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The Capital-Labor Relation: Contemporary Character and Prospects for Change

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I. Introduction

Frederick Engels wrote in *Socialism: Utopian and Scientific* that the contradiction between socialized production by labor on the one hand and the private appropriation of the product by capital on the other hand contains "*the germ of the whole of the social antagonisms of today*" (Engels, 1978, p. 704 -- italics in original). He went on to note that "*The contradiction between socialised production and capitalistic appropriation manifested itself as the antagonism of proletariat and bourgeoisie*" (p. 705 -- italics in original). That is, the relation between labor and capital, and the class conflict between the two, constitute the fundamental contradiction of capitalism. While the form of capitalism has changed in various ways during the 130 years since those words were first written, Engel's claim remains true for contemporary capitalism.

According to the Marxist theory of value and surplus value, the capitalist employs labor-power to create a value greater than the value of that labor-power. The rate of surplus value depends on the relation among three underlying variables: the length of the workday, the living standard of the working class, and the productivity of labor (the latter two determine the value of labor-power). Class struggle affects all of the above three determinants of the rate of surplus value.¹ Hence, the particular features of the capital-labor relation and the state of class struggle are key determinants of the rate of surplus value at any time and place.²

The character of the capital-labor relation forms a basic aspect of each institutional form of capitalism. Historically capitalism has taken different institutional forms at different times and in different locations. Both Marx and Lenin wrote about the changing institutional form of capitalism.³ In recent times the social structure of accumulation theory has analyzed the changing forms of capitalism based on the ways in which a set of

1. It is not difficult to see that class struggle affects the length of the workday and workers' living standard, but it also affects the productivity of labor in various direct and indirect ways.

2. In neoclassical theory class struggle is irrelevant to the determination of wages and profits, which are viewed as similar returns to labor and capital for the marginal productivity of the factor of production supplied and also as compensation for the sacrifice of each in supplying its factor to production.

3. Marx (1887, ch. 13-15) described the stages in the evolution of the labor process, and Lenin (1939) analyzed the imperialist stage of capitalism.

institutions affects the process of capital accumulation, through its effect on both the rate of profit and the stability and predictability of profits (Gordon *et al.*, 1982; Kotz *et al.*, 1994).

In this paper, it is argued that the two major institutional forms of capitalism which have predominated during the past sixty years of capitalist history can be understood as alternative ways of structuring the capital-labor relationship and the class struggle.¹ The analysis will mainly draw on the history of institutional change in the U.S. during this period, although reference will also be made to other industrialized capitalist countries. Following this introductory section, section 2 examines the "regulationist" institutional structure that predominated in capitalism for about 25 years following World War II. Section 3 considers the neoliberal institutional structure since around 1980. Section 4 concerns prospects for the future.

II. Capital-Labor Compromise, 1948-73

A specific institutional structure of capitalism emerged after World War II in the industrialized capitalist countries, with related international institutions as well. This institutional structure, or social structure of accumulation (SSA), has been described in detail in a number of works, including Gordon *et al.* (1982, ch. 5) and Kotz *et al.* (1994, p. 68). In the SSA literature, the postwar SSA is usually described as a set of institutions affecting state-economy relations, capital-labor relations, capital-capital relations (affecting the form of competition), and a new dominant ideology. In all of the major industrialized capitalist countries during that period, the state actively regulated the economy in various ways, competition among capitalists tended to be co-respective rather than unrestrained and cut-throat, and the dominant ideology endorsed capital-labor cooperation, an active state, and "civilized" competition. However, it can be argued that the central feature of that SSA was the relatively restrained and carefully regulated form of class struggle between labor and capital.

In the U.S. case, labor had become very strong during the depression years of the 1930s and the war years in the first half of the 1940s. The trade union movement grew very rapidly during that period, as millions of industrial workers joined trade unions for the first time. During World War II the trade unions exercised great restraint, but immediately after the war a wave of militant strikes and other labor protests broke out. Communists and Socialists occupied many leadership positions in the new trade unions. In response to labor's postwar offensive, big business and its allies were able bring about a shift to the right in U.S. politics. Stoking fears of the newly strengthened socialist camp, the right wing succeeded in shifting the public mood against militant trade unionism. Congress passed new labor legislation which limited the trade unions' power and forced the expulsion of

1. A similar analysis of social structures of accumulation is found in Wolfson (2003).

many left-wing leaders from the trade union movement.

From this situation around 1948 there developed a capital-labor compromise, between the more moderate wing of the trade union leadership and the more far-seeing big business officials. With labor's more radical and militant wing having been marginalized, most of big capital informally agreed to engage in collective bargaining with the trade unions. On their side, the unions agreed to limit bargaining to issues of wages and working conditions and accepted the responsibility to prevent strikes during what became the standard 3-year labor contract. This capital-labor compromise meant regular wage increases for labor, while for capital it assured continued control of the production process as well as a measure of stability and predictability regarding labor costs. The class struggle did not disappear. However, it was channeled by the new institutions into forms that were relatively nondisruptive for capital.

The new capital-labor relation, based on compromise between the two classes, was the centerpiece of the postwar SSA. This took different forms in different countries. In some European countries, the trade unions and labor parties played a larger role than in the U.S., constructing a social democratic form of capitalism. However, there were many similarities among the different national versions of the post-war SSA, all based on capital-labor compromise. A key component of the post-war SSA was the rise of a "welfare state," that is, a set of state social programs that benefitted the working class. While this was more developed in European social democracies than in the US, it also arose in the US case. Such programs can be viewed as providing a "social wage," which supplements the wage received directly from the employer.

As a result of the institutions that made up this capital-labor compromise, the pattern of capital accumulation that characterized this period included relatively rapid growth in real wages. In the US, the real hourly wage of production workers rose at 2.2% per year during 1948-73, while labor productivity rose only slightly faster, at 2.4% per year.¹ This implies that labor was sharing more-or-less equally with capital in the increases in productivity that occurred during this period.

Despite the relative strength of the working class during that period, the quarter-century following World War II is often called the "Golden Age" of capitalism, because it produced, by many measures, the best economic performance of any period for which data are available. For example, in the USA the growth rate of GDP during 1948-73 was 3.94% per year, the fastest of any long period for which data are available (U.S. Bureau

1. The two growth rates cited are from *Economic Report of the President 1988*, p. 298, 300. Below we cite a slightly different figure for labor productivity growth during that period, of 2.77% per year, when the object is to compare labor productivity growth during 1948-73 with the rate for 1979-2000. The higher rate for 1948-73 was due to a recent revision by the Bureau of Labor Statistics in the series for labor productivity growth. However, the earlier series for labor productivity growth is the appropriate one to use for comparison to the rate of wage growth during 1948-73.

of Economic Analysis, 2007). The growth rate of labor productivity cited above is also relatively high by historical comparison. High and rapidly rising real wages have a tendency to promote rapid economic progress by encouraging the introduction of new labor-saving technologies, as well as providing a demand stimulus to capitalist production.

III. Capitalist Dominance, 1979 to Today

The postwar SSA began to weaken during 1967-73, and the period 1973-79 was one of transition to a new SSA. Around 1979 a neoliberal SSA emerged, initially in the UK and USA. During the succeeding years the neoliberal SSA spread to many other countries. The U.S. Government was able to shift the main global economic institutions toward neoliberalism in the 1980s, although a neoliberal SSA did not take hold domestically in all of the industrialized capitalist countries. Some of the European social democracies have moved only a small distance toward the neoliberal model.

The neoliberal SSA has involved a new set of institutions affecting all four relations mentioned above: capital-labor relations, state-economy relations, capital-capital relations, and the dominant ideology. The state significantly pulled back from regulation of the economy. Competition among capitalists shifted from co-respective behavior to unrestrained rivalry. A free-market, anti-state ideology replaced the previous dominant ideology.

However, the central change has been in the capital-labor relation, which was transformed from one of compromise to full capitalist domination of labor. Changes in the other three relations can be understood as means to attain capitalist dominance over labor. Privatization and deregulation greatly weakened the bargaining power of the working class, as did the elimination of, and cutbacks in, social programs. Unrestrained competition pressed employers to drive down wages and extend work hours. In the UK and the US, the start of the neoliberal era was marked by a state-led attack on a trade union, the miners' union in the UK and the air traffic controllers' union in the USA. In the US, most of big capital abandoned its previous acceptance of trade unions and used every available means to weaken unions and abolish them where possible. Neoliberal ideology insisted that the weakening of trade unions and the elimination of social programs were necessary for economic progress.

The effects of the neoliberal SSA can be seen clearly in data on the US labor market during the neoliberal era. From 1979-2000 (through the latest business cycle peak year), production workers' real hourly wage actually declined, by 4.4%. During that period labor productivity continued to rise, by 43% over the period (*Economic Report of the President 2007*, Tables B-47 and B-49). Thus, all of the benefit of rising productivity growth in the US during the neoliberal era has gone to capital. In the US in 2005 the average pay of the

chief executive officer (CEO) of a large corporation was 411 times that of the average worker, an almost ten-fold increase from 1982, when CEO's were paid 42 times as much as the average worker (AFL-CIO, 2007). Recent data show that the share of income going to the top 1% in the U.S. has reached its highest level since 1929.

However, the neoliberal SSA has not produced the promised improvement in aggregate economic performance. GDP growth in the US during 1979-2000 was 3.10% per year, compared to 3.94% per year during the previous SSA (US Bureau of Economic Analysis, 2007).¹ Labor productivity growth was 1.73% per year in 1979-2000; using comparable data, labor productivity growth averaged 2.77% per year during 1948-1973 (*Economic Report of the President 2007*, Table B-49).²

IV. Prospects for the Future

According to the Marxist view, the contradictory nature of the capital-labor relation cannot be permanently overcome within the capitalist system. An SSA can effectively regulate the capital-labor relation in a particular way for a period of time, but eventually the contradictory character of that relation reasserts itself and the SSA ceases to operate effectively. That sets the stage for a transition in the institutional form of capitalism.

Thus, the post-World War II SSA, based on capital-labor compromise, may have produced relatively rapid economic progress for a period of time, but after some twenty-five years its contradictions sharpened, leading to its decline and, in many capitalist countries, its replacement by a neoliberal SSA. Most analysts believe the key contradiction of the postwar SSA was the relatively strong position of the working class, which eventually produced problems for capital and led to a declining rate of profit and growing economic instability.³

The neoliberal SSA also has contradictions, although they are different from those of the previous SSA. One can cite three important contradictions of the neoliberal SSA. First, the lack of bargaining power of the working class may be good for capital by bringing a high rate of surplus value, but it simultaneously creates a potential realization problem. That is, with profits rising rapidly while real wages stagnate or decline, a problem arises of how to sell the rising output during an economic expansion. The problem of overproduction always looms in a neoliberal SSA, and this tends to grow more severe over time (Kotz, 2008).

1. From 1979 to 2006 the GDP growth rate was 2.97% per year.

2. For this comparison, the latest (revised) data series from the US Bureau of Labor Statistics was used, to get an appropriate comparison. In these data, labor productivity growth during 1948-73 was somewhat faster, at 2.77% per year, than in the earlier data cited, of 2.4% per year. For the entire neoliberal era to date, 1979-2006, labor productivity growth was 1.97% per year.

3. For example, see Bowles *et al.*, 1990.

Second, the growing inequality in a neoliberal SSA, combined with the weak regulation of the financial sector, tends to set off speculative bubbles in various assets, such as securities and land. This can promote rapid economic expansion for a time, but it creates the possibility of a severe financial crisis.

Third, as Mao Zedong pointed out, "Where there is oppression, there is resistance." The high rate of exploitation of the working class in a neoliberal SSA tends eventually to provoke resistance in various forms. The threat of intensifying class conflict creates instability that can undermine the neoliberal SSA.

The neoliberal SSA has now been in existence for more than twenty-five years. A recent paper (Kotz, 2008) argues that, at least in the US, the contradictions of neoliberalism may be sharpening sufficiently that neoliberalism may not be able to survive much longer. While transition periods are difficult to foresee in advance, there are some signs that we may be entering such a period on a world scale. If that is the case, then there may be a prolonged period of crisis and instability, followed by the emergence of a new institutional form of capitalism that would replace the neoliberal SSA. If a new institutional form of capitalism does replace neoliberalism, the nature of that new institutional form cannot be determined in advance but depends on the course of political struggles among various classes, class segments, and groups.

However, the crisis period of an SSA does not necessarily lead to a new institutional form of capitalism. Since 1980 the neoliberal SSA has brought worsening conditions for the majority, which has tended to undermine support for capitalism itself. The neoliberal era contains indications that capitalism is now holding back human progress rather than promoting it. If neoliberal capitalism is now entering a period of crisis, the possibility exists that it will give way, not to another institutional form of capitalism, but to new efforts to go beyond capitalism and build a socialist system. Indeed, we have recently seen new attempts to build socialism in South America.

Marxist political economists should not limit their activities solely to the analysis of capitalism and how it evolves. If our analysis suggests that new possibilities may be opening up to challenge capitalism, we should act on that analysis. We should be involved in the struggle over the future direction of the global political economy, contributing toward the eventual replacement of capitalism by socialism, which is the only system capable of fully meeting human needs.

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