

Is there a Future for Market Capitalism?

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As recently as the summer of 2008, the question that entitles this paper would have seemed peculiar at best. However, the events of 2008-2009, and the responses of public policy to those events, have given the question some new interest. Are we indeed – as an announcer on CNBC, the financial news cable network, remarked in September of 2008 – “all socialists now?”

There are two well-known theories of the self-destruction of capitalism, one due to Marx and Engels and one to Schumpeter. According to Marx and Engels¹, capitalism generates recurrent crises of increasing severity. At the same time, the working class is progressively impoverished, radicalized and regimented in factory work, until the capitalist society, weakened by the crises, is ripe to be overcome by a workers’ rebellion to establish a socialist society. According to Schumpeter, capitalism is instead destroyed by its success. (Schumpeter 1950, esp. Ch. XIV.) Rising standards of living make people less willing to accept the risks inherent in capitalism. This also erodes the cultural basis of capitalism, leading to domination of parliaments and other democratic institutions by social-democratic parties. The governments formed thus would establish socialism.

Both of these summaries are, of course, so brief and abstract as to be caricatures, at best, of much richer and more detailed theories. Nevertheless, there is enough detail

¹ While the three volumes of *Capital* and other works by both authors elaborate on this theory, the *Communist Manifesto* (1987) remains a reliable summary statement and is adequate for the purposes of this paper.

here to observe that neither theory fits the facts of the latter twentieth century very well. The Marxist theory has proved counterfactual in that anticapitalist revolutions have not occurred in more advanced capitalist countries in economic crises but in less developed countries and under conditions of defeat in war or colonial dominance. The Schumpeterian theory seems equally counterfactual in that capitalism remains in place despite the successes of social democracy in some countries, and in the latter twentieth century, privatization seems to have reinforced capitalism, sometimes under the leadership of social democratic or labor parties. Yet there are aspects of both theories that do fit some of the facts, and that might contribute to our understanding of the crisis of 2008. This paper will summarize a theory of capitalist self-destruction that seems to agree *prima facie* with the evidence of recent economic history.

1. Recurrent Crises

For the Marxist view, recurrent crises play a central role in the self-destruction of capitalism. Critics have observed that Marx never seems to adopt any particular theory of “business cycles,” sometimes seeming to think along the lines of overproduction, sometimes underconsumption, sometimes other, more specific mechanisms of crises. (Compare, e.g. Ramirez and references there.) It probably is true that Marx’ theory does not specify a particular mechanism of crisis, and it is not clear that it would be a better theory if it did. One might suggest that market capitalism is a highly complex system, and that while the tendency to recurrent crises is endemic to market capitalism, different crises may reflect different “mechanisms” of crisis. It is clear, though, that for Marx the tendency toward crisis is connected with tendencies toward decreasing profit rates and

toward the impoverishment of the working class, and here the facts (with respect to more-developed economies, at least) do not clearly agree with Marx' theory. With respect to the impoverishment of the working class, in particular, the facts seem far more mixed. In some periods and places the standard of living of the working class has risen, and even when it has not risen (as seems to be the case in the United States since 1970) it has not systematically declined. Moreover, pensions and retirement have become much more common for the working class. Insecure as corporate pensions have proved to be in the face of corporate bankruptcies and fraud, and problematic as state pensions are, many working people can expect to enjoy a satisfactory retirement. In Marx' time, no such thing was true. In itself, this does not invalidate the Marxist analysis, which would recognize the effects of labor unions and government measures as offsets to the inherent tendency of market capitalism to impoverish the workers; but, nevertheless, the pervasiveness of higher standards of living and retirement in more advanced capitalist countries is difficult to reconcile with the idea that market capitalism, per se, impoverishes the working class. In any case, it can hardly be said in the twenty-first century that the working class "has nothing to lose but its chains." The working class has a great deal to lose, and to that extent, is hardly likely to play the role as a revolutionary class that Marx assigned to it. As to the declining rate of profit, it is a little more difficult to assess the meaning and consequences of such a tendency in a world in which there are many rates of interest and the "rate" of corporate profit may reflect subjective valuations of the corporation's assets. The best we can say is that the defense of profit rates is always a key objective of capitalist political economy.

Schumpeter's ideas may be more helpful. Schumpeter did not (of course) use the language of crises but rather that of "business cycles," with the implication that, if only we are patient enough, there will eventually be a recovery. This assumption may be defended as consistent with experience: all past recessions (well, almost all²) have been followed by "cyclical" recoveries. But this reasoning is flawed, as can be shown by an application of the same reasoning to another process. In the past, whenever I have been ill or injured, I have recovered. Can I conclude from this experience that I will live forever? Of course you cannot (an advocate of business cycle theory might respond) because we have ample evidence that the lifespan of human beings is limited. We have no such evidence that the lifespan of socio-economic systems is limited. And indeed that is true, but it is also precisely the question at issue: does the lifespan of market capitalism have an inherent limit? And the language of business cycles begs the question, and ought to be avoided for that reason.

That said, Schumpeter did address the question squarely in *Capitalism, Socialism, and Democracy* (1950), and in that work, business cycles do play a role. Business cycles are one of the sources of uncertainty that is inherent to capitalism, which is supposed to motivate the increasingly dominant social-democratic parties to abolish capitalism. It is here that the Schumpeter of *Capitalism, Socialism, and Democracy* fails as an empirical predictor. We might turn instead to the Schumpeter (1934) of the *Theory of Economic Development*. In this (far more Austrian, earlier) work, we recall, "creative destruction" plays a key role. (See esp. p. 69.) "Creative destruction" occurs when new combinations of higher-order goods (that is, new business organizations) enter the market as

² It is not clear that there was ever a cyclical recovery from the Great Depression!

innovations and compete with older forms, ultimately destroying the latter. This is supposed to be “creative” destruction on the supposition that the success of the new business organizations demonstrates that they better meet the needs and wants of the market.³ But needs this be true? Is “creative destruction” really creative?

Some ideas from cooperative game theory can help us to address this question. In cooperative (as distinct from noncooperative) game theory, groups of “players in the game” can form effective commitments to choose common strategies. (McCain, 2009; Peleg and Südhölder, e.g.) Such a group is conventionally called a “coalition.” This is not a normative conception, at least in principle: the group may obtain its mutual benefit by “ganging up” on other members, and cartels and criminal conspiracies can be correctly described as cooperative coalitions. So can business firms. Much of the literature in cooperative game theory makes powerful simplifying assumptions that in turn lead to sweeping theorems, but unfortunately, the same simplifying assumptions limit the applicability of the theory. (Peleg and Südhölder, e.g.) However, the concepts may be useful beyond these simplifying assumptions.

Suppose the “players in the game” are partitioned into a number of distinct coalitions, some of which (“singleton coalitions”) may have only one member. If such a partition is taken as given, it is called a “coalition structure.” (Aumann and Dreze.) To complete the description of the state of the game in this framework, we must specify the

³ This is the common perception of “creative destruction” and is given here because it is particularly unfavorable to the case being developed in this paper. Actually, Schumpeter is a little cagier than this discussion suggests. His list of forms of successful innovations at p. 66 includes monopolization and colonial conquests, which are not superior in meeting “the needs and wants of the marketplace” in any inclusive sense. Written in German in 1911, *The Theory of Economic Development* naturally does not address externalities, but a more modern list would have to include “the creation of a new externality” among the forms of successful innovation.

payments made to individuals in the various coalitions, by which they share out the benefits of their joint action. This list of payments may be called an *imputation* or an *allocation*. A pure capitalist system could be described as a family of coalition structures in which suppliers of labor and retail buyers participate as singletons, but which may include coalitions of two or more owners of nonhuman resources (capital). These latter coalitions are business firms, or, equivalently, Schumpeter's "combinations." The business firms interact noncooperatively⁴ with the suppliers of labor and the retail consumers. Suppose a new coalition, not a part of the existing coalition structure, is proposed. This is called a deviation. Suppose in addition that the members of the deviating coalition can credibly expect that at least some of them will do better, and none worse, than they do in the current coalition structure, in whatever coalitions they currently participate in. Then the current coalition structure and its imputation are *dominated* (or, pace McCain 2009, *disrupted*) through the deviating coalition. Suppose, however that we have a coalition structure and corresponding imputation that is not dominated by any deviating coalition that might be proposed. Then (extending the usual meaning somewhat) we might say that the undominated coalition structure and imputation are elements of the *core* of the underlying game⁵.

The core then would correspond roughly to the stationary state in Schumpeter (1934, see esp. Ch. 1, pp. 8-9) a state of business organization and pricing that would be

⁴ An exchange may be thought of as a cooperative arrangement, but this interpretation would require us to treat the network of exchange as a "grand coalition" of everyone in the market economy, a view that would suppress some distinctions that are crucial for an understanding of capitalism. Exchange can also be thought of as a noncooperative offer-and-response game along Bertrand, Walrasian or Stackelberg lines, and this view is adopted here. For a slightly more formal discussion, see McCain, 2009, Ch. 14.

⁵ In terms of my 2009 book, strictly speaking, this is the naïve core.

repeated routinely in the absence of any innovation. The question we now need to address is whether any such state needs exist or not. And the answer is no. It is a familiar idea of cooperative game theory (even with the usual simplifying assumptions) that there may be no imputations that meet the stability conditions required for inclusion in the core. It is quite possible that every coalition structure and imputation is dominated, even in the absence of any innovation. Such a game is known as an empty-core game.

For those who have not studied cooperative game theory, this may be counterintuitive, and so merits illustration with a very small-scale example. We will suppose that there are three identical firms and three techniques of production. Technique *a* can be undertaken by a single firm and produces one net unit of wealth. Technique *b* requires the resources of two firms (via a merger) but will produce 5 net units of wealth. Technique *c* requires the resources of all three firms and will produce 7 net units of wealth. These techniques are known ab initio and there is no technological innovation. Thus the value⁶ of any singleton coalition is 1, of any two-firm (merger) coalition is 5, and of the grand coalition of all three firms merged together is 7. (This is all consistent with the usual simplifying assumptions of cooperative game theory.) Then suppose that the three firms operate independently as “singleton coalitions,” each retaining payoffs of 1. Clearly this coalition structure and imputation are dominated by any two-firm merger and also by the grand coalition or merger of all three firms. Now consider a coalition structure with a two-firm coalition (merger) and the third firm operating independently. The two in the coalition can divide 5 and the independent retains 1. This coalition structure is dominated by the grand coalition, a merger of all three firms, which increases

⁶ The reader can add as many zeros as may seem “realistic.”

total wealth from $5+1=6$ to 7, with the difference divided among the members of the former coalition and the newby so that all are better off. Thus any two-and-one coalition structure is dominated by the grand coalition, the merger of all three firms. Now consider the grand coalition. No matter how its total product of seven is divided, there will be two of the three agents whose payoff totals less than 5. (For each pair to be paid a total of 5 would require a total of 7.5, distributed in equal shares, and the grand coalition produces only 7.) Thus the grand coalition will be dominated by a secession of those two to produce 5 as a two-person coalition. By enumeration all coalition structures are dominated, so there is no coalition structure and imputation that is stable for this game.

The actual economy is vastly more complex. Some conditions that tend to produce empty-core games in production and markets are economies of scale and complementarity. There is good reason to think that these are characteristic of modern production under market capitalism and increasingly so. Indeed, the capacity of capitalism to exploit possible economies of scale and complementarities would seem to be a main source of its vigor. But this also suggests that it is very likely that the complex modern market capitalist economy defines an empty core game.⁷ “Market liberalization,” by making it easier to form new, dominating coalitions, would also tend to make an empty core all the more likely.

⁷ The idea that a null core can be interpreted as an empirical prediction of market instability is due to Telser. However (1) Telser applies it on an industry-by-industry basis, e.g. to airlines and cinema distribution industries, and (2) while Telser mentions, in passing, the possibility of government regulation as a remedy, he is primarily interested in private arrangements to restrict competition within the private sector, and does not mention any macroeconomic application of the idea. Objectionable or anticapitalist implications of the idea are attributable to the author.

What would this mean in practice? If it is always possible and indeed easy to profit by forming new dominating coalitions, then we would expect to see this happen often. This needs not make anyone except the members of the new dominating coalition better off and might reduce total product in some cases (as the transition from the grand coalition to a two-and-one structure in the example). The formation of new dominating coalitions will usually lead to the destruction of some old ones – not creative destruction but mere destructive destruction. Indeed, even those who benefit from the formation of a new dominating coalition must expect that they will be extinguished in their turn, a circumstance that may lead them to shorten their horizons and focus on short-term payoffs. Thus, in place of Schumpeter's circular flow, we find a constant churning destruction of old enterprises and creation of new ones, with increasing total product in some cases and decreasing total product in others, but with no net trend of productivity or welfare. This is not to say that there is no creative destruction, but only that we need not presuppose creativity to explain destruction.

The decline of newspapers in recent years is an interesting test case. (Shin, 2005; Arango, 2009; Fitzgerald, 2009.) On its face it is a clear case of creative destruction. A new technology, the world-wide web, has enabled new business plans for making access to news content possible and profiting from advertising, and competition from businesses organized around these innovations has deprived newspapers of the major revenue sources they relied on. However, it has been widely observed that the new business organizations depend largely on newspapers for the content they supply. While no-one knows as yet, it is not clear that the new online businesses can remain profitable without content supplied by newspapers, or will fail as newspapers largely fail. Thus, although

based on a technological innovation, the online news access businesses provide a good example of a dominating coalition that is not itself stable.

But would this instability lead to crises? And is there any reason to think that the crises will tend to grow more severe? Indeed we are likely to observe a certain amount of “churning” destruction of businesses even in good times, but perhaps there are reasons to expect them to be concentrated in time, during periods that (therefore) will be times of crisis. The major reason is the increasing complementarity of different lines of production. Because of this, the disruption of one line of business tends to reduce the markets or interfere with the supplies (or finance) to another, so that failures occur in epidemics.

Here, then, is our explanation of crises. First, the growth of capitalism leads increasingly to the adoption of methods involving increasing returns to scale and complementarity, making it increasingly likely that capitalism will be instantiated as an empty core game. This leads to some creative destruction of business organizations and to some routine, noncreative destruction as well, but via complementarity, to epidemics of noncreative business failures as well. As economies of scale (dominance by corporate business) and complementarity grow more important and more pervasive, the severity of these crises increases.

2. Capitalism and Democracy

Disputes over the relation of economic and political systems tend to degenerate into disputes over the definition of democracy. Disputes over definition are inherently unproductive, so for the purposes of this section we will adopt the definition of

democracy from Schumpeter (1950, Ch. XXII). Schumpeter speaks of a democratic political system as one in which the personnel of government are determined by free competition among politicians for the vote of the citizens. Schumpeter's definition seems to correspond with the most common use of the term in present-day capitalist societies.

Marx says that, in a capitalist society, government is simply the executive committee of the Bourgeoisie: "The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie." (Marx and Engels, 1848) It is conventional in Marxist thinking to refer to the capitalist class as the "ruling class." While this was true of the most modern states at the time Marx and Engels wrote the *Communist Manifesto*, it is an oversimplification and misses one of the most important points that distinguishes Capitalism from Feudal and still earlier class societies. The landed Aristocracy of a feudal society is the ruling class in a very literal sense: it is the lord and his retainers who turn out to fight to suppress rebellion, who suppress banditry or expel squatters, who maintain by arms whatever order there is. The Lord, or his overlord, also administers justice, with the power of pit and gallows over the peasants. Similarly, in an Ancient city the citizens or the ritually pure turn out under arms to maintain the rule of the city over the countryside, and in a rural tributary society, the superior tribe collect and enforce tribute. The capitalist class is not a ruling class in quite this same sense. On the one hand, the individual capitalist commands labor within his enterprise, exercising probably a more detailed control over production by the subordinate class than a lord over a serf, and much beyond the control of a citizen over the work of a rural producer. On the other hand, the work of government is not the work of the capitalist. The soldier in a capitalist state is a public employee, not a member of the

ruling class defending his class interests, and the policeman, the tax collector, the legislature and the executive are the same.

The capitalist wants to mind his own business, not the business of his class or of government. And it is crucial for the capitalist system that he does so. Competition among capitalists is competition for markets, on a level playing field. If some capitalists have political power, the playing field is no longer level. A capitalist invested with political power, if he is honest and loyal to the interests of his class, may neglect his own business; if not, he may use his power to enhance his business, becoming what we might call a Carlyle capitalist. Either way he is no longer simply a capitalist, but something else.

Thus the capitalist class faces something of a dilemma in its role as dominant, but not exactly ruling class. Nor can this dilemma be solved by “starving the beast” and reducing government to a minimum or “drowning it in a bathtub.” Capitalism requires a strong and vigorous centralized state, far more than Feudalism does and more, in practice if not in theory, than any Ancient society has established. That is, in order for capitalism to exist, there must be impartial enforcement of property rights and contracts, suppression of banditry and raiding, and a reasonably reliable monetary standard over a wider territory than the domain of any city-state or Feudal magnate. This requires the specialized apparatus of a modern state. It is no accident that the rise of capitalism and the rise of national states coincide.

Once the bourgeoisie dispense with the monarch, or reduce him to a figurehead, the dilemma of bourgeois rule takes center stage. Essentially the bourgeoisie have two choices. They can entrust their affairs to a strongman, a Cromwell or a Bonaparte, or they can establish a republican regime with government controlled by election.

A strongman may be a tempting option, but it has never worked very well for the capitalist class. The capitalist oligarchs who put Bonaparte in power thought that they would be able to control him, but they were mistaken. Nevertheless, Bonaparte was a rather good ruler, so far as his domestic rule was concerned. However, Bonaparte's continuing love affair with war was not healthy for European capitalism. In England Cromwell, while he lived, seems to have been a useful ruler from the bourgeois perspective, but proved irreplaceable. The state that Charles II was restored to was, in any case, a modern state with its redcoat "new model" army and a parliament that was prepared, in the Glorious Revolution of 1688, to demonstrate that the monarch was a figurehead.

The parliamentary rule established in England and that spread to other countries after Waterloo was a more satisfactory system from the bourgeois point of view. It meant that the actual work and power of government were exercised by professional politicians, who had no economic interests of their own other than re-election. What Schumpeter called political competition for election via a free vote provided an effective way of tying the political power of the government to the interests of the bourgeois class, and of reconciling differences within the class, so long as the voting franchise was limited to the bourgeoisie by means of property tests. This was the "modern state" that Marx and Engels contemplated when they wrote the *Communist Manifesto*.

However, electoral systems have something of their own dynamic. When the franchise is extended to a new group who had not had it before, the party that extends the franchise can reasonably expect that the new group will predominantly support them in the next few elections – and thus, sooner or later, the franchise is extended to include

some and eventually all workers who care to exercise it. At the same time, as Marx saw (but not quite in the way he expected in 1848) the working class did not remain powerless. Even without the franchise, strikes and other actions could influence events, and there was always the threat of outright insurrection. By the twentieth century, the extension of the franchise to adult males and then to females undoubtedly was the most reliable way of assuring government consistent with, if not altogether subservient to, capitalist interests.

This means power-sharing with the working class, but the sharing is far from equal, and still less than proportionate. Competition for the vote may be free of coercion, in what we call a democratic polity, but it is not free of money cost. “Money talks, bullshit walks.” “We have the best Congress money can buy.” “Money is the mother’s milk of politics.” And since the capitalists have the money, they remain the preponderant power in a capitalist state. To that extent, they remain something like a ruling class.

Nevertheless, it is no coincidence that the rise of parliamentary “democracy” is associated with the maturation of capitalism, and this should be recorded on the credit side of the ledger of capitalism, along with Marx’ comments that the Bourgeoisie “has given an immense development to commerce, to navigation, to communication by land, ... torn asunder the motley feudal ties that bound man to his ‘natural superiors’, ... rescued a considerable part of the population from the idiocy of rural life, ... created more massive and more colossal productive forces than have all preceding generations together.”

In summary, while democratic government is not an inevitable consequence of capitalism, it serves the class interests of capitalism better than any realistic alternative, and determines the trends of political action in modern capitalism. It has flexibly accommodated a limited degree of power-sharing with the working class, with different

limits in different countries, and this has tended to stabilize the capitalist system. It has also admitted the introduction of such institutions as central banks that do, again to a limited extent, respond to the inherent instability of capitalism. The great advantage of this system is its remarkable combination of stability and adaptability. That is an advantage to the capitalist class; some degree of power sharing is the price they pay for this remarkable combination of stability and adaptability. It is also, on the whole, in the interest of the working class. In extraordinary circumstances, when there is a broad harmony of interest between the capitalist and working classes, it is capable of rapid and large-scale action, as in times of war. Capitalist crises also produce such a harmony of interest.

3. A Crisis is a Terrible Thing to Waste

To speak of “the interests of the capitalist class” or “of the working class” is of course a simplification. Within each of these classes there are sectional interests that may conflict. Large and small capitalists, (Sweezy) and regional capitalists in different regions, may have divergent interests. Employees in different trades, regions, and nations do not have identical interests. For the Marxist thinking of the early twentieth century, the supposition was that the common interest of the working class in opposing the capitalist class would swamp all those differences of interest, but the European wars of the twentieth century (among many other historical details) seem to falsify that hope. There are also some differences of perceived interest that may not be genuine, which we may attribute to false consciousness or bounded rationality as we may prefer. Moreover, what we may call sentimental motives play a key part in routine parliamentary politics,

however fundamental economic interests may be. By “sentimental motives” I mean to include everything from racial and ethnic hatred to ethical and religious commitments, without any general positive or negative connotation. We see that for some voters, the commitment to free market economics can become a sentimental motivation! So also is nationalism. Despite all this, there are broad interests shared by each of the major classes, although these may be limited to the classes within particular national boundaries in practice.

How does this enter into the politics of crises and resulting unemployment? Some positive level of involuntary unemployment is in the broad interest of the capitalist class, since it reinforces the threat of the sack and so promotes labor discipline and limits wage demands. This is a familiar idea from efficiency wage theories (e.g. Stiglitz). Beyond some “natural rate” of unemployment, however, involuntary unemployment is simply a mass of missed opportunities for profit, and so against the broad interest of the capitalist class. It is also true that, in times of prosperity, laissez-faire is in the broad interest of the capitalist class, and in recessions, some of the political instruments of the class will persist in opposing public policies to encourage employment, whether through false consciousness or inflexibility and bounded rationality. Nevertheless, the material interest of the capitalist class in limiting unemployment to the “natural rate” will influence the balance of power in parliamentary politics. High levels of unemployment are also, of course, against the interests of the working class. With this harmony of interest, however limited and contingent, government measures to stimulate aggregate demand and employment are inevitable in economic crises that result in high levels of unemployment.

In the period after the Great Depression and World War II, these measures were largely macroeconomic – fiscal and monetary policy. Anti-Keynesian conservatives have argued from the first that these measures would result in the abolition of capitalism or in ultimate disaster. The usual Keynesian response was “in the long run we are all dead,” which doesn’t mean that the long run is longer than a human lifetime but rather that if we do not survive in the short run, long run worries are irrelevant. A more recent metaphor (which I regret that I cannot attribute) is that the cost of stabilization measures in a crisis is like the cost of opening our parachute: if the parachute does not open, the costs are irrelevant. But what if both the Keynesian and anti-Keynesian positions are right?

The most obvious danger of fiscal policy is that the public debt will increase more rapidly than the production and tax base from which interest must be paid, so that confidence in public debt disappears and fiscal stimulus is offset and swamped by rising interest rates, or, if money is printed to pay the interest and fund the debt, by hyperinflation. For the United States, the status of the dollar as an international reserve currency makes this less likely in given circumstances, but also threatens a far more pervasive disaster if the collapse is allowed to take place.

Of course, there was much more to the New Deal than macroeconomic policy, including everything from regulation of finance and social security, public entrepreneurship as in the TVA, to nationalization of gold and promotion of monopolies. This was primarily a consequence of ignorance. Nobody knew what might work to reflate the economy, so everything could be tried. This seems to have suggested the phrase that subtitles this section, and the idea that the harmony of interest created by a crisis makes

any sort of “progressive” legislative initiative possible. It is not clear that this is true in 2009.

4. Capitalist Götterdämmerung

After World War II, some economists believed that the “secular stagnation” of demand would result in a recurrence of Great Depression conditions, in the absence of continued fiscal stimulus. (See, e.g. the discussion at Schumpeter, 1950, Ch. X.) On its face this appears to have been a mistake. The latter half of the twentieth century was, on the whole, a period of prosperity. However, the war economy never really went away, and as a consequence the scope and economic impact of government spending remained larger than any long-term precedent before 1930. In the United States, the Great Society initiatives of the 1960s carried that even further, though the United States was a follower rather than a leader in this. Given a positive balanced budget multiplier, this supplied a substantial perpetual stimulus to aggregate demand. It is quite possible that secular stagnation would have been observed had government expenditure returned to the magnitudes observed before 1933. Moreover, until about 1980 the postwar period was a period of increasing inflation, which could be seen as a symptom of fiscal or monetary stimulus. It was also a period of relatively slight recessions, but accelerating inflation rendered this policy regime unsustainable in “the long run.” The regime of the 1980s eliminated accelerating inflation in the US but brought back larger-scale crises. It also precipitated the bankruptcy of savings and loan companies, whose assets included a large proportion of mortgages at 1960’s interest rates but whose costs reflected 1980’s rates.

This in turn led to a large-scale, if temporary, nationalization of savings and loan companies.

The record of nationalization was, of course, quite different on the two sides of the Atlantic. In Europe, the selective nationalization of “the commanding heights” of the capitalist economy must be recorded as a failure.⁸ In the United States, nationalization was usually avoided, and treated as temporary, in deference to the dominant free-market ideology shared by both parties. But, as Galbraith (1973) pointed out, some nationalization proved unavoidable, that is, the nationalization of the weak, without which companies “too big to fail” would indeed fail.

Companies, and especially financial companies, that are “too big to fail” are themselves products of a self-reinforcing process within modern American capitalism. The failure of mid-size corporations (perhaps as a result of destructive destruction) is often accommodated by merger with larger firms. In the case of banks, this is explicitly the policy of the monetary authorities. This in itself contributes to the growth of companies that are “too big to fail,” although in a world of increasing returns to scale it probably only accelerates a process that would take place anyway.

In the 1990’s, a turn toward “fiscal soundness” by the G. H. W. Bush and Clinton administrations produced (at first) stagnation and very weak growth, but (later) this tendency was overcome by an extraordinary surge⁹ of labor productivity growth that was to continue into the new century. This concatenation resulted in a balanced government

⁸ According to Lewis, 1969, it was not actually a socialist policy, since it did not move the economy in an equalitarian direction.

⁹ The causes of this event remain mysterious. One clue may be found in the fact that an index of the prices of capital goods in the United States declined, relative to consumer goods, beginning in the 1980’s and throughout the 1990’s. On the possible influence of such a trend on labor productivity, see McCain, 1972.

budget with declining unemployment for the first time in many years. At the same time the worldwide “savings glut” (Bernanke) emerged. But these seemingly favorable developments were rapidly reversed.

In retrospect, it seems pretty clear that the cheap capital of the “savings glut” fed the “dot-com” bubble of the late 1990’s. At the same time, the prospect of continued surpluses on government account posed the specter of – socialism! In fact, in the 1940s Lewis had argued (as against the social-democratic strategy of selective nationalization) that socialists should support a permanent government surplus, which would pay off the national debt and acquire corporate shares, gradually bringing the corporate economy into public ownership. Whether Alan Greenspan (2001) had read Lewis or not, his remarkable endorsement of the “Bush tax cuts” was based in the same premise: that permanent government surpluses would eventually lead to public acquisition of corporate shares and so to “socialism.” Thus the determination to avoid socialism contributed to the explosion of public debt in the weak recovery from the 2001 recession. The determination of the leaders of capitalism to rely only on monetary policy in the early 2000’s led to the housing bubble, which, bursting, set off the crisis of 2008. In their attempt to avoid “the N word,” that is, to avoid nationalizing failing banks, the monetary authorities allowed the crisis to worsen; and their unplanned, willy-nilly Galbraithian acquisition of bank ownership and shares in General Motors, and the President’s firing of the CEO of General Motors and reorganization of its board of directors, can only increase the uncertainty of investors as to what corporate investments may have a long term future. This uncertainty promises further stagnation of investment, and so recurrent recessions

and further rounds of Galbraithian nationalization of the weak and further ad-hoc government dictation of corporate decisions – a clear trend away from capitalism.

What we see here is a pattern: in periods of crisis, government policy initiatives are taken *in the interest of the capitalist class* that have the overall consequence of the abolition of capitalism. And this suggests an answer to the question that entitles this paper: in response to the recurrent economic crises which are a chronic consequence of capitalism, the democratic governments that are the instruments of capitalist class power will continue to gradually abolish capitalism. If this conjecture is right then the answer to the question is “no.”

In Norse myth, the “doom of the Gods,” *götterdämmerung*, would come at the end of time in the great battle between the gods of Asgard and the giants. Before that time, however, the gods must from time to time preserve their own existence by maneuvers that cost them some of their power, as when Tyr gave up his right hand to bind the wolf Fenris. At the final battle, Tyr, the sword-god, would then have to fight left-handed. In such a way, it seems, each maneuver to stave off socialism leads on to a further crisis that requires further erosion of the distinctive institutions that made early capitalism dynamic and productive.

5. Conclusion and Summary

The crisis of 2008 raised anew the question whether capitalism can be expected to persist indefinitely, or creates conditions that transform society into something other than capitalism. This essay has revisited the arguments of Marx and Schumpeter for the latter conclusion, but noted in passing that neither fits the evidence of the twentieth century

very well. However, elements of both theories contribute to an argument that does seem to fit the facts of recent decades. First, the tendency of capitalism to generate recurrent and increasingly severe crises can be defended, with the qualification that the transformation of capitalism after World War II seems to have reset the clock. It was suggested that modern capitalism is (under increasingly frequent conditions) an empty-core game, which implies a continuous competitive destruction of business organizations even in the absence of innovation. With growing complementarities and economies of scale, these destructions tend to occur in epidemics or cascades. Given the correlation of capitalism and parliamentary government (very much as described by Schumpeter in *Capitalism, Socialism and Democracy*) it is essentially inevitable that these governments will adopt measures to mitigate the crises at the cost of gradually abolishing capitalism. These measures will be adopted because they are in the interest of the dominant capitalist class. In many cases the measures that mitigate one crisis will themselves be among the causes of further crises. Galbraithian nationalization of the weak (and too big to fail) emerges as a common mitigating policy and as crises put more and more corporations into the category of the weak and too big to fail, the distinctions between corporations and government grow less and less. At just what point we leave capitalism behind, and just what state we enter, will be matters for future debate.

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