were used quite often to justify a deflation policy directed against the working class and in favour of industrial capital. This was especially the case with the Labour Government in July 1966, November 1967, and July 1975. But the structural problem of such a deflationary policy was that very often in the late phases of a consumption-led boom, like 1955, 1958, 1964-66 and 1973, the balance of payments deficit increased simultaneously with a late investment surge. This happened because the consumption boom led to full capacity, which both induced new investments to increase capacities and also increased imports due to shortages of domestic products. The deflationary policy, by cutting down consumption, led in the following periods to stronger overproduction crises, as it lowered the utilisation of the recently expanded capacity. Simultaneously, this policy ended the increase of new investments.

Another problem was that fiscal and monetary policy at best influenced the quantity but not the quality of investment, and certainly not the direction of investment, which remains subject to private management's decision-making. The essential restructuring of British industry, from ailing industries to growth industries and from many competitors to large-scale, merged monopolies, required more than the traditional Keynesian tools. Only when the weaknesses of the economy came into the open during the mid-1960s was there a start toward formulating a new policy to reorganise industry.

The problem of insufficient investment could not be solved with traditional economic policy tools because the incentives to invest were weak and operated only indirectly via tax reduction, public demand and cheap money. These tools furthermore did not touch privatized decision-making

about quality, time-space and direction of investments.

Lastly, Keynesianism never managed to solve the underlying causes of the low profitability and insufficient investment in Great Britain, as this would have required a much more decisive and direct State intervention with increased State control. Therefore economic policy was forced to concentrate on demand. If consumption was increased to make a boom possible, it usually took a while before this led to new investments, which usually happened when the balance of payments deficit increased as well. The ensuing reversal of the policy into deflation only increased problems and contradictions—not only because of the under-utilisation of new expanded production capacities, but also because during the boom the money supply, inflation and the public debt had increased, joined in the recession by increasing unemployment, higher private debt, and political instability.

Summing up, we can say that Keynesianism never really managed to touch, let alone solve, the structural elements of Britain's economic crisis, that it was never guided by a long-run strategy, and that overall it increased the problems.

This brief analysis of the limits of traditional economic policy in Britain points to a number of more general problems of Keynesian economic policy:

A) Economic policy, which is supposed to react counter-cyclically, that is to increase activity in periods of recession and to slow down the economy in times of boom, signalled by inflation, faces a fatal dilemma in the present 'slumpflation' crisis. If the policy is directed against stagnation and hence expansive, then there is a chance of worsening inflation. If it tries to fight inflation, it will increase the depressive moments in the economy.

B) If the current policy in Britain is to increase profits and investments, then this requires a reduction of the public deficit and/or lower consumption of the working class in order to finance the boosting of private industry. Let's assume that this is politically possible. Even if investments are increased, there will be insufficient demand to utilize the additional capacity. So the Labour Government hopes for an export-led boom, but this could be a miscalculation, as the Big Boom in the future might not come so soon, or might not be long enough, due to the structural character of this world market crisis.

C) Traditional Keynesian policy simply does not come down to the heart of capitalism, where profitability, growth, and international competitiveness are determined—namely the production sphere. In other words, productivity, wage levels, shop floor resistance of workers, technological progress, the nature and quantity of investment, industrial structure, manpower policy, management expectations, and the international market situation are not directly influenced by the traditional tools of the

State.

D) Keynesianism also was dedicated to a full employment policy which, in a structural crisis like the present one, is counter-productive for the needs of capital. As it prevents the disciplining of workers, it requires more and more State intervention, restricting rationalisation and the introduction of new production techniques.

Given these limits of traditional Keynesian policy and the depth of the present crisis, the Labour Government abandoned not only the counter-cyclical and ideological use of Keynesian policy, but also developed further some new intervention tools which were introduced by the previous two governments, starting in the mid-1960s. We can now observe a remarkable expansion and change in the interventionist role of the Capitalist State:

A) The use of *incomes policy* has grown in order to control wage costs, to attack the living standards of the working class, and to regulate their discipline. This has reached its peak with the L6-policy, introduced in July 1975, which in fact will reduce real wages by about 10% per annum. Previous experience points, however, to the danger of such a policy after a certain period of time, during which real wages fell, these policies of wage control led to a massive and militant reaction of the working class. Thus, the incomes policy of 1967-68 and 1972-73 were defeated. It seems to require a climate of crisis to reintroduce some control on wages. This was the case with the most recent and toughest incomes policy as well, which followed a vicious ideological campaign about wage costs pushing up prices and lowering profits, and a fabricated sterling crisis. Despite its demystifying impact of the belief in a stable and growing and crisis-free development of the economy, and despite its effects on the militancy of the working class, it is absolutely necessary for capital to get out of the present crisis at the expense of the living standards of the majority of the population, and thus stronger and stronger policies of wage-cutting are being introduced.

B) In the recent period of crisis the traditional economic policy tools were "frozen" in Britain on a deflationary course to "make room for investment, fight inflation, and reduce the Government's and the balance of payments deficits" (as it is declared officially). But in reality such a deflationary policy is aimed at the underlying moments. The "freezing" of the policy not only indicates the final failure of Keynesianism as the sole method to balance the economy between the different cycles. It also serves some important purposes, which necessitate a redefinition of Keynesianism. Instead of both ideologically and economically balancing and integrating the different elements of the economy and checking the cycles (which was the policy of the mid-1960s) Keynesianism is presently used more as an offensive weapon of capital. Deflation certainly hits the incomes of the working class, but it also forces the weaker capital units out of the market and supports the process of merger and rationalisation. Simultaneously it produces the cutting of the Welfare State and thereby redistributes income from the social wage of the working class to the cash flow of firms through respective profit tax cuts, increased aid to industry, and weaker price controls. The April Budget in 1975 made this policy of

redistribution in favour of profits very clear.

C) With this freeze of monetary and fiscal policy and the redistributive steps accompanying this deflation, two implications are especially noticeable. First, the British working class faces the end of the Welfare State in the form of massive budget cuts in housing, social services, education and health. This means a lower "social wage" and, in addition to the tough income policy, a further cut in living standards. Second, the policy of full employment has been abandoned during the last few years, and has turned into its exact opposite—a deliberate policy of unemployment. In practically every major industry, be it private or nationalised, there is a loss in jobs planned or already experienced. This is carried out not only to discipline the work-force by the creation of a permanent army of jobless, but is also necessary for the major strategy of massive "rationalisation and restructuring of industry" wherein less labour will have to produce more output with increasingly sophisticated and technologically improved machinery. Capital intensification is happening presently at a remarkable pace.

D) To carry out this rationalisation in times of crisis, of less profits, of expensive credits and, therefore, in times of a cash-flow shortage requires massive State help. A new and more direct policy tool was developed to cope with the needs of capital and simultaneously improve the quality and effectiveness of State intervention and industrial policy. This includes massive investment funds, para-Governmental agencies operating like State holding banks with powers to give conditional loans and to buy a majority of shares of private firms in exchange for some powers of control over private management's decisions and over direction of investment projects, so-called "planning agreements" between Government, Unions and management, new and "improved" enactments, sectoral planning for different industries, etc. All together this amounts to the State participating directly in the restructuring of British industry. This policy of public investment steering in private industry is probably one of the most significant developments within the British State, as economic policy becomes more actively involved with affecting the production sphere and the composition of capital.

The changing nature of State intervention parallels a change in the nature of working class struggle. Instead of fragmented wage struggles there is now the development of the objective conditions for a generalised and massive unification of workers against the welfare cuts, real wage losses, mass redundancies, rationalisation, technological change, and plant closures. This coming struggle certainly will have a large impact on the political consciousness of the working class, which finds itself under the full attack of British capital.

(April 1975)

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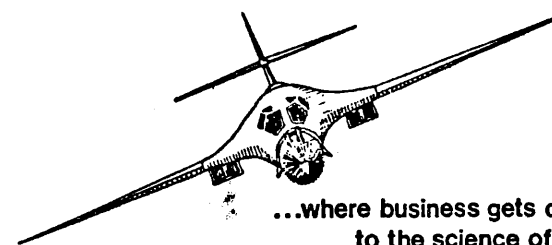
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STATE IDEOLOGY AND TRADE UNIONS IN SWEDEN

by Sune Sunesson

State intervention has played an important role in the development of Swedish Labour Relations (1). It is also a fact, that the seemingly "free" negotiations and general agreements on overall conditions for bargaining and negotiating, that the Swedish Landsorganisation and the Employers' Federation have made, have been a result of indirect pressure by the State (2). Furthermore, it has been made clear, that the organisation and function of the Trade Unions in Sweden, even in its "internal" aspects, are heavily influenced by more or less indirect State influence (3).

One of the less investigated aspects of the process of State controlled union 'reform' is the importance of ideological factors to make the Trade Union movement easy to change, and the social and political background of the spread of different ideologies in the unions (4).

It is a fundamental presumption in this article, that 'State Ideology' has had a great importance for the way in which the Trade Unions—as a part of a Social Democratic political and union apparatus—have assigned a certain economic (union-) and political practice to the Swedish workers as a class. To discuss this notion and its import for the understanding of social reality, I will first point out some of the problems in the theory of ideology, and later describe and investigate some ideological complexes, current in Trade Union development (5).

Some Brief Notes on Ideology

Ideologies reflect social practices in which men take part. Ideologies may be more or less coherent. It is in the nature of ideologies to explain, legitimate, translate and call in question the reality of men. Widely spread ideological complexes are disseminated and reinforced by means of special apparatuses (6).

Ideologies are not simply "false consciousness," rather are they a mixture of consciousness, false consciousness and lack of consciousness, and they reflect subjective recognition of reality (7).

Ideologies legitimate and reinforce the assignment of positions to individuals within the social structure, and thereby prescribe practices—or order the assigned individual to fulfill the demands of a certain material practice. In wage labour this is evident. The recognition of the work situation is ideological. However, the very material structure makes the role of ideology merely accessory in the reproduction of such immediate relations of production. There is reason to believe that the role of ideology in

assigning political and trade union class practices to the working class is more crucial than it is in wage labour, since the material structure governing such class practices is weaker, and the outcome of the organized practice leans so heavily on the image of reality of those concerned (9). In these conditions, the importance of the *confirming* of ideology becomes great. One may say that ideologies assigning certain types of such class practice, that is not firmly governed by a material structure, tend to be self-confirming, in that they tend to incorporate the proofs of their own veracity in the very practice they prescribe (10). And this is because ideology is *recognizing*, in a spontaneous sense.

The different classes in society are seen, in historical materialism, as groups of humans that come up as effects of the relations of production. The classes are related between themselves by relations of dependence and antagonism. The practice of classes as classes depends on their opportunities to fight for their interests in an organized way, or, at least, jointly. This is not expressed only in openly visible class struggle. The organization to keep together and reproduce society and societal relations, that the political and ideological organizations of the State are means of, also strives after the restriction of the possible antagonistic class practices of the dominated classes (11). The parliamentary system, appointing representatives after election, is a political institution, but it is also a political-ideological apparatus. It *assigns* to the working class a certain form of class-practice—voting. It also assigns a certain form of ideological class practice—by laying stress on the importance of the elections, of the responsibility of the voter, and the eternal reiteration of the nightmare visions of the society to follow after such-and-such result in the elections. Voting, as a class practice, will also contain the confirmation of the legitimacy of the parliamentary system, and voting will be seen as the confirmation of the ideological notion that people elect their superiors. The great hullabaloo about the elections will be the final confirmation of their importance.

The function of assigning voting as a class practice to the working class is also to put off all other political class practice of the workers, making it look suspect, deleterious and menacing. (cf. the situation in France after the May 1968 rebellion.) (12)

Reformism and the Assigning of Class Practice

Very loosely, two main forms of political and economic class practice may be distinguished. One would be "autonomous class practice," i.e. class practice that is the result of an independent definition of the possible field of practice by the dominated class. This would mean, that such class practice of the working class leans on independent or "autonomous" definitions of the methods and means of class struggle and its objects, along with the class' own definition of the relations between its struggle and social practice in a wider context.

The other type would be "subordinated" class practice, class practice that has been assigned to the working class (or other dominated classes) by other classes or their organizations, and means an adaption of methods

and field of practice to what the dominating classes can approve of.

The conditions under which those different class practices prevail, are historically determined (13).

The ideological milieu, in which a reformist ideology is professed, is in part determined by the general factors that go with wage labour and the capitalist mode of production. The ideological and imaginary notion of "wage" as "the price" of labour, and the idea of equal exchange are such ideological factors, that are constantly reproduced by the order of production. These ideas, however, come up in different situations, and the form and character of proletarian reaction when ideological "justice" is incriminated, is not deducible from the categories of capital (14).

The experiences of the class, and especially the collective memories of collective class practice, reinforced and mediated by political and ideological factors of the class is the most important factor in shaping the ideological horizon. The interpretation of those experiences is partly a spontaneous process, but it is also the normal task of political organizations and trade unions (15).

Reformist Ideology

The capitalist state has one important feature that distinguishes it from other States. The State under capitalism does not define the citizens or "subjects" in terms of different political, productive or religious categories (as the feudal-nobility, clergy, burghers, peasants, or the categories of the Indian caste system) but as *individuals* that, principally are entitled to the same rights as citizens, upholding the State jointly and equally. Classes, orders and estates are not recognized by the State. The power of the State rests upon the common will of the individuals, and the State is accordingly seen as the unity of these individuals, the people, the nation. Even the judicial system of the State is depicted as a manifestation of the will of all citizens.

"In principle," the dominated classes have the same rights and opportunities in the political system as the ruling class has, but only on account of its members, in their capacity as individuals and citizens. As a *class* it has no rights to invoke, which, in fact the ruling class has, in spite of the circumstance that class privileges as such are not inscribed in the laws of the capitalist State (16).

These conditions have, of course, profound consequences. The dominated class, the working class, can never exact autonomous class practice in the framework of the capitalist State. These political and ideological arrangements are for the reproduction of the subordination of the working class, and its political organizations. The way in which the organizations of the working class adapt to this complicated order of things will be decisive for the development of the struggle of the working class.

In a democratic society, no movement or association, possessing whatever prerequisites or objectives, can demand to be put outside the control and jurisdiction of the State. A refusal in principle of State interference in trade union organization and activity could be justified as long as the members, due to their political incapacity,

lacked the appropriate influence on State power exertion, especially legislation. But with the democratic remoulding of society, the situation is altered (17).

The lines quoted above, from the Swedish Trade Union Council report 'Fackforeningsrorelsen och naringslivet' (Trade Union movement and economy) written in 1941, illustrates one way of approaching the question of the State. A very clear ideological support of the State is coupled with joy over now, at last, being treated equally.

This romantic and uncritical opinion is, in fact, the major idea of the State in Swedish Social Democratic tradition. It is, also, ideology of this kind, that imbues the Swedish trade unions even at the present time.

This etatist ideology is, of course, historically an offspring of Lassalleism. Etatism has been the most important political ideology in the development of Swedish Social Democracy (18).

Etatism in Sweden

In Swedish pioneer socialist August Palm's first draft programme, all kinds of reformist thoughts and wishes were included, but one was significantly missing: socialism. On the other hand, there was much on the reforming of the State and the "free State." Social democracy, Palm claimed, was to work "almost in a nationalist spirit." (19) To be sure, the Lassallean inheritance was denied by several Social Democrats of the time and by later historians (20).

In Sweden—as in Germany—the etatist ideology was confirmed and reinforced by the practice and development of the movement. The ideology of etatism, with its stress on the State as an instrument of reform, and on the importance of being patient and waiting for the State to fulfill all justified claims, was propagated in a movement where the trade unions were the most developed organizational structure.

However, etatism and its claims on the organized working class were to fall out with the ideology of the original, craft, unions. These were the bearers of an ideology, most aptly characterized as "trade-unionism" in the sense that socialist writers, e.g. Lenin, gave to the term. The great conflict over the proposal from the party leadership to collectively associate the trade unions to the party, expressed this (21).

However, the influence of etatism and social democracy was strengthened by the impact that a seemingly complete political theory, with a global perspective will exert compared to a spontaneous and particularizing class ideology, especially as etatism made political class practice seem meaningful and promising. The 'trade union' ideology could explain some experiences, but it could never unite a class.

The influence of etatism was also fortified by its institutionalization in an apparatus, manned by intellectuals and party officials, who could dedicate their time exclusively to political and ideological activity. The Social Democratic party even initiated the formation of new trade unions—especially for labourers outside the trades, with the very purpose of creating a basis for suffrage agitation. In 1889, the SAP, the Swedish Social Democratic party was established. Its local organizations were,

mostly, trade unions. For nine years after that, the political and trade union leadership was concentrated in the same organization.

This form of organization had important consequences. In a number of ways, the trade union struggle was subordinated under the political leadership. The political leadership's most important aim was universal suffrage, and in order to reach that, Social Democracy commenced the tactic to form class alliances with peasant and petty bourgeois strata. The Social Democrats created a political and ideological apparatus, that was to assign a certain political and trade union practice to the workers. This organization was fit for assigning Lassalean etatist politics to the labour organizations. At the same time, the construction of the political party as a summit on the trade unions also made the possibilities for political action narrower.

The organizational forms of the trade union movement also were to confirm the ideology of certain political practices. The forms were determined by two main factors. A centralization of the unions was a vital necessity in the early unions, due to the dependence of central strike funds in the frail and embryonic organizations. The central committees or the executives of the national unions acquired great influence. The Social Democratic influence probably influenced the trade unions to assume a certain type of centralized organization, that was, in a way, a copy of a parliamentary Government system. Very early, the Swedish trade union organizations had some characteristic features of such a system, for instance the independence of elected representatives from those who had elected them, and the transfer of all initiative to the leadership (22).

Social Democratic agitation, around and slightly after the turn of the century, was to articulate the subordination of labour struggle under the parliamentary politics of the Social Democratic party. When it came to fight against the anti-union class laws, that were carried through or proposed at the turn of the century, the State was criticized morally, as a State that could not live up to the moral expectations that a loyal nation was entitled to have on a good State (23). The workers were admonished: Wait, wait until you are given the franchise. For then, the State cannot do anything but behave. It will then become your State, your instrument of liberation. Waiting for the universal suffrage, and meanwhile the strengthening of the trade unions, that was the class practice.

Even before the first World War the Social Democrats in the Swedish Riksdag showed some sympathy for propositions to regulate in Law the activities and conditions of the trade unions. The centralization of minds had not gone far enough, for the party to convince the unions of the necessity of this. An opposition, remaining from the strongly "trade-unionist" unions was stirred up. Those who opposed the State intervention were, however, a minority. In 1916 the LO executive recommended a proposed Riksdag bill on the judicial regulation of work contracts, and the setting up of a Labour Court. The majority of the executive thus comments on the repugnance of the minority by picturing it as conditioned by "the psychological aversion against seeing the constitutional hand of Society come into an area where we up to now have rolled about in unchained liberty." (24).

A while later, "trade-unionism" won its last great victory in an impor-

tant matter. It is significant that this was an affair, where the political branch of the labour movement was affected by the spontaneous upswing of class struggle, and by the readiness among workers for offensive political action (25). This was in 1917, when Swedish "trade-unionism" proved strong enough to hold up autonomous political organization. But it was never strong enough to arrest the attempts to politically hinder all autonomous trade union struggle.

After the First World War—The Modern Institutions

In the interval between the World Wars, social democratic etatism was finally made the dominant tenet in the leadership and the organization of the Swedish trade union movement. The situation in the 1920's was different from the pre-War times. Before the war, the social democrats had been able to ally with large peasant and petty bourgeois strata to carry through the universal right to vote. After the solution of these questions, however, the petty strata allied with the big industrial bourgeoisie against the working class. The alliance brought with it the class laws of 1928, the Collective Agreements Act and the Labour Court Act. Even before this, there were several important political situations, that were parliamentary illustrations to the successes of big bourgeois class alliance policies. One of these matters is particularly interesting in this context, i.e. the so-called Stripa affair. The political dealings with this affair illuminate the Social Democratic conception of the State and the consequent assigning of a passive political role to the proletariat. In 1926, a Social Democratic cabinet, under the leadership of Rickard Sandler, was defeated in the Riksdag and resigned. The vote that caused this was on the matter of giving unemployment benefits to a number of miners at Stripa, in the iron ore district of central Sweden. Three years before, another Social Democratic cabinet had resigned over a similar issue (26). The conflict arose from the fact, that there was a strike activity going on in the industry, not at Stripa, but elsewhere, and that made for differences in the interpretation of the unemployment statutes. The loser of 1926, his Excellency Sandler, gave the following comment: "It is better that this Government falls, than that the Government authority falls into decay." (27)

This was a witty way of making clear, that the exertion of State power is nothing but a game within limits set by honour. The relation between politics and class interests in probably irrelevant, if not invisible, for a master of parliamentarianism *par excellence*.

But what were the miners to do? What moves, what action, what political struggle was assigned to them?

An etatist-parliamentary organisation of the class means that the party, and the very class are reduced to a cheering crowd, a mass of bystanders and voters, underlings to its parliamentary leadership. When the Collective Agreements Act was carried through the Riksdag in 1928, it was supported by the conservatives, the liberals and the peasants. The SAP and the LO turned against it. In the great choir of complaint and criticism that the proposed law aroused, there were two main kinds of arguments. The most common social democratic opinion was affected by the strong spon-

taneous movement against the laws in the working class, but the typical Social Democratic newspaper or politician never posed the matter as one of *class*. The Act was "unneeded," there had not been enough investigation behind it, it would agitate proletarian hotspurs and give irresponsible elements material for their agitation (28). On the other hand, there was a consistent opinion against the law along class lines and with class arguments. This opinion was even represented in the LO executive, by some remaining "trade-unionists." (29)

The official LO opinion on the Act was, however, soon to change. When the Social Democrats formed a Cabinet in 1932, this was to be more apparent.

At the LO national congress in 1932, the LO executive criticized the Act like they had before, but now they maintained that it was to the advantage of the trade union movement to have the right to appoint judges to the Labour Court, as this was supposed to be a means to influence the practices of the Court (30).

Three years later, in 1934, the LO board of representatives was given a scolding by Gustav Moller, then Social Minister of the Social Democratic Cabinet. He claimed that the trade union movement had lost influence and authority in legislative matters because of its negative attitude to the Act (31). When the question came up on the national LO congress in 1939, no such mistakes were made (32).

In a number of cases in the '30s, the Social Democratic Government intervened against strikes. A number of important strikes were waged in the years 1931-1934, because of the substantial wage cuts that the employers resorted to in the Depression era. Those interventions aimed at making the unions accept the cuts. They were often motivated with pragmatic arguments like Moller's: ". . . of course you don't have to show any consideration to the Government in office, but, for the sake of the entire movement, you ought to figure out what you win or lose." (33)

The interventions, above all the actions against the construction workers, clearly illustrated the subordination of the trade union movement under the political leadership of the Social Democratic top politicians (34).

When the matter of legislation to protect "third parties" (those affected by labour conflicts without being an involved party) in labour disputes was brought up in 1934 (35), Moller commented:

There is not only a *political* motive behind Government support for initiatives to legislate but there is also a moral incentive behind our decision. I am of the opinion, that we ought not deny that excesses have come about. . . . Social Democracy lays claim to uphold a social ethic, superior to that of capitalism, but if we are the bearers of a higher moral, this must mean that we are apt to give society the right to react against injustice, may this be instigated from any quarters (36).

The leadership of the trade union movement was, by then, not ready to accept full State control over their activities with less than the simultaneous establishing of a fully planned economy. Many leading trade union men were, however, of the opinion that the State ought to incite a further centralization of the union system (37).

The LO-SAF agreements in 1938, the so-called "general agreement," was a semi-voluntary solution of the question of the rights of "third parties." At the same time it established general grievance and negotiation procedures (38). After this time the professing of etatism from the side of the LO leadership was made clear and enthusiastic. The quotation above is telling enough (39). It may be completed by many others, that convey the same picture: in 1941, at its national congress, the LO adopted an explicitly etatist programme. But here, as little as elsewhere, this can be understood as a exclusively ideological or terminological commitment. At the same LO congress the organization was drastically reconstructed in a way that led up to further similarity between the trade union movement and an administration apparatus under a parliamentary State (40). This change had several consequences, of which I will name two. The dirigibility of the organizational system increased with the alternations of the LO statutes. The most important rule was one that made the national unions financially dependent on LO consent for strike action. The organizational restraint, that is hereby attained, increases the subordination within the organizational system of the trade union movement. This is important for the assigning of non-autonomous class practice to the Swedish workers, and for the legitimation of other forms of subordination.

The report to the 1941 congress, *Fackforeningsrörelsen och maringslivet*, contains other ideological texts of great interest. Here, it is authoritatively established, that the trade union movement will sustain all strivings to give "trade and industry firmness and increased competition ability" and make it "develop and be organized to the highest degree of efficiency and a good national preparedness" (war time), to the aim of "giving guarantee and security for the prosperity of the nation." "Organized labour unites with other inhabitants of the nation" in this wish, for "the working class can not, in a democratic State, separate its destiny from that of the nation. The working class is an important part of contemporary society. The workers must take their responsibility." (41).

These arguments for rallying to the support of the State will not need any further analysis. The same vision, the same ideology dominates in this 1941 document, as in Ferdinand Lassalle's lectures eighty years earlier: Unite the nation, unite the people, under the State. There is the historical responsibility of the working class. What class practices will the political and ideological machines of the labour movement then assign to the workers? What independence can this class have, if its leaders direct it to take the responsibility for the nation, for the economy of that nation, and for the fate of the class that stands against it? The working class is assigned the responsibility of its own subordination.

Reasons for the Centralization

The centralization of the LO and the adaption of the 1941 programme, may, in some degree, be explained by the general war-time situation and the corresponding nationalism and spirit of mutual understanding. But behind the new organisation and the new programme were other factors.

A centralisation of the trade union movement had been proposed by communists and radical trade unionists for more than 40 years, when the

LO national congress met in 1941. The objective that the radicals had had in mind was to reform the LO into a central *offensive* trade union organization. The uncentralized form had meant that the LO could only act defensively, like a insurance company for the national unions. The moves for a offensive centralisation had been constantly turned down (42).

From the arguments that were put forward from the central leadership of the LO against a centralization, I will quote one from the 1926 LO national congress. ". . . centralization does not only mean attack, it might also mean, that the leadership will have to keep the workers away from attack. . . . now . . . the Employers' federation can not as easily attack us with all its power, as if further centralization was carried out. . . . Moreover, I daresay no one intends to centralize only on a piece of paper. Let us not forget the power of our old tradition." (43) There were no material conditions for the reproduction of a centralized form of organization, that encompassed the entire Swedish trade union movement of the workers, before the end of the 30's (44). There were, besides, no real basis of a programmatic rallying to etatism in the LO movement (45). The old blacksmith, Johan Olov Johansson, who was quoted above, was an old fashioned trade-unionist. His attitude could stay alive in the leadership circles of the LO, as long as there were the necessary preconditions for trade union activity that did not presuppose more than passive reformism in its relation to the Nation, the Economy, and Government. Support for Social Democratic policy did not, then, have very deep-going consequences for the union work in itself. But when this condition was gone, the old, "tradeunionist trade unionism" also had to vanish. The control over the union means of activity, the means of withholding the supply of labour, were now political resources that must be managed centrally.

In a way, the Social Democratic leadership were an avantgarde. The etatist practice and standpoints demonstrated by R. Sandler at his resignation in 1926 was, by that time, not well grounded in any corresponding economic-union practice, that was assigned to the working class. The LO had to be remoulded in the 15 years to follow after 1926, for the new programme and the new organization to be possible (46).

Factors in the Change of the LO

The centralization of the LO in 1941, and the corresponding etatist programme, was possible only after the coming up of a number of new conditions, that made it possible to *create* and *reproduce* a centralized trade union movement.

1. *Changes on the superimposed level.* One of the most important reasons against the centralization of the LO, was the *heterogeneity* of the movement. The passing of the laws on Collective Agreements and the setting up of the Labour Court in 1928, was an important factor to diminish the heterogeneity in the union movement. In the arguments that later were put forward from the LO leadership *in favor* of the 1928 laws, the point that those laws tended to make negotiation and agreement practice more uniform, was the most salient (47).

The demands on further legislation also made the trade union move-

ment more homogeneous. Above, I have mentioned that the LO and the Employers' federation agreed on a general regulation of negotiating and agreement practices in 1938. This general agreement, and the negotiations that preceded it, was mainly an effect of the political attacks against the working class that were expressed in the demands for further legal control over trade unions (48). The general agreement was explicitly a measure for the unification of the trade unions (49).

The effects of the Social Democratic Government experiences in the 30s have also been mentioned above. Unofficial Government interventions played an important role in the settling of labour conflicts after 1932, mostly after the intermediary intervention of the LO leadership (50).

Another important political factor in the development of the LO was the collapse of the communist influence in the unions, after the split-up of the CP in 1929. Just before the split—a split that depended much on differences in union tactics—the Social Democratic leadership had been alarmed by the great CP influence in many of the large national unions. To confront this, they waged a political attack against communism in the unions, and this campaign was made the more efficient, as the CP at that time had very little ability to resist such propaganda (51).

In its farthest consequences, the Social Democratic ideology of the State could not be reproduced in a trade union movement that could not be centralized. The doctrine that the State was the natural judge in labour questions was probably well spread among the Social Democratic leadership and many union leaders, but it could not be the basis for a concrete union practice. The material and practical basis for the legitimation of the State was not fully developed, as long as the Social Democrats were unable to show in practice what an interventionist strategy was like. The crisis and the reformist crisis policy thus showed a way of counteracting the disunion of the working class, and so paved the way for the politics of both "solidarity" and "responsibility"—etatism.

2. *Changes on the organizational level—the influence of the LO-leadership is strengthened.* As a result of the changes that were induced by State and political intervention, the LO leadership won a greater influence over the entire trade union movement than they had had before. When the LO leadership settled the strike in the building industry in 1934, after the indirect intervention by government, this was still an act that was not fully regular (52). Three years later, in 1937, had the several national unions in the building industry come to different standpoints over common proposed agreements, and some intended to strike. This was strongly condemned by the LO leadership, who attacked the "lack of uniformity" in the policy of the national unions, and referred to "tradition" and "usual practice" to give cause for their sharp criticism (53).

During that same period, the LO decided on "normal rules" for the national unions. These "normal rules" were not compulsory for the national unions, but were to be a motive for the centralization of the unions and the making of the uniform trade union movement (54).

A third important development, that tended to work against the heterogeneity of the LO unions, was the realization of a schooling programme in the LO. The LO central school began to educate union organizers and

functionaries in 1929, and had 25 students that year. In 1939, it had about a thousand students (55).

Wages Policy and Centralization

In the first years of the Second World War, the LO and the Employers Federation had made experiments with a new kind of negotiation policy. In contact with the Government authorities, central "limits agreements" were worked out. This was at the time only a war time policy, but it is evident from the pages of "Fackforeningsrörelsen och naringslivet," that it was seen as a promising experiment (56).

Later, this central agreements method became the institutionalized practice of Swedish, "indirect" wages policy, and the organizational changes that were made in 1941, made this policy possible. The central negotiation policy was later explicitly regulated in LO rules.

As with other major features of Swedish trade union practice, this is ideologically coupled with a firm conviction that the State has all the rights to act in all labour matters, but that it might lend those rights to a well-behaving LO and a cooperative Employers' federation. The last official LO document on wages policy, the report to the 1971 national congress, called "Lonpolitik," reiterates the etatist standpoints from 1941, and adds: "If society be able to accept the right of self government of the trade unions and their right to uphold those rights themselves, it is a condition that they also act with responsibility that is wider than that for their own organization." (57)

1. See J. Westerstahl, *Svensk Fackforeningsrörelse* (Stockholm 1945) and G. Heckscher, *Staten och organisationerna* (Stockholm 1946 and 1951) and S. Sunesson, "Staten, arbetarklassen och fackforeningsrörelsen," *Arkiv for studier i arbetarrörelsens historia*, nr 3, Kristianstad 1972 and in my *Politik och organisation* (Kristianstad, 1974).

2. See Westerstahl, *op. cit.* and the comments in my 1972 article.

3. See my *Politik och organisation*, chapt. 2-6.

4. *Politik och organisation*, *op. cit.* ch. 5, and F. Kupferberg, "Byggnadsstrejken 1933-1934" in *Arkiv*, nr 2, Kristianstad, 1972.

5. The difficulties of the scientific study of ideology are well known. The notes to follow are not dissolving much of that. This is not only because of the lack of space here.

6. The way in which I approach the problem of ideology here is somewhat in line with some recent French statements, especially Althusser's and Balibar's most recent articles. See for instance L. Althusser, "Ideologie et Appareils Ideologiques d'Etat" in *La Pensee*, nr 151, 1970, and the critical comments by N. Poulantzas in his *Fascisme et dictature*, Paris, 1970, pp. 327-338, E. Balibar's "Self Criticism" in *Theoretical Practice*, Jan 1973, and L. Althusser's "The Conditions of Marx's Scientific Discovery," in *Theoretical Practice*, Jan 1973, and "Reply to John Lewis," in *Marxism Today*, Sept. and Nov. 1972.

7. Personally, I dislike the notion of "false consciousness." It has a Hegelian or Feuerbachian ring to it—being some distorted wordly counterpart to an "essential" or inner-real consciousness. Louis Althusser has developed the notions "reconnaître" and "meconnaître" for the functions of ideology vis a vis social reality. (Evidently, this is a loan from Jacques Lacan's analyses of the problems of psychoanalysis.) To me, this seems to be a seminal conceptual development.

8. Marx, *Capital*, book 1, in the chapters on commodities and the development of work organization.

9. This is not always true. The conditions for the reproduction of the material order of production can be "weaker" in critical situations, for instance in an upheaval of proletarian class struggle. Correspondingly, trade union and political practice can be an "ally" of production or, exceptionally, be a steadier material structure than production itself.

10. Althusser takes religious rites as examples in his 1970 article.

11. Theme developed by Poulantzas in his *Pouvoir politique et classes sociales* (Paris, 1968).

12. When I mention the parliamentary system as a "political-ideological apparatus," this is in line with Althusser's formulations in his article "Ideologie et Appareils Ideologiques . . ." *op. cit.* This does not, however, mean that I share his general notion of so-called 'State ideological apparatuses,' the State-ness of some Althusser has not proved or shown.

13. Lenin's conception of ideologies in the workers' movement and the class practices they were associated with is one of the starting points for my work with the problem. In the early statements, like "What is to be done" Lenin distinguished the different practices of the Working class. In his more mature work, when he had left the Kautskyan position of his early work, he developed the new, qualitatively different concept of revolutionary consciousness and practice, especially in the works that evaluate the 1905 revolution and the importance thereof. In these later works, the schematic abstraction of "What is to be done" is fruitfully developed.

14. Cf. the ongoing debate in the Danish magazine *Kurasje*, esp. nr 9, 1974.

15. I do intend to develop these notes, but this is not the place for a prolonged delving into the theoretical problems of ideology. Some further notes are published in my *Politik och organisation*, *op. cit.*, ch 4.

16. The legal form for owning means of production is only at first glance a relation between Man and Thing—the means of production. But, as a matter of fact, if the thing is a factory or a mine, it also presupposes factory hands and miners, and the very owning of the 'thing' presupposes the subordination of the workers, and a class system.

In *Capital*, book 2, p. 29 (Moscow edition in English):

The class relation between capitalist and wage labourer therefore exists, is presupposed from the moment that the two face each other in the act Money—Labour power . . . It is a purchase and a sale, a money relation, but a purchase and a sale in which the buyer is assumed to be a capitalist and the seller a wage labourer. And this condition arises out of the fact, that the conditions required for the realization of labour power, viz., means of subsistence and means of production, are separated from the owner of labour power, being the property of another.

17. *Fackforeningsrörelsen och naringslivet* (Stockholm 1941) p. 147.

18. Cf. Lassalle's *Arbeiterprogramm* for the idea of the State as realization of good principles, and his "Offenes Antwortschreiben" for his jingo social patriotism. The influence of Lassalle is discussed in Mehring's *Die Deutsche Social-Demokratie* (1879). Lassalle's theory was a State-adoring moralism. His moral arguments reappear in many works by Swedish followers, as Social Democratic left-wing theoretician E. Wigforss, in his *Materialistisk historienppfattning och klasskamp* (1934 and earlier ed.) and right-wing counterparts R. Lindstrom in *Socialistisk vardag* (1928) and N. Karleby in *Socialismen infor verkligheten* (1926).

19. Palm's first programme draft is cited in K. Backstrom, *Socialismens programfragor* (Stockholm, 1943).

20. Axel Danielsson, pioneer Marxist, denied that as early as 1892 Lassalleism had had any influence in Sweden. The refusal of Lassalle, however, never concerned his *politics*, but some of his economics and his view of trade unions. See Backstrom, *op. cit.* for Danielsson's comments.

21. Following Lenin, the concept 'trade unionist ideology' here stands for a restricted defensive class ideology, unable to encompass society as a totality, but limited to a trade-union or rather economic perspective. Now, trade union ideology in this sense can be of several kinds. Spontaneous anarchist or syndicalist ideology, related to outburst of unorganized class-struggle, is, of course, not very much like the 'fabian' work for constructing and defending solid mutual-benefit agencies as those of the early craft unions. The first is a spontaneous class ideology with a background in the material practice of economic struggle, the other is an ideology around the trade unions, as permanent organizations. This latter ideology can be more or less directed towards the strengthening of the organizations as such, and may also, in that process, become an instrument for the "institutionalization" (to borrow a word from bourgeois sociology) of wage labour as a system. Contradicting each other in the short run, those two ideologies have a common field of reference, and the revolutionary syndicalism may fade away and be transformed into reactionary unionism, that opposes and combats autonomous struggle by the workers. Sometimes this goes in less than a

year, as in the illustrative case of the Swedish CP unionists in great miners' strike in Lappland, 1969-1970. (Cf. published strike committee and union material.)

On the particular problem of "collective association" of the unions to the party, See J. Lindgren, *Det socialdemokratiska partiets uppkomst*, (1927), R. Casparsson, *LO under fem artionden* (1947) or Westerstahl, *op. cit.*

22. The national unions have always been the dominating form for the organization of Swedish trade unions. This, in fact, means that the *national union* rather than the *local* is regarded as the real agent or subject of organization. The locals do not jointly make up the national union, but the national union chooses to work through locals. This principle, of course, has very important consequences for class practice and its development. Casparsson, *op. cit.*, Backstrom, *Arbetarerelesen i Sverige, II*, 1963.

23. Two instances are particularly well known, the "Mackmyra laws", an extension of anti-riot laws and laws against "anti-military agitation", that was coming up after spontaneous resistance of workers to the armed intervention by the police in a lock-out at Mackmyra wood pulp mill, in 1906. Some years earlier, in 1899, the so called 'Akarp law' was passed. It was a law that expressly intervened in strike action, prohibiting the workers to take action against blacklegs.

24. Quoted after Westerstahl, *op. cit.*

25. For detail, see Westerstahl, *op. cit.*, and Casparsson, *op. cit.* I will explain the matter very shortly. In 1917 the party and LO leaderships took different stands on the question of forming local workers' committees to control the ongoing spontaneous upsurge of revolutionary feelings and activities in the working class, and canalize it, in the first place, to activity aimed at the elections, and the extension of the franchise that was proposed by the social democrats. The LO leadership seemed to believe that this could be the embryonic stage to a soviet organisation of the working class, and came strongly against it, referring to the risk that the movement should slip out of control.

26. The Stripa affair was aroused by the so called "conflict directive" that prohibited the giving of unemployment benefits to workers that "were affected" by strikes, boycotts or other "conflict measures." The interpretation of this order was the point of controversy.

27. Acc to Dagens Nyheter, 2.VI.1926. Also Casparsson, *op. cit.*

28. Lindstrom, *op. cit.*

29. LO Treasurer, Johan-Olov Johansson, and the President of the Printers', S Cruse, were prominent among these.

30. LO Congress, 1939, Report of Proceedings (*Kongressprotokoll*)

31. LO Board of representatives. Minutes, 1934. Quoted after Westerstahl, *op. cit.*

32. LO, annual report, 1939.

33. *Op. cit.*, note 54. My emphasis.

34. Kupferberg, *op. cit.*, and Apitzch, "Socialdemokrater och kommunister i byggnadss-trejken", in *Arkiv 2*, 1972.

35. The question of "third parties" in labour disputes was used as a means of attacking the trade unions during the first four decades of this century. A "third party" is anyone that is hit by the outcome or the means of labour conflict without being actually involved in the dispute.

36. *Op. cit.*, in note 31.

37. *Ibidem*. Albert Forslund, LO President, expressed the need for a total national economic planning as a prerequisite for any extension of State intervention in trade union matters in a comment on a proposed law to regulate the conditions of "third parties." Forslund, "Yttrande" in Hansson, *Tredje mans ratt*, 1934.

38. It was impossible to form palimentary alliances to solve the "third parties" question in the Riksdag, and a voluntary discipline agreement was taken by the LO and the SAF, in the so called "general" agreement of 1938, together with a new system of centralized negotiations and a standard grievance procedure.

39. *Fackforeningsrorelsen och . . .*, *op. cit.*, p. 174.

40. For a description, see Johnston, *Collective Bargaining in Sweden*, London 1962.

41. *Op. cit.*, note 39, pp. 189 and 211.

42. Further developed in my *Politik och organisation*, *op. cit.*, ch. 5, which is based on official LO material.

43. Proceedings, LO congress 1926 (Johan Olov Johansson)

44. This was evident in all the discussions about the issue, where the lack of homogeneity

was supposed to lead up to a similar lack of "solidarity."

45. That is, of course, only when it came to specialized *union* matters.

46. See above

47. See note 30

48. Well described in Westerstahl, *op. cit.* Cf my 1972 article, *op. cit.*

49. It was also mentioned as such by the negotiating parties.

50. See note 34 for excellent sources on the most important of the strikes at that time.

51. B. Kennerstrom, "Sprangningen av Sverges kommunistiska parti 1929" *Zenit*, 22, 1971.

52. See note 49 and 34.

53. LO's annual report, 1937 (*Berattelse 1937*)

54. The 1933 board of representative meeting took the decision. (Ann. report)

55. See the collection of date in my *Politik och organisation*, *op. cit.*, ch. 5.

56. *Fackforeningsrorelsen och naringslivet*, *op. cit.*, pp. 194-195.

57. *Lonepolitik*, Stockholm 1971, p. 174.

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A TALE OF WATERGATE: MARXIST ANALYSIS GONE AWRY

by Knuth Dohse and Hugh Mosley

INTRODUCTION

The San Francisco Bay Area Kapitalistate Group's Watergate article attempts to develop a "structural analysis" of the Watergate events in contrast to other left views in the USA, which have interpreted Watergate as a conflict between different factions of the American ruling class ('Yankees' and 'Cowboys' or between financial interest groups), and also in contrast to merely journalistic accounts. The effort to interpret Watergate in systematic terms is correct and important and the Bay Area Group's article makes many insightful points and suggests several very interesting analyses. However, despite its merits, the article is, as a whole, lacking in sustained analysis and unsuccessful in its attempt to provide an alternative, Marxist analysis of Watergate. We think it worthwhile to dwell on this failure because the basic shortcomings of the article, methodological confusion about the problem of relating economic basis to political superstructure and the absence of any coherent conception of the capitalist state as the central element in this relationship, are of general interest. We will elaborate this criticism in some detail below. In thus sharply criticizing the Bay Area Group's Watergate analysis we do not claim to have the correct answers ourselves. Our aim is to initiate discussion, rather than the more demanding task of offering a constructive, alternative analysis. Our principal concern is not Watergate per se, but the development of Marxist political analysis, of which we think the Bay Area Group's Watergate analysis is a poor example. Though our critique of their "structural analysis" is primarily critical it does suggest, at least tentatively, our sense of the direction a Marxist analysis of Watergate should take, understanding the Watergate events and subsequent revelations in terms of the developmental tendencies of the contemporary capitalist state in which the reproduction of capital takes place more and more publicly and comes increasingly into contradiction with the traditional legal, administrative and political forms of bourgeois democracy. Our discussion of the Bay Area Group's Watergate analysis focuses primarily on part I (pp. 3-14), which is their principal effort to analyze Watergate in terms of "the general structural forces which underlay that specific historical event."

(p. 4)

METHODOLOGICAL WEAKNESS

A basic weakness of the article is that the authors make no attempt to clarify what they mean by a Marxist, structural analysis. They are content to use imprecise phrases such as "general structural forces" or "structural developments" (p. 4) in a self-evident way without explicitly considering how their distinction between general structural forces and specific events relates to a Marxist analysis of politics in terms of its relationship to the economic base. Having raised the issue of method, and particularly of the relationship between politics and economics, in criticizing other current Marxist interpretations (p. 22-23), the authors were obligated to reflect on their own 'structural' method in a more self-conscious way than they do.

The failure of the authors to clearly formulate the question of the relationship between economics and politics in their analysis results in a certain methodological confusion and in an essentially political interpretation of Watergate.

Let us begin by recapitulating briefly the logic of their analysis. What are the "general structural forces" that explain Watergate? What is the "event" to be explained, *i.e.* how do they conceive Watergate itself? The article suggests two basic structural developments in the 60s and early 70s:

- 1) the declining position of U.S. capital in the world economy;
- 2) the domestic "authority crisis" which threatened the established social order at home (militancy of blacks, students, women, gays, workers, the anti-war and ecology movements).

The foreign and domestic crises of American capitalism "which have shaped the development of the state apparatus and created the preconditions for the events of the Watergate scandal" (p. 4) are the basis of their analysis. These are not, however, conceptualized in terms of the capitalist mode of production at a given stage of its development and under particular historical conditions, but rather in an abstract way as two "circumstances" or "structural developments." Though the first is economic in nature the second is conceived in purely political terms. This dubious mixture of analytic elements results from the eclectic (or non-existent) methodology in the article.

This basis of their Watergate analysis, which is neither conceptualized systematically nor consistently at the analytic level of political economy, is spoken of as the "precondition" or "stage" (p. 4) for subsequent political developments culminating in Watergate. From this point on the analysis is purely an account of political developments. This purely political analysis begins with the introduction of the concept of the "U.S. ruling class" (pp. 4-5), not further defined, which is said to confront this crisis situation. The next step of the analysis moves directly to the exercise of state power by the Nixon administration: "The task of somehow shoring up that empire and re-establishing domestic authority fell on the Nixon administration." (p. 5) The state is by implication conceived here in simply political terms as an instrument of the ruling class. The ruling class is itself divided about "strategies" (p. 6) for coping with the crisis, and Nixon is said to represent a more repressive and controversial policy.

The Nixon administration resorts to several "political strategies" to deal with its liberal and left opponents. The latter are dealt with by the expansion of systematic repression through legal and illegal means; to neutralize the former, Nixon pursues a tactic of executive centralization of power vis-a-vis Congress and the semi-autonomous and pluralistic elements in the Federal bureaucracy and develops a new popular constituency for his attack on liberal politics. Nixon's overall policy and his political strategies for achieving it are said to have divided the ruling class. This was the background for the 1972 presidential election. Thus we come to the authors' Marxist and structural explanation of Watergate: "It was the uncertainty [of Nixon's re-election] combined with the importance placed on Nixon's re-election by many of his backers that set the stage for the Watergate scandal." (p. 14)

But a key condition was Nixon's political strategies of executive centralization, "the proliferation of Presidential agencies and aides, unaccountable to either Congress or the established bureaucracy," and "the gearing up of the undercover repressive apparatus that accompanied the attack on the left." (p. 14) The conflict within the ruling class spilled over into "illegal, repressive means" because of the existence of these factors. Or rather, as it is more tentatively stated in the article, if it were not for these two circumstances "it seems unlikely that the Watergate affair would have occurred." (p. 14) This is probably true but somehow not very interesting as an analysis, much less a Marxist analysis of Watergate. Like good liberal journalistic accounts of the time it interprets Watergate as a scandalous transgression resulting from the Nixon administration's arrogation and abuse of power and "paranoid style" (p. 14).

The unfolding of the drama culminating in Watergate is wholly politically determined. Once the 'stage is set' the original analytic fundament of structural factors seems to have no relationship to further developments. This metaphor of "setting the stage" marks the limits and the failure of the article to specify in its analysis the linkages between "general structural forces" and politics culminating in Watergate that it claims to offer. We are left only with rather free floating political factions that stand in no articulated relationship to the general structural forces that the article alludes to initially. This mistaken method rests apparently on the fact that Marx's statement:

"Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past."

is wrongly understood to be a statement of method. This is the 'Marxist' method of the article: The objective circumstances are described and then how men make their history in this context; first the stage and then the play, first the general structural developments, then the Nixon administration and Watergate. The clear and consistent theoretical problematic of the interrelationship of the economic and the political, which was always central for Marx, even in his historical writings, is missing here.

It is thus the failure of the authors to clearly formulate the methodological question of the relationship between economics and politics that causes them to fall into a vague metaphor of "general structural forces" as the "stage" or circumstances within which the "relatively autonomous" political action takes place. The consequence of this approach is a separation of economics from politics, which is now related in only an external way as an antecedent condition or "stage." The other current Marxist views of Watergate criticized by the authors had sought to relate economics to politics by interpreting the political conflict as the expression of the interests of specific capital factions and by the personal identification of political actors with such definite capital interests. The article rightly rejects this view as too simplistic and empirically weak but their retreat to the banal conception of the "relative autonomy of the political" (p. 23), expressed in the metaphor of the stage of structural forces on which political action takes place, is no alternative. The authors fail to reformulate in any positive way the relation between economics and politics. They do not articulate any structural relationship between the political sphere and the requirements of American capitalism.

MISSING THEORY OF THE CAPITALIST STATE

The methodological failure of the authors' analysis to articulate in any positive way the relationship between economics and politics results in the absence of any coherent conception of the structures and functions of the capitalist state. This problematic, which should be central to any Marxist political analysis, is missing. Rather the only conception of the state present in the article is that of the state as a political instrument of the ruling class, itself understood in vague and personalistic terms. The absence of a differentiated theory of the capitalist state plagues the authors' analysis at many points.

a) Inadequate conceptualisation of the ruling class.

The principal category of political analysis in the article is not a conception of the capitalist state but an undefined and free floating conception of the ruling class. This occurs with annoying frequency throughout the manuscript. Like the Holy Ghost, the ruling class is everywhere and nowhere. It directly encounters bad times in the 1960s (p. 4); sees all the problems of the late 1960s and 70s as interrelated, forms a consensus that it is in a state of crisis, empowers Nixon to straighten things out (p. 5); doesn't have much to gain from a continuation of incremental reform (p. 6); has doubts about Nixon, lacks consensus on particular strategies for dealing with the crisis (p. 10); reconciles itself to Nixon's policies (p. 11); begins to wonder about Nixon again after the Watergate scandal breaks (p. 17); etc. There are also many other somewhat fetishized and shadowy political actors moving about on this stage of structural forces: "the Left," "liberals," "organized labor," "labor leaders," "the mainstream of the Democratic Party," "the Nixon

administration," "the working class," "the Congress," "the liberal press," etc. Motivations, intentions, actions are imputed to them in a rather loose and self-evident fashion.

b) *The problem of political repression.*

Though what the authors understand by "Watergate" is never very carefully stated, it apparently refers to what the manuscript terms "the transcendence of acceptable repression," meaning that no longer just "the Left" but now "liberals" were the target of illegal "political repression." Watergate is thus for the authors an "attack on the Democratic Party" (p. 3). The distinctive feature of Watergate is the use of "illegal repressive means in a political struggle within the ruling class" (p. 3). This formulation of Watergate is not only somewhat rhetorical but a dubious starting point for supposed structural analysis of Watergate. Like the Cowboy-Yankees etc. interpretations which the authors criticize, it too understands Watergate as largely a sensational incident of conflict between different factions of the "ruling class."

Instead of treating Watergate journalistically as "a tale of political repression gone awry" and attributing it to the political strategy and style of the Nixon administration, it would have been more fruitful to consider the general implications of Watergate for the principle of legality as the form of state action in bourgeois democracy. Rather than a transgression by the Nixon administration or simply another example of "political repression as a normal feature of bourgeois democracies" (p. 4), Watergate and its accompanying revelations should be considered as a sensational manifestation of the increasing trend toward the erosion of traditional forms of bourgeois legality. This pattern is more interesting than the mischief of CREEP during the 1972 election on which the authors focus, and might well be explained in structural terms. In the discussion of fascism by legal scholars, known in the USA through the works of Ernst Fraenkel (*The Dual State*) and Franz Neumann (*Behemoth*) the issue has at least been raised of the relationship between changing forms of surplus value creation (*Kapitalverwertung*) and the weakening of important elements of legality as the form of state action. Increasing state interventionism, for example, has required a vast increase in the discretionary power of administrators with a corresponding withering of the rule of law in a traditional sense.

In line with their undifferentiated conception of the state as a mere political instrument of the ruling class the authors tend to regard the resort to illegality as a rather normal and casual tactic of the capitalist state. They thus formulate the problem of illegal action by the state too simply. Legality is a fundamental principle of the capitalist state and fulfills important functions. It is also a basic element of the ideology of the ruling class and its popular legitimacy is based in part on its commitment to legal/constitutional forms of behavior. Thus the relationship of the capitalist state (or the ruling class) to the norms of bourgeois legality is not and cannot be merely tactical, as the authors seem to imply. Indeed, a central moment of the Watergate crisis was just that this

form of legitimacy was violated by the tactical behavior of political leaders.

c) *Executive centralization of decision-making in the Nixon administration.*

The SF Group's Watergate analysis describes the Nixon administration efforts at executive centralization vis-a-vis Congress and the Federal bureaucracy as an important element in the chain of events leading up to the Watergate break-in. These developments are identified with Nixon and his administration and interpreted in political terms as a "political strategy" by which the liberal opposition to his domestic program was to be "contained" (p. 10).

Here again the faulty method and lack of a Marxist theory of the state leads the authors to miss the point. This type of executive centralization is interesting and significant as an example of a trend that did not begin with the Nixon administration and has its counterparts in administrative reform efforts in other developed capitalist nations. Attributing it to Nixon's political maneuverings is the analytic equivalent of attributing the American welfare state to Franklin Roosevelt. This pattern of executive centralization could be more fruitfully examined as a tendential structural development in the decision-making structures of the capitalist state. In the contemporary capitalist state, in which the reproduction of capital takes place more and more publicly, new functions are thrust upon the state apparatus. The fragmented and particularistic administrative structures of an earlier era are no longer adequate.

Changing structural forms of the state cannot be comprehended in merely political terms but must also be examined in terms of the relationship between the state and the evolving capitalist mode of production.

d) *Authority crisis, legitimacy crisis.*

One of two basic structural developments referred to in the article which alarm the American ruling class is the domestic crisis of the 1960s and early 70s, which the authors conceptualize as an "authority crisis" (p. 5-6). Although this is for the authors a basic element of the "stage" for American politics in the Nixon era, it is not very carefully elaborated. See, for example, the second paragraph on p. 5 of the article. This is a one-paragraph characterization of the political activism in the U.S. in the 1960s, which "threatened the stability of the internal social structure" and was "an attack on the established social order." The authors seem to regard these as self-evident statements. They are, however, clearly not simple empirical statements but rather theoretical conclusions about the significance of these protest movements in the US. It is by no means self-evident that any of the groups and movements mentioned (workers, blacks, university students, women, gay people, anti-war and ecology movements) represents an attack on "the established social order" or "the internal social structure," whatever exactly the authors mean by these terms.

Very diverse phenomena are here subsumed in an undifferentiated notion of an "authority crisis." An "authority crisis" is inferred from protest actions and rebellious behavior without specifying which classes and strata are involved, what aspects of the system are rejected, how the legitimacy of the state apparatus is affected, and what the structural sources of the alienation of these various groups are. This is a dubious beginning for a would-be structuralist and Marxist analysis, conceptualizing the domestic problems of American capitalism in terms of a vague notion of an "authority crisis."

Miscellaneous

a) The "18 Brumaire of the year VIII" was the 9th of November 1799. It was on this date that Napoleon toppled the Directory in a coup d'état and made himself dictator with the title of First Counsel. On December 2, 1851 there was another coup in France, this time by Louis Bonaparte. It was this "second edition of the 18 Brumaire" that Marx writes about. It was a *successful* coup which superficially resembled its earlier model, except for the mediocre and grotesque person of Louis Bonaparte and his henchmen. They were able to drape themselves with Napoleon's fame because the Napoleonic legacy was a "circumstance directly encountered, given and transmitted from the past," "as a tradition of all by-gone generations," burdening like "a nightmare in the minds of the living." What Marx sets out to do is to tear aside this ideological veil and to show how *the class struggle* in France created circumstances and relations" that made the second group possible.

The Bay Area Group does not cite Marx correctly. They give the impression that objective circumstances/economic relations were the starting point of his analysis. They leave out the sentence: "The tradition of all by-gone generations burdens like a nightmare the minds of the living." In his historical-political analysis—in contrast to his political-economic ones—Marx always begins with an ideological analysis. Marx must first of all describe and overcome this "tradition" (for the first French Revolution, which Louis Napoleon invokes to justify his coup as a "social revolution") as an *ideology of the concrete situation* before he can correctly grasp the events as part of "the social revolution of the 19 century," events which have a content different from that which Louis Napoleon and the people suppose.

Watergate was no coup. Nixon's policies never aimed to use his position as president to seize power and transforms the political system. Why then does the title employ the phrase "18 Brumaire of Richard Nixon?" Napoleon reigned 13 years and at his highpoint dominated Europe. Louis Bonaparte reigned 19 years and imagined himself to be a second Napoleon. Nixon reigned for 6 years and was destroyed by Watergate, which is now supposed to be his 18 Brumaire. The paper does not substantiate the choice of the title.

Marx's "18 Brumaire" text has stimulated a comprehensive and still current discussion on a Marxist theory of Fascism (Bauer, Thalheimer, Rosenberg, Marcuse). The Bay Area Group suggests by its title a rela-

tionship to this discussion, but in fact does not refer to it all. It is doubtful whether Nixon's actions can be analyzed with the conception of Bonapartism. The title suggests this problematic without further elaborating on it.

b) The article often treats complex factual situations and questions requiring more careful discussion and differentiated analysis in a summary and conclusory manner:

We are told, for example, that the Nixon administration wanted to dismantle the "existing social infrastructure" (p. 7) or even aimed at "the destruction of the welfare state" (p. 12). Between these two extreme statements Daniel Moynihan's more discriminating conception of the reinforcement of private authorities (family and market) is attributed to the administration. Which (or whether either) of these characterizations of the administration's policy is accurate is a problem that cannot be treated in such an offhand way. Similarly the manuscript asserts that by 1971 Nixon's policy of executive centralization "had undermined much of the remaining power of Congress and had largely by-passed the entrenched Washington bureaucracy . . ." (p. 13). Such a characterization of the situation in this matter of fact way is questionable. It treats an *interpretation* of the *intentions* of the Nixon administration as an accomplished fact.

Editors' note: For a critical empirical examination of the Yankee-Cowboy thesis see the interesting article by Stephen Johnson, "How the West Was Won: Last Shootout for the Yankee-Cowboy Theory," The Insurgent Sociologist, Vol. VI, No. 2, Winter 1976

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A Review of Michael Kalecki, THE LAST PHASE IN THE TRANSFORMATION OF CAPITALISM

by Lynn Turgeon

One of the last acts of Michal Kalecki, shortly before his death in 1970, was to translate six of his short pieces dealing with the advanced capitalist system written over the period of 1935 to 1967. If there is a central theme to this collection—and both Wlodzimierz Brus, who earlier wrote a short preface to the Polish edition, and this reviewer believe that there is—it is an analysis of the attempts of capitalist policy-makers to deal with the internal contradictions of the system.

The first essay, "Stimulating the Business Upswing in Nazi Germany," (1935) analyzes the results of government credit to finance the economic upswing during Hitler's first two years. Kalecki, discounting the conventional belief at the time that such "unsound" practices would eventually lead to "bankruptcy," shows that private investment recovered about 50 per cent of the decline which had taken place between 1929 and 1932, but that consumption (as measured by retail sales at constant prices) managed only to regain 28 per cent of the smaller decline which had occurred in this sector during the last years of the Weimar Republic. Kalecki maintains that the growing government revenues resulting from the business upswing were used for the manufacture of armaments. This shifting of resources away from consumers to the arms industry was implemented by the control of foreign trade, where non-ferrous metals tended to replace consumer goods imports from abroad.

It is no doubt true that the fascist economy—like the then industrializing economy of the USSR—experienced a sharp growth in economic activity without commensurate rises in the standard of living for the broad masses of the population. It is also possible that exchange control played an important role in achieving this. However, emphasis on Nazi arms expenditures at this early date may be unwarranted. Autobahns also took resources away from personal consumption, and they were no doubt as popular with Germans as they have been for Americans. Attempts to minimize the effect of Hitler's economic policy on the welfare of the masses leads to a purely ideological explanation for the broad support of the Nazis—not only in Germany but also later in Austria. The fact is that by 1938 (on a 1932 base) per capita consumption of lean meat in Germany was up 13.5 per cent; butter was up 17.3 per cent; salt water fish was up 40 per cent; sugar consumption rose by 20.3 per cent and beer intake increased by one-third. (1)

The second essay, "Political Aspects of Full Employment," (1943) asks

the interesting question why big business opposed experiments for increasing employment through government spending in all countries except Nazi Germany. According to Kalecki, the opposition of "industrial leaders" to full employment may be subdivided into three categories: (1) dislike of government interference as such; (2) disfavor for the direction of government spending (for example, public investment and subsidizing consumption); and (3) fear of the social and political changes resulting from the maintenance of full employment. Kalecki believes that "discipline in the factories" and "political stability" are more appreciated by business leaders than high profits, since profits are undoubtedly higher under conditions of full employment than they would be under an economy with less-than-full employment. If higher wages result from the seller's market for labor power—which is normally associated with full employment—they can be passed along in the form of higher prices and *only* (my emphasis) "rentier" interests are adversely affected.

Kalecki also recognizes and deals with the "commercial Keynesian solution," which has in fact emerged in the United States since 1962. Government intervention can be directed to the stimulation of private investment through the lowering of the rate of interest, reducing corporate income taxes, or by subsidizing private investment directly through rapid depreciation allowances and/or investment tax credits. As Kalecki concludes, the rate of interest and corporate income taxes would have to be reduced continuously in order to maintain full employment. In the United States at least, monetary and other rentier interest groups have stood in the way of the implementation of this solution.

Towards the end of this essay, Kalecki introduces the important concept of the "political business cycle," applying it to what happened in the United States in the sharp 1937-1938 recession. Kalecki mentions the fact that price increases made the small and big rentiers "boom tired," but he tends to explain the breakdown of expansion long before full employment was achieved exclusively in terms of the "drastic" reduction of the budget deficit in 1937. He de-emphasizes the reassertion of monetary policy in the form of higher interest rates, and the doubling of reserve requirements.

This failure to recognize the importance of demonetization of the Nazi economy and the retention of residual monetary policy in the United States leaves unexplained the important contrast between the Nazi successes and the United States failures in the late thirties. Whereas Hitler managed to achieve full employment by 1937—and was ever actively encouraging German women to return to the labor force—the United States was still suffering from stagnation and unemployment rates of 17.8 per cent in 1938. (2)

The demonetization of the Nazi economy (as reflected in the neutralization of German bankers and other rentier interests) also shows up in the international sphere where Hitler was able to avoid devaluing the mark—then as now the standard capitalist monetary solution to crisis. In other words, the Germans utilized only domestic fiscal policy in order to carry through their Keynesian Revolution.

The postwar "political business cycle" in the United States has also taken on a form which is somewhat different from that anticipated by Kalecki. The Democrats have managed to "fine tune" the economy with a

larger component of fiscal policy (largely in the form of increases in the military budget, but also as a result of the 1964 tax cut), while the Republicans are more committed to the greater use of monetary policy. As a result the Democrats have presided over a faster growth record than the Republicans. The United States stop-and-go policy is linked to the political party in power, in contrast to Great Britain, where it is connected to the balance of payments problem.

In his third essay (1956), "The Economic Situation of the United States as Compared with the Pre-War Period," Kalecki looks at the differential growth of various components of United States total product over 18 years after the 1937 turning point. During these years, the total product of the United States more than doubled; there was a significant decline in the rate of unemployment; and labor productivity rose by about 60 per cent. Despite these superficial signs of success, personal consumption actually declined from 78.7 to 72.5 per cent of the national product, a development which under ordinary conditions should have intensified the realization problem. The increase in the relative share of big business's accumulation was absorbed by arms "mainly through the tax on corporate profits and the export surplus, whose realization was related to the expenditures of the armament-imperialist complex." An increase in the armed forces and in the number of government employees both at home and abroad contributed to the reduction in unemployment. Thus, although the *potential* increase in the standard of living was hampered just as in the Nazi economy, there was a considerable *actual* increase because of the rise in labor productivity. It is this increase in the standard of living which Kalecki feels immobilized any opposition to the cold war.

In "The Fascism of Our Times," (1964) written in connection with the Goldwater campaign in the U.S., Kalecki looks at the common characteristics of the OAS in France, the neo-Nazis in West Germany, and the forces behind Goldwater. He recognizes that Goldwater, in contrast to the more conventional fascists, favored a reduction in the capitalist state bureaucracy. While the ruling class does not like the idea of the fascists seizing power, it does nothing to crush them. Kalecki likens the fascism of our time to a dog on a leash; it can be unleashed at any time to achieve definite aims and even when on the leash serves to intimidate the potential opposition. Like all Europeans, left or right, Kalecki feels that the murder of John Kennedy was a right-wing plot. He believes the government should have been able to deal a mortal blow to these right-wing extremists, rather than whitewash them as in the Warren Commission report. Goldwaterism is not dead. The ruling class wants to maintain right wing pressure groups which can be mobilized against any excessive relaxation of international tensions and to restrain the Black movement.

Kalecki's fifth contribution, "Vietnam and United States Big Business," (1967) follows the previous piece with an assumption that Goldwater's spirit coexists with Johnson in the White House. The aggression in Vietnam, with its impact on the armament industry (especially on the West Coast), is fully satisfactory to Goldwater and the forces he represents. Kalecki maintains that the relatively modest rise in military expenditures until the middle of 1966 was not responsible for the success of the New Economics, especially since the rise in public expenditures was offset by

the decline in consumption resulting from higher tax revenues. (Can it be that Kalecki was unaware of the historic 1964 tax cuts as well as the 1965 reductions in the excise taxes?) Rather, the motive force behind the boom was the increase in private investment resulting from the tax concessions for business begun in 1962. He notes that the annual rate of increase in military expenditures jumped from \$54 billion in the first half of 1966 to \$59 billion in the third quarter (in constant prices). At the same time, the private investment boom slackened, and there was even a decline in residential building. Thus, the "typical" war or semi-war boom started only in the second half of 1966. Kalecki pessimistically predicted that the United States would drift toward membership in the club of "shameless countries," which at that time included South Africa, Rhodesia and Portugal.

In retrospect, these political predictions look rather hysterical. But Kalecki was at least right about one thing: that it would be difficult to reduce arms expenditures to their former level without causing a crisis. Nevertheless, he failed to see the significance of the mini-recession even though it occurred while he was writing this piece. Beginning in December 1965, a combination of very tight monetary and fiscal policy (including a suspension of the investment tax credit for four months at the end of 1966) led to a virtual halt in real growth per capita between the middle of 1966 and the middle of 1967. Never before had military expenditures failed to produce an economic boom. It was this atypical combination of surging defense expenditures with overall stagnation which almost overnight converted Wall Street from a bearish to a bullish position with respect to peace in Vietnam. Despite the conviction of capitalists that the war was counter-productive and had to end, it took at least five more years before one of the representatives of the old guard, Richard Nixon, negotiated a compromise with the Vietnamese patriots in exchange for the detente which both the Chinese and the Russians eagerly sought.

The final essay, "Intermediate Regimes," (1966) looks at the other half of the integrated capitalist system—the so-called Third World—and particularly at such countries as Indonesia, India and Egypt. Regimes in these countries are controlled by an amalgamation of the middle classes and state capitalism. They may become a lasting phenomenon, which cannot be considered either as purely capitalist or as naturally evolving toward socialism. In such regimes, the strength of big business determines how it is dealt with by the new ruling elite. Since big business is stronger in India than in Egypt, we see less "socialism" coming from India despite its higher stage of development and Nehru's socialist philosophy. Kalecki recognizes the importance of the countervailing power of such intermediate regimes. They "are the proverbial clever calves that suck two cows: each bloc gives them financial aid in competition with the other. Thus has the 'miracle' of getting out of the United States some credits with no strings attached as to internal economic policy been made possible."

As George Feiwel's glowing introduction makes clear, Michal Kalecki was undoubtedly one of the great, underappreciated economists of our time. Kalecki attempted to be a political economist. If his political analysis of contemporary Western capitalism seems a bit weak, we must remember that he was writing from Poland.

CRISIS THEORY AND THE CAPITALIST STATE A SUMMARY OF PAUL MATTICK'S WORK

by Peter Rachleff*

This article presents a very brief summary of Mattick's analysis of the problems of capital accumulation and the dynamics of the "mixed economy." It should be regarded as an introduction and will, at best, whet the reader's appetite to look more closely at the original material. Obviously, an article of this length cannot adequately represent Mattick's contribution to the analysis of advanced capitalism. Furthermore, the following pages should not be regarded as a definitive answer, but as a stimulus for further discussion and debate on the theory of the state.

The Problem Stated

According to Marx's analysis surplus-value serves basically three purposes: capitalists' personal consumption, the purchase of additional constant capital, and the purchase of additional variable capital. Of these the two latter grow much faster than the first. With the organic composition of capital increasing, the demand for additional surplus-value to purchase more constant capital expands relative to that for additional variable capital. Mattick demonstrated the consequences of this process almost forty years ago:

At a high stage of accumulation, value demanded for additional constant capital must have become so great that it finally absorbs all of the surplus-value. A point must come when the parts of the surplus-value to be used for additional workers and for capitalist consumption must decrease absolutely. This would be the turning point at which the previously latent tendency to collapse begins to be active. It is evident that the conditions necessary for the progress of accumulation can no longer be met, that the mass of surplus-value, though grown absolutely, is insufficient to take care of its three functions (1).

Due to concentration and centralization some individual capitals grow at a faster rate than the overall rate of capital accumulation. Thus the process of capital accumulation results in ever larger and comparatively fewer capitals, each with ever higher technical compositions, reflected in higher organic compositions. Such capitals then demand increasingly greater masses of surplus-value in order to reproduce themselves and to expand.

As Marx demonstrates in Volume III of *Capital* the general rate of profit is formed through competition among capitals. Each capital then receives a share of the total social surplus-value proportionate to its size. Thus, whether a given enterprise is actually engaged in producing surplus-value or not, it receives its share of the social surplus-value. Should more and more enterprises appear and grow, which do not contribute to the social surplus-value, yet share in its distribution, the demand on the surplus-value will become increasingly difficult to satisfy.

Although the productivity of labor becomes ever greater, increments in productivity are reflected ever more slowly in the growth in the mass of surplus-value.

Surplus-value . . . does not grow in the same numerical proportion as the productive force . . . The surplus-value of capital does not increase as does the multiplier of the productive force, i.e., the amount to which the productive force increases; but by the surplus of the fraction of the living work day which originally represents necessary labour, in excess over the same fraction divided by the multiplier of the productive force (2).

Marx stresses this crucial point in another passage in the *Grundrisse*:

The larger the surplus-value of capital *before the increase of productive force*, the larger the amount of presupposed surplus labour or surplus-value of capital; or, the smaller the fractional part of the working day which forms the equivalent of the worker, the smaller is the increase in surplus-value which capital obtains from the increase of productive force. Its surplus-value rises, but in an ever smaller relation to the development of the productive force. Thus, the more developed capital already is, the more surplus labour it has created, the more terribly it must develop the productive force in order to realize itself in only smaller proportion, i.e., to add surplus-value, because its barrier always remains the relation between the fractional part of the day which expresses *necessary labour*, and the entire working day. It can move only within these boundaries. The smaller already the fractional part falling to *necessary labour*, the greater the *surplus labour*, the *less* can any increase in productive force perceptibly diminish necessary labour; since the denominator has grown enormously (3).

In sum, if capitalism is to avoid crises it must continuously ensure the production of an adequate mass of surplus-value to maintain accumulation. However according to Marx's model, this is not possible. The mass of surplus-value must, at a certain level of development, become inadequate. Logically, then, it would seem that capitalism cannot avoid generating crises (4).

However, both "neo-Marxists" and non-Marxists have argued that these crises can be counteracted by increased activity by the state (4a).

Mattick's Analysis

Mattick's work directly challenges the usefulness of state intervention as a solution to capitalist crises of the type outlined above. He does so for

the following reason. Labor employed by the state cannot add to the total mass of social surplus-value. Indeed state expenditure represents an additional drain on the already inadequate mass of social surplus-value.

Mattick argues that we can only understand the effects of the growing role of the state by utilizing Marx's laws of value and accumulation. If we are to correctly formulate the problems of capital accumulation, we must begin with Marx's distinction between productive and unproductive labor (5).

Productive labor is only that labor which creates surplus-value. The productive laborer "exchanges" his labor-power with the capitalist for variable capital, and it is expected that he will "produce commodities for the buyer of his labor-power." (6) The products which he creates are then placed on the market by the capitalist. The surplus-value contained in these commodities becomes part of the social mass of surplus-value, out of which each capitalist receives his share for accumulation. Thus, the worker has been hired for a specific purpose, to create surplus-value which will be used for capital accumulation. The nature of the commodity produced matters little to the capitalist.

Unproductive labor, on the other hand, is purchased for a very different purpose. The buyer expects to receive an immediate service for his money, rather than a saleable commodity. Such an "immediate service" could even be embodied in a finished product. For example, if I wanted a piano and I bought all the necessary materials for its production, and then hired a workman to come into my home to make it, he would be an unproductive laborer. His finished product would be of use to me, but it would not have been created for the market in order to yield a surplus-value. The labor-power of an unproductive laborer is purchased not with variable capital, but "is exchanged directly against revenue." (7) Marx stresses that:

the same labor can be productive when I buy it as a capitalist, as a producer, in order to create more value, and unproductive when I buy it as a consumer, a spender of revenue, in order to consume its use-value, no matter whether this use-value perishes with the activity of the labor-power itself or materializes and fixes itself in an object (8).

In sum, it can be said that the performance of productive labor is the basis for the *creation* of surplus-value, while the performance of unproductive labor, being financed out of revenue, is an important form of *consumption* of surplus-value.

In order to understand the nature of government-induced production we have to keep in mind this distinction between productive and unproductive labor. Every capitalist receives a share proportionate to its size of the total social surplus-value regardless of whether it actually produces or consumes part of this surplus-value. Government-induced production has appeared on an unprecedented scale in the last thirty years in response to the very problems outlined above, i.e., the inability of private capital to produce sufficient surplus-value to ensure continued accumulation and thus avoid the social problems created by crises. Mattick writes:

Capital stagnation, expressed as it is in defective demand, hinders an increasing number of capitalist entities from partaking in the social "pool" of surplus-value in sufficient measure. If their continued existence is a social necessity, they must be maintained by government subsidies. And if the number of unemployed constitutes a danger to social stability, they, too, must be fed out of the declining "pool" of surplus-value. Control of surplus-value becomes essential for the security of capitalism and the distribution of profits a government concern (9).

There are three major areas we must deal with: (1) What is the nature of government-induced production? (2) How is it financed? (3) What are its effects on the problem of capital accumulation? Government-induced production must operate within narrow limits, if it is not to undermine the very basis of capitalist market relations. Above all, the products of state production cannot compete with the products of private capital. If the state were to become a competitor of private capitalists in the product market, it would only make their problems that much more severe (10).

If the government would purchase consumption goods and durables and give them away, it would, to the extent of its purchases, reduce the private market demand for these commodities. If it would produce either of these commodities in government-owned enterprises and offer them for sale, it would increase the difficulties of its private competitors by reducing their shares of a limited market demand. Government purchases, and the production it entails, must fall out of the market system; it must be supplementary to market production. It is therefore predominantly concerned with goods and services that have no place in the market economy, that is, with public works and public expenditures of all descriptions (11).

Historically, government intervention in the economy on a broad scale began during times of war. State intervention was necessary to reorganize production during the First World War. As various historians have pointed out, the first quarter of the twentieth century saw a tremendous increase in government "regulation" of the activities of private capital in response to the social and economic chaos of the last quarter of the nineteenth century (12). At first, these activities in peace time were oriented toward achieving greater stability and predictability for private capital. However, such "regulation" proved to be an inadequate means of dealing with the basic problems of capital accumulation. The "Great Depression" led to an awareness of the inadequacy of mere "regulation." The fact that the expansion of government-induced armaments production during World War II pulled this country out of the throes of the depression, led to the belief that the state must take an active part in the productive sphere if there is to be even a semblance of full employment and social peace. Armaments production is ideal as it provides employment and income for millions who might otherwise be unemployed (13). Furthermore, arms production creates a continuous demand because its products are either used up or become obsolete.

The Second World War also caused an enormous destruction of capital that laid the basis for the post-war boom (14). However, the state sector of the economy, primarily consisting of armaments industries at first, be-

came a permanent feature of the "mixed economy." Its products, including roads, airports, social services, etc., were strictly non-competitive with private capital (15).

It is of the utmost importance to note that none of this production is the production of commodities, i.e., products for the market whose sale results in a realisation of surplus-value. Rather, they are produced under the control of their consumer, the state. Their production therefore, Mattick argues, cannot contribute to the mass of social surplus-value. Labor-power employed in the state sector must be unproductive labor.

This becomes even clearer when we examine how this production is financed. State-induced production is financed through taxes or deficit spending (deficits which must be repaid at some point, mostly by future taxes) (16). This is a process of an exchange of revenue for labor-power, not an exchange of variable capital for value-creating labor-power. "Present or 'future' surplus-value is appropriated from private capital by the state, in the form of taxes or loans, to pay for these expenditures." (17)

As we have already seen, the products produced for the government do not function as commodities. They are purchased with revenue, which, in reality, consists of surplus-value already produced (or to be produced, in the case of deficit spending) by private capital. State expenditures, therefore, consume part of the social surplus-value and do not directly contribute to its creation. Yaffe writes:

The individual private capitalist producing for the state quite clearly gets the average rate of profit and "surplus-value" is produced by his exploited workers. But from the standpoint of society, of total social capital, "unproductive" state expenditure constitutes a "drain" of capital. So the profit acquired by the individual capitalist producing for the state comes to him only out of a redistribution of the already produced surplus-value (18).

Having examined the nature and financing of government-induced production, we must move to an examination of the relationship of state-induced production to private capital production and accumulation. Mattick argues:

Generally, . . . one can speak of the division of the economy into a profit-determined private sector, and a smaller, non-profitable, public sector. The private sector must realize its profits through market transactions. The public sector operates independently of the market; though its existence and its activities affect the private sector's market relations (19).

He is quick to add that,

Although the economic role of government seems to divide the whole of the economy into a public sector and a private sector, actually there is of course just one economy, in which the government intervenes . . . (20).

We must not overlook the fact that government expenditures meet several crucial needs for private capital and the capitalist system as a whole. First of all, government-induced production does enable the utilization of

means of production that would otherwise lie idle, and the employment of workers who would be unemployed. Indeed, if government-induced production were eliminated or curtailed, widespread unemployment would occur. The government sector has grown so large that any substantial cutback in its expenditures could not be compensated for by the private sector. In fact the reason for the growth of the public sector has been the inability of the private sector to accumulate capital quickly enough to provide for relatively full employment of resources and labor-power. Hence, government expenditures have grown steadily as a percentage of GNP, and government employment has grown steadily as a percentage of total employment (21).

Government expenditures are also to create "infrastructure" for private capital, roads, airports, etc. Such activity lowers what Marx called "the cost of circulation" (22) for many individual capitalists. This helps speed up the realization of surplus-value which has been produced and may indirectly increase the amount of labor available for value and surplus-value production. However, such spending is a very small part of all government expenditures, and its net effect on private capital formation and accumulation is relatively small (23).

Mattick's Key Thesis and the Limits of the Mixed Economy

Now that we have examined the nature and financing of government-induced production, there are certain conclusions we can draw, relying on Marx's laws of capital accumulation as used by Mattick. There is no doubt that state intervention increases production and thus expands the productive apparatus, allowing the utilization of means of production which would otherwise lie idle, and the employment of workers who would otherwise be out of work. But the major purpose of capitalist production is not just the utilization of means of production and the employment of labor-power. Rather it is the creation of a mass of surplus-value adequate to ensure continued accumulation of capital, thus ensuring the reproduction of capital. Since government-induced production does not create surplus-value, it cannot alleviate the fundamental problems of capital accumulation. In Mattick's words:

While the "end-product" of capital production is an enlarged capital, the "end-product" of government-fostered production is only an enlarged production . . . and from the point of view of private enterprise, any production which the government commands, whether in the form of public works, welfare, or armaments, falls in the sphere of consumption. In effect, then, government-fostered production reverses the usual procedure of capital accumulation. Instead of expanding production at the expense of consumption, in a process where consumption increases more slowly than capital accumulates, it expands production with the help of consumption, though it is "consumption" in the form of public works and armaments (24).

Government-induced production may indeed increase the rate of profit for private capital through expenditures for infrastructure, research and development, education, manpower training programs, etc. However, the

existence of a large state sector dependent on surplus-value in order to maintain itself can only constitute an overall drain on the mass of social surplus-value. Despite this fact, there is no reason to believe that the trend of increasing government expenditures will be reversed.

The interventions themselves point to the persistence of the crisis of capital production, and the growth of government-determined production is a sure sign of the continuing decay of the private enterprise economy. To arrest this decay would mean to halt the vast expansion of government-induced production and to restore the self-expansive powers of capital production: in short, it implies a reversal of the general developmental trend of twentieth-century capitalism. As this is highly improbable, the state will be forced to extend its economic inroads into the private sector of the economy and thus threaten to become itself the vehicle for the destruction of the market economy (25).

This potential threat might not be realized in the short run because the state may initially appropriate only surplus-value which cannot be productively utilized by private capital, and thus its growth is initially but a symptom of the problems of private capital accumulation. However, the internal growth dynamic of the state sector, along with declining profitability in the private sector, will eventually lead the state to draw on funds which could have been employed profitably by private capital.

This then is the limit of the mixed economy: the point at which government expansion appropriates such a large part of social surplus-value that there is too little left for continued private capital accumulation. Thus, there can be no adequate reproduction of capital, and the whole system comes to a grinding halt. To quote Mattick again:

There must be a limit to the expansion of the non-profitable sector of the economy. When this limit is reached, deficit-financing and government-induced production as policies to counteract the social consequences of a declining rate of accumulation must come to an end. The Keynesian solution will stand exposed as a pseudo-solution, capable of postponing but not of preventing the contradictory course of capital accumulation as predicted by Marx (26).

Mattick has pointed out that bourgeois economists see the safe limit to government production at about 30% of GNP. And, indeed, as all government expenditures (including state and local as well as federal) are now around 26-27% in the United States, we are perilously close to this limit.

1. Paul Mattick, "The Permanent Crisis: Henryk Grossmann's Interpretation of Marx's Theory of Capitalist Accumulation," *International Council Correspondence*, No. 2, Nov. 1934, p. 7. Of course, in the real world this collapse is translated into a cyclical movement.

2. Karl Marx, *Grundrisse*, London 1973, p. 335-339. In other words, if necessary labour equals one fourth of the work day and the productive force doubles, the value of the capital does not double, but grows one eighth. See also David Yaffe, "The Marxian Theory of Crisis, Capital, and the State," *Bulletin of the Conference of Socialist Economists*, London, Winter 1972, pp. 25-26.

3. K. Marx, *Grundrisse*, p. 340.

4. Where, one may ask, does Marx's notion of "the tendency of the rate of profit to fall" fit into this analysis? Those who focus exclusively on this law have often been led to a subjective conception of crisis, i.e., that when profit rates become too low, capitalists will "choose" not to invest. This is not Marx's theory. Rather, the tendency of the rate of profit to fall is an expression of the increasing difficulty in raising the rate of exploitation sufficiently to satisfy the self-expansion requirements of capital as capitalism progresses. Once a situation exists in which there is inadequate surplus-value for continued accumulation, there is no choice available to the capitalists—they lack the capital to invest. They may have surplus-value they would like to invest, but it is not large enough in relation to the already accumulated capital. Grossmann termed this a crisis of *overaccumulation*.

4a. For a discussion of the similarities in the theories of the "neo-Marxists" and Keynesians, see Mario Cogoy, "Les Theories Neo-Marxistes, Marx et l'Accumulation du Capital," *Les Temps Modernes*, Sept.-Oct., 1972, pp. 396-427.

5. These categories are not meant to be pejorative in the least. One may perform labor which is quite necessary from the point of view of society, but which is not productive of surplus-value. Furthermore, these categories have no application to the problem of the development of revolutionary class consciousness. See Paul Mattick, "Division du Travail et Conscience de Classe," in *Integration Capitaliste et Rupture Ouvriere*, Paris, 1972.

6. Karl Marx, *Theories of Surplus-value*, Vol. I, Moscow 1963, p. 160.

7. *Ibid.*, p. 160.

8. *Ibid.*, p. 165. For a further discussion of productive and unproductive labor, see *Theories of Surplus-value*, Vol. I, Chapter IV, "Theories of Productive and Unproductive Labour," *Capital*, Vol. II, Ch. VI, "The Costs of Circulation;" I.I. Rubin, *Essays on Marx's Theory of Value*, Detroit, 1972, Chapter 19, "Productive Labor;" Ian Gough, "Marx's Theory of Productive and Unproductive Labour," *New Left Review*, No. 76, Nov.-Dec. 1972.

9. Paul Mattick, *Marx and Keynes: The Limits of the Mixed Economy*, Boston, 1969, p. 115.

10. Of course, the state can and does compete within private capital for means of production, labor-power, raw materials, and money capital.

11. Paul Mattick, *Critique of Marcuse*, London, Merlin, 1972, p. 16.

12. James Weinstein, *The Corporate Ideal in the Liberal State*; Gabriel Kolko, *The Triumph of Conservatism*; Robert Wiebe, *The Search for Order*.

13. Paul Sweezy and Harry Magdoff estimate that as of December 1970 approximately 25% of the labor force is either unemployed or dependent directly or indirectly on military spending. "Economic Stagnation and Stagnation of Economics," *Monthly Review*, Vol. 22, No. 11 April 1971, p. 8-9. Cf. also Michael Kidron, *Western Capitalism Since the War*, London, 1970.

14. Yaffe, *op. cit.*, pp. 45-46.

15. Mattick, *Marx and Keynes*, Chapter XIII, "The Transformation of Capitalism," pp. 128-149.

16. "But as the deficit must be covered by private production, this amounts to no more than giving with one hand what the other hand takes, even though the process is stretched out over a long period of time." Mattick, *ibid.* p. 140.

17. Yaffe, *op. cit.*, p. 46.

18. *Ibid.*, p. 46.

19. Mattick, *Marx and Keynes*, p. 151.

20. *Ibid.*, p. 153.

21. Mattick quotes from E. Ginzberg, *The Pluralistic Economy*, p. 195 (cf. *Marx and Keynes*, p. 152), "The not-for-profit sector expanded relatively rapidly in the 1930's in response to the multiple problems created by the Great Depression and very rapidly in the first half of the 1940's in response to the challenge of war. While the late 1940's saw a dynamic expansion of the profit sector, at the end of the decade the not-for-profit sector had grown relatively more over the ten-year period than the profit sector. . . . The 1950's saw more of the same: the not-for-profit sector grew much more rapidly than the profit sector. . . . It profit sector in terms of the labor force directly employed and in terms of national profit sector in terms of the labor force directly employed and in terms of the national income produced."

22. K. Marx, *Capital*, Vol. II, Chapter VI.

23. Private capital accumulation has not demonstrated any great increase since the onset of such government expenditures. Indeed, one might say that it has stagnated for the past twenty-five years. The following table from B.G. Hickman, *Investment Demand and U.S. Economic Growth* (Washington, 1965, p. 135) gives us an idea of this stagnation.

% DISTRIBUTION OF NATIONAL PRODUCTS AT BUSINESS CYCLE PEAKS

| Component | 1948 | 1953 | 1957 | 1960 | 1963 |
|-----------------------------------|-------|-------|-------|-------|-------|
| Govt. Purchases | 13.3 | 22.7 | 19.5 | 19.8 | 21.4 |
| Gross Private Domestic Investment | 16.6 | 13.8 | 14.9 | 14.3 | 14.1 |
| Personal Consumption | 68.7 | 63.7 | 64.4 | 65.3 | 63.8 |
| Net Exports | 1.3 | 0.1 | 1.1 | 0.6 | 0.7 |
| <i>Total</i> | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Since 1963, Gross Private Domestic Investment as a percentage of GNP has hovered around 14-15%, according to data in *Statistical Abstract*.

24. Mattick, *Marx and Keynes*, p. 118.

25. *Ibid.*, p. 150.

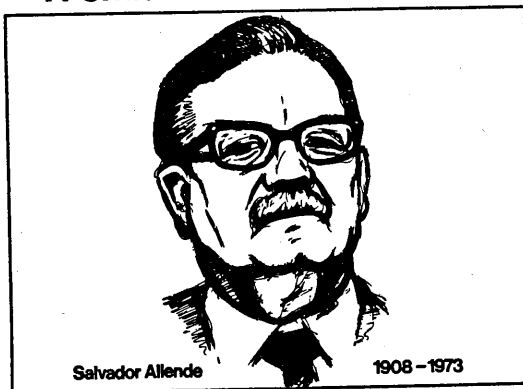
26. *Ibid.*, p. 163.

*Peter Rachleff was a member of Root & Branch, a small group in Cambridge which printed a magazine and pamphlet series, and is a co-editor of *Root and Branch: The Rise of the Workers Movement* (Fawcett, 1975). He is presently a graduate student in American Labor History at the University of Pittsburgh, and may be contacted at 1156 Portland St., Pgh., Pa. 15206. This essay is an abridged and totally revised version of an unpublished manuscript, "Marxism and Council Communism."

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