

# **Institutional Structure or Social Structure of Accumulation?**

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## **1. Introduction**

The SSA theory was first developed at the end of the 1970s and beginning of the 1980s, by such authors as David Gordon, Michael Reich, Thomas Weisskopf, Richard Edwards, and Samuel Bowles. The SSA theory asserts that smooth and rapid capital accumulation requires a well-functioning set of institutions that support it, called the SSA. Once constructed, an SSA sets off a long period of relatively rapid capital accumulation. Over time the combined system of SSA and capital accumulation process develops contradictions that undermine both the SSA and rapid accumulation. As the SSA collapses (or loses its ability to promote rapid accumulation) and stagnation sets in, a search begins for a new SSA. This is held to explain a historical pattern of long swings in capital accumulation.

Just at the time the SSA theory was itself being constructed, a new, neoliberal institutional structure (IS) was being built in much of the capitalist world, particularly in the UK and USA. The neoliberal IS, which has now persisted for more than 25 years, is clearly a structure that has conditioned the process of capital accumulation. However, the evidence suggests that it has not promoted rapid capital accumulation, either relative to the previous SSA or even relative to the period of crisis of the previous SSA during 1973-79 (see table 1). This suggests that some rethinking of the concept of an SSA is called for.

This paper argues that a strong case was never made for an SSA that is focused on promoting capital accumulation that is *rapid*. The SSA theory can be reformulated as a theory of the formation of successive institutional structures in which the focus is on the support that an IS provides for the circuit of capital, and the appropriation of surplus value that is its object, rather than support for rapid accumulation. Such a reformulation has the advantages of greater coherence, persuasiveness, and consistency with the historical record.

Section 2 of this paper considers the explanation of the SSA theory found in what is perhaps

the most influential statement of that theory, Gordon et. al. (1982). Section 3 analyzes the relation between institutions and capitalist reproduction, putting forward the concept of an IS. Section 4 argues that IS's come in two varieties, liberal and regulated, and considers the reasons for the emergence of each type. Section 5 offers concluding comments.

## **2. The Origin of the Concept of an SSA**

Chapter 2 of Gordon et. al. (1982) presents the SSA theory. In that chapter, the authors begin their analysis by implicitly defining capital accumulation in the following way:

The process of capital accumulation contains three major steps. Capitalists, in business to make profits, begin by investing their funds (money capital) in the raw materials, labor power, machinery, buildings, and other commodities needed for production. Next, they organize the labor process... Finally, by selling the products of labor, capitalists reconvert their property back to money capital (p. 23).

This account combines two different Marxist concepts, that of the circuit of capital and that of capital accumulation. In this combining of two different concepts lies one of the roots of the problematic aspect of the SSA theory.

The circuit of capital is traditionally defined as the process symbolized by M-C-C-M'. In the first step of the circuit of capital, M-C, the capitalist uses money to purchase means of production and labor power. The second step, C-C', is not an exchange but the production (or labor) process, in which new commodities are produced and surplus value is created. The third step, C'-M', represents the sale of the produced commodities for money. However, the money received by the capitalist in exchange for the final commodities is initially not money *capital*, as Gordon et. al. (1982) state, but money *revenue*, which "replaces" the value of the means of production and labor power purchased by the capitalist and also contains surplus value. The money revenue is transformed into money capital only if the capitalist throws it back into another circuit of capital by using it to again purchase means of production and labor power. As will be pointed out below, the key question for the SSA theory has to do with the conditions necessary for money revenue to be converted into capital.

Capital accumulation is normally defined in the Marxist literature as the use of surplus value to purchase additional means of production and labor power, thus enlarging the capital. In relation to the circuit of capital, capital accumulation means that the part of the money revenue representing the original money capital (M) plus at least a part of the money revenue representing surplus value (M-M') are converted into capital by being used to purchase means of production and labor power. As the quotation above shows, in their initial implicit definition of capital accumulation, Gordon et. al. (1982) combine the circuit of capital (by describing its three steps) and capital accumulation (by stating that the money received is money capital which implies that all of M' is thrown back into the circuit of capital).<sup>1</sup>

Two pages later Gordon et. al. (1982) give an explicit definition of accumulation: "We understand the capital accumulation process to be the microeconomic activity of profit making and reinvestment (p. 25)." This latter definition is closer to the traditional Marxist concept of accumulation. However, it is the former implicit definition of capital accumulation, which includes the circuit of capital, that Gordon et. al. (1982) make use of to develop the concept of an SSA. They provide an account of the various ways that each step in the circuit of capital depends on the existence of supportive institutions. For example, the first step M-C depends on "systems of natural resource supply, intermediate goods supply, and labor supply," with the latter involving such social institutions as families and schools necessary to reproduce the labor force (p. 24). Based on their implicit definition of accumulation as the circuit of capital, they proceed to define this set of institutions as a "social structure of accumulation."

After Gordon et. al. (1982) make a persuasive case that each step in the circuit of capital requires supportive institutions, which are collectively named the SSA, they state the following: "We further propose that a social structure of accumulation alternately stimulates and constrains the *pace* of capital accumulation (pp. 25-6, italics added)." That is, after a long qualitative discussion of the

ways in which institutions support the circuit of capital, they introduce a quantitative argument that an SSA affect the *rate* of accumulation -- and here they shift to the traditional Marxist meaning of capital accumulation as the expansion of capital through reinvestment of surplus value. They then turn to a discussion of the ways in which a well-working SSA will encourage productive investment, or real accumulation, by capitalists, and they argue that this provides the best explanation of long swings in capital accumulation which, they argue in an appendix, characterize capitalist history.

As the analysis proceeds, it focuses more and more on the quantitative dimension, as in the following passage: "The restoration of the possibility of *rapid* capital accumulation during an economic crisis depends on the construction of a new institutional structure (p. 32, italics added)." At the end of the chapter, in the start of the Appendix, they state that "Because this proposition [the long-swing hypothesis] plays such an important role in our analytic framework, we review in this appendix some of the evidence that leads us at least provisionally to accept the existence of long swings (pp. 41-2)." Thus, partly through an inconsistent use of the concept "capital accumulation," Gordon et. al. (1982) turn from a persuasive account of the dependence of the circuit of capital on a supportive institutional structure to a quantitative argument that this supportive institutional structure is focused on producing a rapid rate of capital accumulation.

Gordon et. al. (1982) was written by three coauthors who had somewhat different specializations and main interests. The late David Gordon was interested in macroeconomics and in long swings in particular.<sup>2</sup> Richard Edwards is an economic historian with a special interest in the labor process. Michael Reich is a labor economist. One could read the development of the SSA concept in Gordon et. al. (1982) described above as a kind of compromise, which often is necessary in coauthored works, among the interests and views of the three coauthors.

Whatever the origin of the concept of an SSA that emerged from Gordon et. al. (1982), one can argue that the leap from analysis of the necessary supportive role of institutions for the circuit of

capital, to the claim that institutions are constructed to accelerate the rate of capital accumulation, was a leap not well supported with either arguments or evidence. While a reasonable case is made in that work that the institutional framework of a capitalist system can have a large impact on the rate of accumulation, no strong case is made that the aim of increasing the rate of accumulation is the central goal that guides the construction of a new institutional structure. Neither is a good case made for the expectation that, apart from the aims of participants, each new long-enduring institutional structure will necessarily in fact promote a rapid rate of accumulation.

### **3. Institutions and Capitalism**

It is just as reasonable to argue that institutions play a central role in explaining why capital accumulation is relatively rapid in certain periods as it is to assert that institutions support the circuit of capital and appropriation of surplus value. However, the SSA theory claims more than just that institutions are an important determinant of the rate of capital accumulation. It states that each new IS supports rapid capital accumulation. There is a missing critical linking argument to connect these two claims. That is the argument that a need for rapid capital accumulation guides the process of institutional formation and change. To clarify this, consider the following logical sequence:

1. The need for rapid capital accumulation guides the process of creation of each new IS.
2. There exists a set of possible IS's that would promote rapid accumulation.
3. Therefore, each new IS is favorable for rapid capital accumulation.

Statement #2 is a reformulation of the claim that rapid accumulation occurs if and only if there is a supportive IS. While that is a reasonable claim, without statement #1 being true, statement #3 does not follow. However, it is not clear why statement #1 should be true.

The Marxist view of the individual capitalist is of an actor that aims for the maximum possible appropriation of surplus value. To appropriate surplus value at all, each step of the circuit of capital must be supported by appropriate institutions. Hence, one would expect the individual

capitalist to favor institutions that support each step in the circuit of capital. Furthermore, institutions which support a high rate of profit, or a higher one than has prevailed previously, would gain the support of the individual capitalist.

Institutions normally cannot be created by the individual capitalist. Institutions, which are social in nature, require some kind of common action for their creation and maintenance. The competitive, individualistic aspect of capitalism make cooperation among capitalists for any purpose difficult and somewhat unstable. However, history shows that capitalists are able, at least at certain times, to cooperate in creating institutions that will protect their core interests. Often they do this in alliance with other groups and classes, since larger numbers may be required to create institutions than the capitalists can muster from among themselves. Particularly if a condition arises in which institutions are failing to effectively support the circuit of capital, in which appropriation of surplus value has become difficult, in which the average rate of profit has fallen, and in which such a condition has persisted for some time, one would expect the capitalist class, or at least a large part of it, to be able to overcome the centrifugal forces generated by capitalism to work together to create institutions that will protect their core interests, which have not been served by existing institutions.

Marxism asserts that, over time, contradictions tend to bring change. An IS that works well at first to protect core capitalist interests will, over time, stop effectively doing so. In the resulting crisis, based on the foregoing argument, we would expect capitalists to eventually be able to construct, possibly with allies, a new IS that does protect their core interests.

Our main claim is that promoting *rapid* accumulation in the system as a whole is not a core interest of the individual capitalist, nor is it normally the basis on which capitalists will overcome the difficulties of cooperation to restructure social institutions. Rapid accumulation is favorable for the political stability of capitalism, since it provides a rapidly growing level of real output which can serve to ameliorate the condition of the working class and other oppressed groups, as well as

providing over time the maximum surplus value that can be used to respond to whatever threat capital might face. However, capitalism is a competitive system which normally does not place such far-sighted goals at the center of capitalists' field of vision. Normally, the prospect of being able to engage in the circuit of capital, and within that circuit to appropriate as large an amount of surplus value as possible, relative to capital invested, is what drives capital.

Capitalism does indeed display a powerful accumulation drive. That drive is one of its central features. It is doubtful whether capitalism could survive without the accumulation of capital -- it would be torn apart by conflict without an "expanding pie." However, the rate at which accumulation proceeds in the system as a whole, even given the rate of profit, is highly variable. Surplus value has many uses besides accumulation. And there is no "minimum accumulation rate" required for the reproduction of capitalism.

Consider the individual capitalist. As Gordon et. al. (1982, ch. 2) note, before the individual capitalist will plough profits back into new productive investments, there must be an ability to make a reasonably determinate calculation of what the rate of profit on such investments will be, as well as the prospect that such a determinate rate of return will be acceptably high. The alternative is to hold the surplus value in another form, typically through some type of financial investment rather than real investment, while awaiting more favorable conditions for deciding to make a real investment. At times capitalists can make high rates of return through financial and speculative investments when the expected return to productive investment is either very uncertain or low. Such a situation would not impel them to transform institutions to produce a shift from speculative/financial investments to productive investments.

This understanding of institutional creation under capitalism can explain why periodically a new IS arises in history. Each new IS supports the circuit of capital and the appropriation of surplus value. But each new IS may or may not bring a "rapid" rate of capital accumulation. The historical



link between the SSA theory and the theory of long swings should be severed. Doing so would improve the logic and persuasiveness of the theory. Of no less importance, it would enable the SSA theory to provide a basis for explaining the rise of the neoliberal IS under which we have lived for more than a quarter-century.

#### **4. Liberal and Regulationist Institutional Structures**

IS's have come in two varieties in capitalist history. One type is a liberal institutional structure (LIS) and the other a regulationist institutional structure (RIS). These two different types of IS differ along four dimensions: state-economy relations, capital-labor relations, capital-capital relations, and the character of the dominant ideology. In a LIS, the state plays a limited role in regulating economic activity, capital is on the offensive in its relation with labor and brooks no compromises, inter-capitalist competition is of the cutthroat sort, and the dominant ideology glorifies the free market. By contrast, in a RIS the state actively intervenes in economic activity, capital-labor relations are marked by an element of cooperation and compromise, inter-capitalist rivalry is co-respective and muted, and the dominant ideology warns of the dangers of unregulated market activity and heralds the contribution that government can make to economic progress.

The difference between the interventionist state of a RIS and the Laissez-Faire state of a LIS should not be exaggerated. Capitalist economic activity cannot go on without a supporting state role. After all, property is a creature of the state. However, there is a large scope for variation in the extent to which the state becomes actively involved in economic processes in a capitalist system.

A LIS has significant benefits for the capitalist class. Under a LIS, wages are driven down and the extent of inequality of income and wealth greatly increases. By contrast, in the post World War II RIS in the USA, real wages rose steadily and income and wealth inequality decreased slightly by most measures. Empirical evidence suggests that, despite the advantage of a LIS for the profit share and for the wealth of individual capitalists, LIS's are inferior for the rate of long-run capital

accumulation and economic stability (Kotz, 2003). A RIS appears to be better suited to capitalism's historical mission of rapidly developing the forces of production. Nevertheless, LIS's periodically appear in capitalist history. How can the appearance of both types of IS be explained?

Some analysts have suggested that capitalism alternates between more and less regulated forms because the excesses and contradictions of each phase sets the stage for transition to the next, opposite phase (Polanyi, 1968). The view that LIS's and RIS's naturally alternate with one another is consistent with the US historical experience. However, in my view this explanation, while having some validity, misses an important part of the reasons for the development of LIS's and RIS's.

The inherently competitive character of capitalism continually tends to pit individual capitalists against one another. A LIS provides maximum freedom for capitalists to compete. It also weakens the working class and facilitates increasing the rate of exploitation. While a RIS may have long-run advantages for capital accumulation and the stability of the system, it is difficult for the capitalist class, or any powerful segment of it, to cooperate sufficiently to create and maintain the institutions of a RIS. To do so requires that they suppress their tendency to immediately grab whatever they can from each other and from the working class. The historical record suggests that only certain historical conditions make the emergence of a RIS possible, by overcoming capitalist resistance to regulation of their normally competitive, individualistic behavior. When the historical developments that had prompted the emergence of a RIS have passed away, a capitalist system will tend to revert to a LIS.

Four kinds of historical developments have, in the past, led to the emergence of a RIS. One involves late capitalist developers. In countries that developed capitalism late, a RIS has served as a means to use state power to hasten capitalist development to the point where it was possible to compete with the established capitalist system(s). This applies to the experience of Germany and Japan in the nineteenth century and Turkey and South Korea in the twentieth, as well as China since

its transition to a market economy began after 1978.

The second historical factor promoting a RIS has been the emergence of a major political threat to the capitalist class. The Progressive Era RIS in the US, during 1900-16, stemmed partly from the growing anti-monopoly and socialist movements of that period. The post World War II RIS was partly a response to even more serious political threats, from a rival "state socialist" system after World War II and from growing socialist and communist movements. In each case, a major section of big capital decided that regulated capitalism was preferable to the possibility of no capitalism at all.

The third historical factor promoting a RIS has been a severe economic crisis. The Great Depression of the 1930s was so threatening to the survival of capitalism that it made the capitalist class willing to allow a high degree of state regulation, which they understood would promote economic stability.

The fourth historical factor promoting a RIS has been a sharp attenuation of competition at certain historical moments due to political-economic developments. The Great Merger Wave of 1898-1903 in the US, together with the emergence of bank control of large nonfinancial enterprises, suddenly created an oligopolistic market structure with controlling agents oriented toward cooperation. This created a new segment of the capitalist class -- the new finance capitalists and their allies in affiliated nonfinancial corporations -- that faced only limited competition and recognized the long-run benefits of a RIS for profitability and economic stability. After World War II, the US had a relatively stable oligopolistic structure in parts of the economy which produced a segment of big capital that appreciated the long-run benefits of a RIS.

Despite the advantages for capital accumulation and economic stability of a RIS, it appears that such formations only arise when powerful historical factors promote them. There have been relatively few effective developmental states. In each such case, some group or class in the country

concerned was able to overcome the powerful competitive forces in capitalism that resist central regulation. This role has been performed by a segment of a former feudal ruling class (Japan), by military officers (Turkey and Korea), and by Communist Party officials (China).

RIS's in mature capitalist countries have been constructed and led by a variety of groups and classes. Typically there is an alliance between a section of big capital and a part of the working class, as in the New Deal coalition in the US. Individual capitalists seem to be ill-fitted for leading such a coalition. In both the Progressive Era and post-World War II RIS periods in the U.S., a member of the extended Roosevelt family (Theodore in the first RIS and Franklin in the second) played a critical political role -- a family whose wealth came from landowning and commerce predating the rise of capitalism in the US.

It appears that, once the specific historical factors that originally gave rise to a RIS have ceased to operate, the stage is set for a shift to a LIS. The anti-monopoly and socialist movements that prompted the Progressive Era RIS declined during World War I, and the US shifted to a LIS soon thereafter, lasting through the 1920s -- despite the continuing presence of a relatively oligopolistic economic structure. It took a Great Depression, the rise of a serious challenge from state socialism, and growing socialist and communist movements around the world before a new RIS was put in place. In the 1980s a LIS emerged again as increasing global economic integration undercut the previous oligopolistic structure of US industry (Kotz, 2002), the Great Depression receded into the past, the workers' movement rapidly declined in strength, and (at the end of the decade) the threat from the alternative state socialist system disappeared. The latest LIS, commonly referred to by the name neoliberalism, still prevails today.

No IS lasts forever under capitalism. Presumably the contemporary neoliberal IS will at some point enter a period of crisis due to its own internal contradictions.<sup>3</sup> What will replace it, in the USA, other countries, and the world economy, cannot be foretold in advance.

## 5. Concluding Comments

The argument presented in this paper does not question the usefulness of the SSA theory for analyzing institutional change over time or for explaining institutional differences among countries. It does not even exclude the possibility of using the SSA theory to explain differences in the rate of capital accumulation between different periods of capitalist history. By incorporating the idea that an IS can take two different forms, a RIS or a LIS, the ability of the theory to explain different rates of accumulation in different periods would be strengthened. What the argument in this paper does question is the SSA theory's claim that every long-lasting IS in capitalism has as its central feature the promotion of a rapid rate of capital accumulation.

The analysis in this paper suggests that, for theoretical clarity, it might be desirable to replace the term "social structure of accumulation" by the term "institutional structure." However, history matters, and at times it trumps, considerations of theoretical clarity. In addition, the term IS is a relatively awkward one, with an inconvenient acronym as well. So it would probably be better to keep the established term "SSA," which has become the recognized name for a theoretical approach that has inspired a good deal of insightful economic analysis, while reinterpreting it to mean a set of institutions that forms a framework that supports the circuit of capital, the appropriation of surplus value, and the capital accumulation process. Retaining the term SSA would not be inconsistent with the elimination from the SSA theory of any connotation that each SSA is constructed with the aim of producing *rapid* capital accumulation.

To adopt this somewhat altered concept of an SSA would not only clarify the SSA theory, it would also put to rest the debate over whether neoliberalism is or is not an SSA. Under the concept of an SSA proposed in this paper, neoliberalism clearly does qualify as an SSA, despite its failure to promote a rate of capital accumulation as high as that achieved during the former regulated capitalist SSA.

**Table 1. Growth Rates of Real Gross Domestic Product for Selected Countries<sup>4</sup>**

(Annual average percentage rate of growth)

<b>Country</b>	<b>1950-73</b>	<b>1973-79</b>	<b>1979-2000</b>
France	5.0	2.8	2.1
Germany	6.0	2.4	2.1
Italy	5.6	3.5	2.0
Japan	9.2	3.5	2.7
UK	3.0	1.5	2.3
USA	4.0	3.0	3.1

Sources: OECD, 2000; US Bureau of Economic Analysis, 2000; Maddison, 1995, p. 83; World Bank World Development Indicators 2005.

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### Notes

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1. In Marxian theory, capital is value in the process of self-expansion. Upon receiving the money revenue  $M$ , the capitalist can consume the entire value, or put it under her mattress. The revenue  $M$  becomes capital only if it continues the process of self-expansion of value by being thrown back into the circuit of capital.
  2. See Gordon (1978) which was the first published writing in the SSA school.
  3. Kotz (2006) presents an argument that the neoliberal structure appears to be approaching such a crisis.
  4. In table 1 the period 1950-73 is covers that of regulated capitalism, 1973-79 is the period of crisis of regulated capitalism and efforts to construct a new institutional structure, and 1979-2000 is the neoliberal era. The last period was carried only through 2000 since that was the last business cycle peak year.