

Abstract

The Modern Predicament: Capitalism, Democracy, and the Extended Division of Labour

Maximilian C. B. Krahé

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This dissertation explores a tension between two aspects of modernity: first, since “God is dead” (Nietzsche, 2006 [1883], p. 5), hence man the source of all value, the moral order of modernity tends to valorise both freedom and equality. Democracy is thus a uniquely legitimate political order for modern societies. Second, politics in modernity must fit around an extended division of labour; a polity that fails at this will be too poor to be legitimate at home, too backwards to defend itself internationally. Since the only mechanism capable of coordinating such an extended division of labour is market exchange, politics in modernity must also fit around commercial society. The moral and material revolutions of modernity thus create pressures for social orders to be simultaneously democratic and capitalist. This is the modern predicament.

In the first part of the dissertation, I ask whether this predicament can be resolved through combining capitalism and democracy within the same social order. Does not the twentieth century show that democratic capitalism is a viable, even a powerful regime form? Is not democratic capitalism, if not the end of history, a viable social order for modernity?

No, is what I argue in Chapters 1-4. In particular, capitalism is constituted by private control over the division of labour. In ideal-typical capitalism, owners of capital decide where railroads and telecommunications lines, airports and harbours are built; how much housing is constructed, and at what rent it is let out; what crops are grown and which chemicals used in the process; which great works, expeditions, or research projects are funded; and, generally, how the

division of labour is arranged. If convincing arguments could be made to majorities that capitalists, constrained by competition, will make these decisions in the interest of all, or at least in the interest of each feasible majority, this arrangement could coexist with a democratic state. However, I show that none of the arguments for capitalism – neither the argument from freedom, nor the argument from prosperity, nor the arguments from natural right or justice – can be expected, on their merits, to be reliably convincing to broad majorities. This creates a Hobbesian dynamic: given that coercive power is a natural monopoly, and given the cumulative and cascading nature of power struggles, majorities and capitalists both have incentives to aim at non-reformist reforms, to entrench private control (or majority rule) over the division of labour, against majority rule (or private control) over it. The relationship between capitalism and democracy is thus like that of water and oil: capable of temporary mixing or metaphorical emulsion, as under the special circumstances of the post-WWII era, but tending towards separation over time.

If capitalism cannot durably be tamed through democracy, i.e. if the post-WWII coexistence of capitalism and democracy was the exception, not the rule, what about resolving the modern predicament via charging through it? Perhaps what the French call a *fuite en avant* – a flight forward – is possible, through accelerating the inner logic of modernity?

No, is what I argue in Chapters 5-8. While it exhibits real crisis tendencies, none of the canonical arguments for why capitalism (allegedly) points beyond itself succeed: neither will its economic engine unavoidably break down; nor will it fatally de-legitimize itself; nor will it necessarily destroy the political and social exoskeleton on which it depends; nor will it inevitably generate a successful revolution against itself. As far as we can know, no historical logic will

inevitably or even likely dissolve the modern predicament. Like capitalism, it cannot be consigned prospectively to the dustbin of history.

Politics in modernity therefore takes place against the backdrop of a potentially perennial problem: only democratic politics can be lastingly legitimate; but only a state whose politics fit around commercial society can last. This predicament will not solve itself through a dialectic of history or capitalism; nor through a reformist accommodation of capitalism with democracy, democracy with capitalism.

In the conclusion, I explore another possible resolution, different from the two explored in the main text: arguing that commercial closure allows markets to be separated from capitalism, I advocate for commercially closed market democracy as a potentially legitimate social order in modernity. While I cannot prove its viability, I give reasons in its support and make a case for exploring it further, both practically and theoretically. I conclude that political theorists could do worse than consider, once again, the link between economic self-sufficiency and democracy; more generally, “if modern politics cannot ignore the economy, neither should political theory” (Hont 2005, p. 2).

The Modern Predicament: Capitalism, Democracy, and the Extended Division of Labour

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Maximilian C. B. Krahe

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¹ *Geteiltes Leid ist halbes Leid, geteilte Freude ist doppelte Freude.*

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Introduction: The Modern Predicament

Capitalism, Democracy, and the Extended Division of Labour

A. Prelude

“God is dead” said Zarathustra, and spoke modernity (Nietzsche, 2006 [1883], p. 5). What Nietzsche expressed, maximally compressed, is that with divine authority dispelled and the world disenchanted, modern man must make her own morals.

Though always contested, this liberation from divine and traditional authority, “man's emergence from his self-incurred immaturity” (Kant, 1991 [1784], p. 54), yielded two lasting commandments: be ye free and be ye equal. This is the first essential fact about modernity.

More than just a moral revolution, modernity was and is a material one. Before 1800, four farmers fed five people, and the majority of those not working in agriculture were engaged in the production of essential goods and tools (Clark, 2007, p. 193). Today, in rich countries one farmer feeds 99 others, and of those 99, perhaps ten or fifteen produce tools, goods, or machines. Modernity, in addition to a moral revolution, is a revolution of productivity.

The mastery over nature behind this material revolution is at once liberating – offering the possibility of freedom from toil – and constraining: modern societies *must* be prosperous and productive, “on pain of extinction” (Marx & Engels, 2002 [1848], p. 224) from menace abroad or illegitimacy at home. This is the second essential fact about modernity.

The predicament arising from these two facts is the problem of this dissertation.

B. Modernity spells commercial society

This introduction begins by outlining the causes that lead up to the modern predicament. Next, it sketches the dissertation's main argument: *the modern predicament is a forced choice between democracy and capitalism*. After that it places the dissertation in the literature, before ending with a chapter-by-chapter summary of what is to come.

The modern predicament arises out of the two stylized facts observed in the prelude. Taking the latter first, modern societies must be prosperous. While this should be understood as a tendency rather than an iron-clad law,¹ the reasoning is straightforward: ever since the eighteenth century, changes in the technology of warfare have created a close link between a state's prosperity and its military prowess. Iron and steel, precision manufacturing, optics, chemicals, cotton and textiles, automotive industry, ship building, aeronautics, oil, nuclear energy, electronics, information technology, artificial intelligence, and so on; the technologies and industries that underpin modern prosperity are also decisive in modern war. This link is reinforced by the role of money as the "sinews of war:" where a state can quickly mobilize large funds, in particular through a national debt, it gains a significant advantage in international competition. Without prosperity at home, a modern state is exposed to menace from abroad.

In addition, ever since the industrialization of news and the rise of universal literacy in the nineteenth century (Kaestle, 1985), reliable information about living standards and lifeworlds other than those experienced first-hand has become widespread. By force of

¹ As Aristotle said, "it is a mark of the trained mind never to expect more precision in the treatment of any subject than the nature of that subject permits" (Aristotle, 2004, p. 5, 1094b24).

example, it has become impossible, in modernity, to deny that widespread prosperity is a genuine possibility. As the governments of state socialist countries experienced first hand, this generates domestic pressures to achieve high and rising prosperity. Though the constraint bends, acting neither immediately nor at quantitatively precise levels, it is nonetheless binding: states unable to order society so to generate modern levels of prosperity cannot justify themselves for long to their own population. Both for domestic and inter-state reasons, then, the possibility of prosperity is at the same time an imperative.

I now show that the imperative of prosperity translates into an imperative to become a commercial society. We know from Adam Smith (1976 [1776], Chapter 1) that prosperity depends on an extended division of labour. Regardless of whether this is a deep, transhistorical truth, no known society has every achieved high prosperity without it. I therefore assume its necessity without further argument. Thus the imperative of prosperity translates, in a first step, into an imperative to maintain an extended division of labour.

This, in a second step, necessitates that modern society be a commercial society. Anthropologists and historians have identified three paradigmatic forms of organizing a division of labour: reciprocal exchange, redistributive exchange, and market exchange. The first consists in gift exchange with expectation of reciprocity over time; the second consists in coordination of both production and distribution through a central agent, the third in price-mediated exchange, via markets, coordinating the decentralized production and consumption activities of market participants (K. Polanyi, 1944, Chapters 4, 5). All three modes are present in most societies, but the balance between them can vary dramatically,

and only market exchange—implying commercial society—can coordinate an extended division of labour.

The first, reciprocity or mutual gift exchange, is not suitable as the dominant mechanism for coordinating an extended division of labour. Due to its inherent quantitative imprecision, it has never succeeded as a model for coordinating mass production, sophisticated logistics, long supply chains, or the precise and reliable combination of many inputs. While pockets of activity in modern societies can operate on this model, as for example Wikipedia, given that modern society must sustain an extended division of labour, this mode of coordination remains a peripheral or supplemental feature.

The second, redistributive exchange, *is* capable of coordinating an extended division of labour: central planning, the modern operationalization of redistributive exchange, built and sustained industrial economies over many decades. Unlike with reciprocal exchange, the plannable nature of redistributive exchange can be used to coordinate precisely a division of labour, permitting, for example, the operation of continental-scale transport networks, universal education and healthcare, light and heavy industry, or indeed space exploration (Eichengreen, 2007, Chapter 5; Spufford, 2010).

Nevertheless, central planning is unsuitable as the heart of a modern social order. On the one hand, the necessarily centralized nature of central planning is in tension with freedom and equality, and hence the first essential fact of modernity. While this is not theoretically fatal—democratic politics is capable of squaring, to a certain extent, freedom and centralized authority, and central planning is well suited for producing material forms of equality—the historical correlation between central planning and autocratic rule is

strong and suggests that the tension is difficult to resolve, if indeed it can be resolved at all. On the other hand, and more conclusively, central planning fails because it fails to coordinate *changes* in the division of labour over time. Problems of feedback from below, the development and adoption of new production techniques, or the required shifting of raw materials between competing uses were perennial in state socialist economies. Even though central planning can be highly effective for coordinating the activities of individual corporations or even industries embedded in a wider division of labour (Phillips & Rozworski, 2019), unless there are freely moving prices to use as data in planning decisions, planning fails to deal well with change over time. Since change, whether of tastes, the availability of resources, or of technologies and techniques, is ubiquitous in a modern division of labour, central planning is not suitable to coordinate one.

This leaves the third option, market exchange. Both theoretical reflection and historical experience confirm that this mechanism is indeed capable of coordinating an extended and, crucially, changing division of labour. Unlike in reciprocity or gift exchange, prices and defined volumes of exchange provide quantitative precision. Unlike in central planning, the devolution of decision-making to individual market actors provides flexibility and adaptability over time. It is therefore capable, uniquely among the three paradigms, of coordinating both an extended and a changing division of labour. In doing so, market exchange makes it possible for societies to turn the theoretical insights of modern science into practical mastery over nature, rendering it possible for one to feed 99, instead of four feeding five (Fukuyama, 1992, Chapters 5–11).

Where the market mechanism becomes predominant and the division of labour extended, as it must of necessity in modernity, subsistence economies vanish. Self-sufficiency, formerly found at the level of the tribe, the polis, or the manor estate, now becomes a property of the market as a whole. Where a farmer feeds 99 others, both the 99 and the farmer *have* to engage in exchange, *must* come to market, to survive. In Adam Smith's words, each of us thus "lives by exchanging" and "becomes in some measure a merchant;" the result, he continues, is that "society itself grows to be what is properly called a commercial society" (Smith, 1976 [1776], p. 37, book I, chapter IV).

Insofar as both the expectations of citizens and the pressure of international competition require modern polities to maintain an extended division of labour; insofar as this can only be coordinated through market exchange; and insofar as this entails society growing into commercial society, *politics in modernity must fit around commercial society*. This observation, flowing from the second essential fact of modernity, will play a central role throughout this dissertation.

However, as will be explored in greater detail throughout, and especially in Chapter 9, the coordination of a division of labour through market exchange also causes a wide variety of ills and problems. These include, among others, high inequality and insecurity, injustice and exploitation, a deeply ambiguous transformation of relations between man and man and man and nature, and a certain corruption of our moral language and practices. While the advent of commercial society is constitutive of modernity, and while modern politics must mould itself around it, it is far from an unalloyed good.

C. Modernity also spells democracy

Returning to the first essential fact of modernity, the “death of God” and the disenchantment of the world, in virtue of it modernity *also* cries out for democracy. Where no higher source of authority is acknowledged, it becomes inherently difficult to justify relations of hierarchy and legitimate authority of some over others. The first essential fact of modernity thus implies, not with certainty but with high probability, that citizens come to see each other as free and equal. Where divine right – legitimate authority flowing down from God – is replaced by popular sovereignty – legitimate authority flowing up from the people – democracy becomes, if not an inevitable demand, then a highly likely one.

And indeed “it is a manifest fact,” Bernard Williams observed, “that some kind of democracy, participatory politics at some level, is a feature of legitimacy for the modern world” (B. Williams, 2005, p. 15). Among the nearly 200 states in the world today, only a handful openly disavow democracy.² Going further, “[i]f we take the number of people who claim to endorse democracy at face value, no regime type in the *history of mankind* has held such universal and global appeal as democracy does today” (Foa & Mounk, 2016, p. 16, italics added). The “[i]rresistible movement of democracy,” Tocqueville was thus right to say, is a second “great fact of the modern world” (de Tocqueville, 2010 [1835], p. 3).

² Without claiming comprehensiveness, I am aware only of the following five states as eschewing all claims to a democratic regime form: the Vatican, Saudi Arabia, Qatar, Oman, and the United Arab Emirates.

D. The modern predicament is having to choose between capitalism and democracy

With these two observations elaborated, we can grasp the modern predicament: in making man the source of all value, modernity points towards democracy. In necessitating that politics fit around commercial society, modernity points towards capitalism. Only democratic politics can be lastingly legitimate; but only a state whose politics fit around commercial society can last. This is the modern predicament.³

Whether this predicament is open to resolution is the question at the heart of this dissertation. The answer defended, in brief preview, is that both of the historically most prominent resolutions fail: capitalism and democracy are neither compatible, as twentieth-century reformist projects presupposed, none more so than social democracy; nor can we count on an inner dialectic or teleology of capitalism to take us past modernity (and thus past the predicament), as nineteenth and twentieth-century utopian and revolutionary projects presupposed. This does not prove that *all* attempts to resolve this predicament fail—I will outline a further attempt in the dissertation’s conclusion, the choice of democracy over capitalism at the cost of commercial closure—but for the time being, I argue that the modern predicament is best treated as a perennial problem, one that underlies, implicitly or explicitly, much of politics in modernity.

³ This modern predicament is self-consciously limited to the realm of politics. There is another modern predicament that focuses on the individual: how to lead life or make moral decisions when “God is dead,” when the answers are no longer given from above (e.g. Kierkegaard, 1987 [1843]). To fence in the scope of this dissertation, at least somewhat, I leave aside both this individual predicament, and its potential connections to the political predicament explored here. I thank David Grewal for suggesting the term “the modern predicament,” both as a framing device and as the dissertation’s title, and I acknowledge George Scialabba’s book of the same title (Scialabba, 2011), which provided inspiration.

E. The dissertation engages with four main literatures

In making this argument, I engage with four bodies of literatures in particular: first, in arguing against the compatibility of democracy and capitalism (Chapters 2-4), I speak to, and in part contradict,⁴ a long line of literature in comparative politics. This literature, explored in more detail in Chapter 1, extends from early Modernization Theory, claiming that rising prosperity would entail democracy (e.g. Lipset, 1981), to historically more specific accounts of the relationship between capitalism and democracy (e.g. B. Moore, 1966), to a recent contribution arguing that, despite much evidence to the contrary, “democracy and capitalism are in a symbiotic relationship” (Iversen & Soskice, 2019, p. 20).

Second, in arguing against the claim that capitalism necessarily tends toward its own self-destruction (Chapters 5-8), I argue against a wide variety of recent (e.g. Fraser, 2015; Fraser & Jaeggi, 2018; Streeck, 2011, 2014a, 2016; Wallerstein, Collins, Mann, Derluguian, & Calhoun, 2013) and canonical (Marx, 1992 [1867]; K. Polanyi, 1944; Schumpeter, 1942) crisis theories. Though my main foil in the relevant chapters is Wolfgang Streeck’s theory of capitalism, in large part due to its comprehensiveness, the considerations offered generalize against a wide range of other theories of capitalism.

Third, while arguing against both compatibility and self-destruction, I also argue against a third position in the literature, which conceives of the relationship between

⁴ Due to the inevitably complex nature of the questions at hand (see footnote 1 above), none of what I argue here should be understood as aiming at outright falsifications of the relevant claims from the literature. Rather, I aim to invite fresh, if sceptical, looks at them.

capitalism and democracy as being akin to a pendulum. This position has been advanced by thinkers across disciplines, from political science (Almond, 1991) to economics (De Grauwe, 2017). It mistakes, however, what have been *contingent shifts*, such as the assertion of popular sovereignty over the division of labour in the nineteen thirties and forties, or the re-assertion of private sovereignty in the nineteen seventies and eighties, as parts of a regular, pendulum-like pattern. Somewhat more orthogonally, my line of argument here also calls into doubt histories of US politics that are organized around the themes of drift and mastery (Hacker & Pierson, 2010, pp. 83–90; Lippmann, 1914; Runciman, 2013, p. xv). Speaking to both pendulum theorists and theorists of drift and mastery, I highlight the contingent nature of momentum-reversals, and contend that the simile of water and oil, developed in Chapter 2, rather than the metaphor of a pendulum, best captures the relationship between capitalism and democracy.

Finally, this dissertation contributes to a recent literature that calls for a certain re-orientation of political theory. In line with the realist turn (e.g. D’Agostino, 2018; Galston, 2010; Gaus, 2016; Shapiro, 2005), parts of the ideal versus non-ideal theory debate (e.g. Farrelly, 2007), and kindred in spirit to recent contributions in critical legal theory (Grewal & Purdy, 2014, 2017), I argue that political theory could benefit from paying closer attention to empirical considerations, and to questions of feasibility and historical context. In the language of this dissertation, much of anglophone political theory has been keenly attuned to the consequences and inner tensions of the first essential fact of modernity (“God is dead”); but if politics in modernity must also fit around an extended division of labour, as the second essential fact implies, then political theory (in modernity)

must also attend to questions of economics as well as politics, of feasibility as well as desirability.

F. Summary of the chapters

I conclude this introduction with a brief chapter by chapter overview.

Having identified the modern predicament as the pressure for modern social orders to be both democratic and capitalist, Chapter 1 begins the dissertation by exploring the history of political thought on whether or not capitalism and democracy are compatible. Starting this history in the nineteenth century, I divide it into three periods: an orthodox period from Marx until Anthony Downs (1957), in which there was widespread agreement on their incompatibility; followed by a period of counter-orthodoxy from the nineteen fifties until the turn of the millennium, in which Modernization Theorists and others argued for compatibility, if complexly so, between capitalism and democracy; in turn followed by what I label neo-orthodoxy, an incipient paradigm emerging in recent years that returns to the orthodox view of incompatibility.

With the ground cleared, in Chapter 2 I offer my own formulation of the relationship between capitalism and democracy. I begin by revising the received definition of democracy-as-elections, replacing it with a definition of democracy-as-equal-power, and then give a tri-partite definition of capitalism: private ownership in the means of production, the presence of competition, and a capitalist ethos. So defined, I then analyse their relationship in static perspective, identifying a first tension between the two. Democracy is the aggregation of social preferences with preferences weighted equally, while capitalism is the aggregation of preferences weighted according to purchasing power.

Given that there can only be one material distribution of goods and services, assets and activity, and given that the two methods tend to issue competing instructions, a latent contradiction is evident. However, this tension is inconclusive: “territorial truces” are possible, in which majorities decide to speak directly to the allocation and rules for certain assets and activities, while leaving others to be coordinated through the market. This can render democracy and capitalism compatible.

I then move from a static to a dynamic perspective: because the definitions of both democracy and capitalism include specific modes of control (popular sovereignty or private ownership of the means of production, respectively), they are inevitably defined over a range of future counterfactuals. It is when we consider these that a deeper incompatibility becomes visible: capitalism is only compatible with democracy if majorities continually support it. Else one of the two counterfactuals becomes false: where majorities and capitalists disagree, at most one of them can be in control. While there are powerful arguments that capitalists can make to convince majorities to support private control over the division of labour (in particular an argument from freedom and an argument from prosperity), upon closer analysis these are insufficient to guarantee reliable majority support. This in turn creates a Hobbesian logic of pre-emptive action, in which capitalists especially, though also partisans of democracy if they can overcome their collective action problem, will aim at non-reformist reforms to entrench private sovereignty (or majority rule) over the division of labour against majority rule (or private sovereignty). Finally, I claim, but not yet prove, that there are no necessary countervailing forces that might cause a renewed emulsion, or a return-swing of the pendulum, when either capitalism or

democracy rise to the top. The relationship between capitalism and democracy is therefore best described as like that of water and oil: special circumstances can create temporary coexistence, a metaphorical emulsion, but over time the two tend to separate out from one another.

In Chapter 3, I take the reader on a short excursion, exploring three issues that emerge from the theory developed in Chapter 2. First, I tackle a prominent argument from public choice theory alleging that a rise of democratic control over the division of labour is self-reversing: I show that, given an abundance of multiple equilibria in the coordination of an extended division of labour, this is not necessarily so. Majorities can exercise meaningful choices across a number of aspects of the division of labour without necessarily incurring large efficiency costs. This weakens the first arm of the pendulum metaphor.

Then, I address two puzzles that emerge from holding up the theory developed in Chapter 2 against the twentieth-century history of democracy and capitalism: if, as I argue in the first part of Chapter 3, democracy ascendant is not necessarily self-defeating, then why *did* the ascendancy of democratic control over the division of labour after 1930 give way to an ascendancy of capitalism after the nineteen seventies? And second, if capitalism is in tension with democracy, and if it has been ascendant for a half-century by now, why do most countries of the capitalist core *still* appear to be democracies?⁵ In response to these puzzles I sketch two elements of a revisionist history of democracy and capitalism in the

⁵ By the capitalist core, I refer broadly to the member states of the OECD, and more specifically to the G7 economies (the United States, Japan, Germany, France, the United Kingdom, Italy, and Canada) and the European Union.

second half of the twentieth century: concerning the first puzzle, I suggest that a combination of a mistaken analysis of the seventies' growth slowdown, the sudden and exogenously caused rise of energy prices, and incipient international integration explain the otherwise puzzling reversal of the post-war trajectories of democracy and capitalism. Insofar as these causes are in large part contingent, they show that the reversal of momentum was itself contingent, not necessary.

Concerning the second puzzle, I point out that, once the democracy-as-election definition is replaced by democracy-as-equal-power, it becomes clear that democracy *has* been eroded in this period, and significantly so. In particular, this erosion has taken place through a politics of single equilibrium, consisting in commercial federalism,⁶ an associated intellectual architecture, and a slow-moving constitutional revolution. The democratic nature of the states of the capitalist core is easily overestimated, I conclude.

In Chapter 4, I return to the main line of argument and demonstrate the dynamic of water and oil in action. Focussing on the first two years of the Mitterrand Presidency in France, 1981 to 1983, I illustrate how the conflict between democracy and capitalism that I theorised in Chapter 2 plays itself out in reality. Beyond illustrating the conflict between democracy and capitalism, the interpretation given in that chapter shows how and why democratic control over the division of labour is not easily sustainable under conditions of commercial federalism. This underlines an important theme developed in the preceding chapters: the dynamic of water and oil unfolds with contingency, but capitalism ascendant

⁶ For the definition of commercial federalism, see footnote 49 in Chapter 3, p. 171 below.

is the more likely outcome in general, and by far so under conditions of commercial federalism.

The end of Chapter 4 concludes the first part of the dissertation. With an inherent tension between capitalism and democracy established, and having noted that capitalism ascendant is the case to worry about, the second part then explores the dynamics of capitalism ascendant. Given that democracy is valuable but under threat from the dynamic of water and oil, it is important to understand whether capitalism ascendant is self-reversing or, in a more utopian manner, perhaps points beyond itself, towards the transcendence of the modern predicament. In Chapters 4-8, I tackle these issues through asking a question at the heart of most theories of capitalism, and many a theory of history: is capitalism self-destructive?

Chapter 5 investigates three crisis tendencies prominent since the end of the nineteen seventies: a decline in growth rates, a rise in inequality, and an increase in debt levels. Tackling them one by one, I show that these three trends, while real, do not necessarily imply ever-worsening crises, nor an inexorable breakdown in capitalism's material functioning or social legitimacy. Falling growth has important indirect effects on inequality and debt, but beyond these effects (considered under their own headings) is largely unproblematic, indeed partly positive in the capitalist core. Concerning inequality, while it has risen sharply since the nineteen seventies, it looks unlikely to lead to economic self-destruction: its aggregate demand effects can be cushioned, and its level looks likely to stabilize at or below its nineteenth-century peaks. Further, progressive automation, while it may push inequality beyond its previous peaks, looks unlikely to cause social or economic

breakdown, e.g. from mass unemployment, because the service sector can expand indefinitely, at the limit via a return of domestic servants. Concerning debt, while there has been a long-term increase in both public and private debt levels, it is less than clear whether this will continue indefinitely. Retrenchment and deleverage look likely; and even if the rise in leverage ratios continues into the future, the lessons of the Great Depression were learned and absorbed by civil servants and politicians the world over, so that even financial crises of the magnitude of 2008 are unlikely to lead to the kind of system-threatening conflagration triggered by the banking crisis of 1929. Taken individually then, these trends will cause repeated crises in capitalism, but they do not point towards any inexorable or inevitable breakdown either in capitalism's economic functioning or its social legitimation.

Next, in Chapter 6, I turn from considering these trends one-by-one to tackling them taken together. Even the "sum of these malfunctions" need not cause the self-destruction of capitalism, I argue there. Studying the British, Polish, and American experience of the nineteen seventies, I show that, due to the separation of polity and economy, governments under capitalism are well-placed to convince electoral majorities and other veto players of the necessity of economic pain. When hardship is at first avoided, as it historically has been, feedback eventually emerges from "the economy," for example in the form of rising inflation, growing budget shares dedicated to debt service, shortages of particular goods or services, or recurring financial crises. This feedback, publicly credible due to the separation of polity and economy, in turn provides legitimacy for a shift away from a politics of "buying time" to a politics of "breaking promises." Shortfalls in economic

performance, even if severe and permanent, hence need result in no more than limited periods of (painful) transition. This does not rule out a long-run, protracted process of existentially threatening delegitimation of capitalism, but, going by the experience of the nineteen seventies, no such process is necessary or even likely.

Chapter 7, in turn, considers whether the emerging victory of capitalism over democracy, whose reality I defended in Chapter 3, is not a Pyrrhic victory. While I agree and underline that many of the countervailing forces that have historically bridled capitalism have been defeated since the nineteen seventies, I argue that this is not, in the end, a Pyrrhic victory. Neither the monetary system, nor the environmental basis, nor the political exoskeleton on which the continued survival of capitalism depends is condemned to fatal breakdown by the defeat of countervailing forces. Management of the monetary system of contemporary capitalism has been remarkable effective in the face of financial crises, despite being unshackled from democratic constraints and under the near-exclusive control of technocratic central banks. Environmental degradation, while ongoing and dangerous, can be solved with market-compatible instruments. Moreover, given that environmental damage is primarily a collective action problem, whether or not it will be tackled depends less on whether countervailing forces can defeat the interests of investors and entrepreneurs, and more on whether the bourgeoisie can coordinate around its own collective self-interest. Finally, the absence of countervailing power has not resulted in a deconstruction of the political exoskeleton that allows, among other things, for coordination around collective self-interest. Because the capitalist class is internally heterogeneous, because capitalists themselves are well aware of the benefits they derive

from public power, and because the dominant ideology of contemporary capitalism – neoliberalism – is by no means anti-statist, the state remains powerful under contemporary capitalism, even as the countervailing power of trade unions and social democratic parties has waned. The victory of capitalism over democracy is not a Pyrrhic victory for capitalists.

Chapter 8, finally, moves on from capitalism’s internal dynamics to the question of whether it creates its own gravediggers. Chapters 5, 6, and 7 make a case that, while there are crisis tendencies inherent in capitalism, these do not point towards a gradual, inevitable slide into self-destruction. However, what they do not exclude – what they deem positively likely in fact – are recurrent periods where a capitalist social order is fragile. Will not a series of crises, each of which may present an opportunity, eventually lead to radical change, either in the direction of anti-capitalist revolution, or in the direction of revolution-preventive fundamental reform? Once again, I argue “no.” While capitalism may of course find a sudden end, there is no mechanism, trend, or ‘dialectic’ internal to it that necessitates this, or even makes it particularly likely, as far as I can discern. This is so for two reasons: first, revolutions require revolutionaries. Contrary to what Marx claimed, however, capitalism – while generating an *interest* in revolutionary change – does not necessarily create anti-capitalist revolutionary *agency*. Second, a successful revolution becomes a realistic prospect or a realistic threat only where the state is weakened. Reprising themes from Chapter 7, however, the American coercive state looks strong today and appears to be resting on solid foundations, so that a future weakening, though not impossible, cannot be predicted today. In particular, with war having become capital-intense, the pressure of geopolitical competition no longer acts to divide state elites from domestic-facing socio-

economic elites, so that one of the most important sources of elite splits now lies dormant. While revolutionary change cannot be ruled out, little suggests that contemporary capitalism generates it endogenously.

This concludes the second part of the dissertation. Having established that capitalism is in tension with democracy and likely to eclipse it over time (Part I), and yet not self-destructive (Part II), I conclude by asking: How should we evaluate capitalism ascendant? Can we accept this state of affairs? Is it possible, in particular, to resolve the modern predicament through reconciling ourselves with it?

In the final chapter, Chapter 9, I argue that such a reconciliation would be a mistake. The debate is complicated: neither the most prominent arguments in favour of capitalism—freedom, prosperity, natural rights, and merit—nor the most prominent critiques—exploitation, unjust inequality, and corruption or commodification—allow for a conclusive judgement. While some arguments, in particular those from merit, do not stand up to scrutiny, the problem with most is not that they falter under pressure, but that they cannot be tallied up at high levels of abstraction. While the arguments for and against capitalism from freedom, prosperity, exploitation, justice and corruption offer good reasons for and against accepting capitalism as a social order, their respective normative weights remain unclear, so that no summative conclusion is possible from them, at least for the general case.

The situation is different, however, concerning a final critique of capitalism: the critique built on capitalism's tendency to undermine democracy. Given that capitalism is deeply controversial, and given that nobody has both the moral authority and the

descriptive knowledge to adjudicate this controversy for everyone else (in virtue of the first essential fact of modernity), only the people as a whole may decide, through majority rule, whether or not to accept and maintain capitalism as a social order (and if so, in what form). Insofar as capitalism, through eroding democracy over time, undermines the ability of future majorities to reconsider these decisions, it involves a form of self-abdication and binding of future generations that is illegitimate and impermissible. What is conclusively wrong with capitalism is thus its tendency to undermine democracy: the moral landscape of modernity denies a resolution of the modern predicament through reconciliation with capitalism at the cost of democracy. Having emancipated ourselves from tradition, we cannot now submit to the God of Mammon.

Implicitly, the reader may have noted, this final argument relies on the existence of a viable and attractive alternative to capitalism. If, due to the second essential fact of modernity, abandoning capitalism means exposure to foreign threat or permanent illegitimacy at home, then, perhaps, a Rawlsian “work of reconciliation by public reason” (Rawls, 1993, p. 157) to the status quo is necessary after all, and thus perhaps possible. Speaking against this, I argue in the conclusion, is an alternative whose feasibility is not disproven: commercially closed market democracy. The Owl of Minerva allows us to see today what mid-century social democrats could not: negatively, that social democracy is not sustainable in the presence of free trade. Positively, that market coordination of the division of labour may after all be compatible with democracy, at the price of a state’s commercial closure. The conclusion explores this alternative resolution of the modern predicament, and though I do not offer proof of its viability – an impossible charge – I show

that commercially closed market democracy has not been proven *unviable*. While the modern predicament remains our problem, and perhaps a perennial one, I conclude that a democratic resolution merits further exploration both theoretical and practical.

1. And Yet They Quarrel

The Relationship Between Democracy and Capitalism in Political Thought

A. Introduction

Is capitalism compatible with democracy? My attempt to answer this question spans the first part of this dissertation. I begin tackling it with a brief history of political and social thought. In the three chapters that follow, I then present my own analytical account of their relationship (Chapter 2), explore how this account meshes with certain stylized facts in history (Chapter 3), and lay out a case study to illustrate the workings of some of the central mechanisms that, I argue, define this relationship (Chapter 4).

Two preliminary remarks: the history offered in this chapter is largely restricted to the post-feudal period, and in particular to the last two centuries. While the origins of capitalism can be traced to the seventeenth and eighteenth centuries, to the confluence of the Agricultural, Commercial, and Industrial Revolutions in England, it was not until the American and French Revolutions that democracy became thinkable as a regime form for large states. The question of their relationship therefore did not arise, and was not theorized, until the waning years of the eighteenth, the early years of the nineteenth century.¹ Further, while it is an injustice to give but a single chapter to this history, it is, I

¹ Notably, the word “capitalism” did not emerge until the nineteenth century (Jurgen Kocka, 2010, p. 9), and while democracy is an ancient term, until the closing years of the eighteenth century it was by and large a term of slander, not an object of serious analysis: “Democracy before the French Revolution was generally held to be a fool’s paradise, or worse. [...] It was only in the eighteenth century that theorists and militants resurrected democracy as an articulate ideal” (J. Miller, 2018, pp. 4–5). In Britain, though not in France or

hope, a forgivable one. Analyses of the relationship between democracy and capitalism are rarer than I initially expected given the attention which each of the terms has received individually.² Perhaps this is because both are large concepts, and studying either one alone, conceptually or historically, is sufficient work for a lifetime. Perhaps also because, for much of the past two centuries, the nature of their relationship seemed obvious to many: “clearly they are incompatible”, said nineteenth century socialists, liberals, and conservatives; “clearly they go together”, retorted twentieth century (Western) Cold Warriors, social democrats, and liberal egalitarians. In light of positions staked this clearly, the benefits from further investigation may have appeared limited. Whatever the precise causes, I hope that, while inevitably imperfect, a survey of this literature’s commanding heights is possible in one chapter.

With these preliminaries said, I argue that the history of theorizing the relationship between capitalism and democracy follows a wave-like pattern. Resembling, though inverse and lagged, the development of economic inequality (Piketty, 2014), we observe a nineteenth century orthodoxy, challenged by a mid-twentieth century counter-orthodoxy, before a return to an incipient neo-orthodoxy in recent times.³

the US, this view survived well into the nineteenth century: “The word democracy occupied in 1831 the position which the world socialism holds today in a similar connection [today being 1914, socialism a haunting spectre]. It was understood to mean something vaguely terrible which might “come” and would “come” if the respectable classes did not stand together [...]. If democracy came, King and Lords would disappear, and old landmarks of all description would be swept away” (Butler, 1964 [1914], p. 240).

² In an overview of the literature on this topic, for example, Gabriel Almond (1991) referenced only seventeen texts.

³ Piketty’s account of the development of income and wealth inequality can be summarised, crudely, in a u-shaped curve: inequality was high and stable prior to World War I, declined after (and because of) WWI and World War II, and has risen again since the nineteen seventies and eighties. My account of the history of

The orthodoxy in this pattern is that democracy and capitalism are incompatible. This position has deep roots, with traces as far back as ancient Greek political thought. It was held across the nineteenth century political spectrum, being espoused by liberals, conservatives, and socialists alike.⁴ It also proved durable: counter-orthodoxy, particularly in the form of Modernization Theory, did not displace it until the middle of the twentieth century. And even then, the claim that capitalism and democracy formed two supporting halves of a coherent and attractive social order was repeatedly challenged: first by the alternative version of modernity symbolized by the USSR as well as decolonization movements in the fifties and sixties; then by the domestic turmoil shaking the West during the nineteen seventies.

Nevertheless, despite these challenges, common sense in the Western world from the nineteen fifties until the early years of the twenty-first century largely held that capitalism – in the guise of “free markets” or a “market economy” – and democracy went together. This position was entrenched enough, both in academia and the public sphere, to constitute a veritable counter-orthodoxy. This position, too, had supporters from across the political spectrum, from neoliberal thinkers like Milton Friedman (1962), via

theorizing the relationship between capitalism and democracy can be summarised, crudely, as the inverse of this pattern (an inverse-u shape): belief in their compatibility was low prior to World War I. It rose, unevenly, in the first half of the twentieth century, until belief in their compatibility reigned supreme from the nineteen fifties until the early twenty-first century. Since the early two-thousands, particularly after 2008, belief in their compatibility has started to wane again.

⁴ Though just outside of the scope fixed for this chapter, the orthodox view was common, too, in the eighteenth century. E.g. Madison, speaking for most of the American founders: “democracies have ever been spectacles of turbulence and contention; have ever been found incompatible with personal security or the rights of property” (Hamilton, Madison, & Jay, 2008 [1788], p. 52, Madison, *Federalist 10*).

neoconservatives like Francis Fukuyama (1992),⁵ to left centrists like Walt Rostow (1971) and Gabriel Almond (1991).

Recently, however, this counter-orthodoxy has come under sustained challenge. In light of contemporary developments concerning inequality, finance, and populism; as the concept of capitalism returned to common use; and as a historically refreshed definition of democracy has taken root in political theorizing, the core claims of counter-orthodoxy have begun to appear questionable and historically limited. While it may be too early to tell whether the various strands of this challenge will coalesce into a single coherent neo-orthodoxy, the grander sweep of history may favour orthodoxy after all. The argument of this dissertation certainly points in this direction: in the following chapters, I will argue that, outside of special historical circumstances, capitalism and democracy are not compatible.

The remainder of this chapter tells the story in more detail. It begins by offering brief definitions of capitalism and democracy before covering each of the three episodes outlined above: orthodoxy, counter-orthodoxy, incipient neo-orthodoxy. Between the three of them, my treatment of the last is the shortest. This is because many of the arguments presented there, analytical and historical, will be covered in the next chapter, where I lay out my own theory on this matter.

⁵ Though see section I, p. 61 below for a revisionist interpretation of Fukuyama's *End of History*.

B. Preliminary definitions

For the purposes of this chapter, I define democracy as the election of government—in particular the legislature and, either directly or indirectly, the head of the executive—in contested elections with wide and ideally universal suffrage. This is a restrictive, minimalist definition. Many authors, from Aristotle to Bernard Manin (1997), would argue that it fails to do justice to the meaning of democracy.⁶ For present purposes, however, it has two benefits: it is clear; and it is widely used, both by the nineteenth-century authors who first analysed the relationship between democracy and capitalism, and by a number of more recent authors.⁷

Concerning capitalism, I also opt for a conventional definition: private ownership of the means of production. This definition is somewhat lighter than the definition used from Chapter 2 onward (section C, p. 85), especially insofar as it disregards the spirit or ethos pervading society. As with democracy, this narrow and conventional definition has the advantage of clarity and wide use.

Finally, using these narrow and conventional definitions is analytically useful: it makes it *prima facie* easier for capitalism and democracy to be seen as compatible. If there was nonetheless a widely-observed tension between capitalism and democracy—even on the minimal, oligarchic-leaning, and hence capitalism-friendly electoral definition of

⁶ Their arguments would likely focus on the aristocratic-oligarchic nature of elections. See e.g. Aristotle (1996, Book VI, Chapter 2), Montesquieu (1989 [1748], Book II, Chapter 2; see also Book I, Chapter 1); Rousseau (1997 [1762], Book III, Chapter 5) or Manin (1997). This thought is expanded upon in the next chapter (Section B, p. 75).

⁷ For example: Schumpeter (1942, p. 269), Lipset (1981, p. 27), Hayek (1984, p. 352), Przeworski et al. (2000, p. 15), or Iversen and Soskice (2019, p. 58).

democracy, as well as on the narrow definition of capitalism that excludes its arguably anti-democratic ethos—then, *a fortiori*, this reinforces my own arguments for a deep tension between the two once I introduce fuller definitions of democracy and capitalism in the next chapter.

C. The people versus private property: nineteenth and early twentieth century orthodoxy

From the early nineteenth century until well into the twentieth, a long tradition saw a direct contradiction between democracy and capitalism so defined, and in particular between universal suffrage on the one hand, and private property rights on the other.

This tradition has deep roots. Plato, for example, argued that oligarchy, or rule by the “thrifty money-maker” (*The Republic*, 2012, 555a-b), leads to high inequality and “drives men of no little quality into penury” (555d). This in turn creates resentment on behalf of the many,⁸ creating a revolutionary situation⁹ in which even “a small event” (556e) suffices to set off a revolution. Though it would be anachronistic to read this as an

⁸ Note that, interestingly, one of the mechanisms that Plato mentions as leading to high inequality and penury among “men of no little quality” is financialization and debt: “the money-makers [...] insert the fatal sting of their money into any survivor that fails to resist them, reaping interest many times what they put in, and simultaneously creating a large class of drones and beggars in the city” (555e-556a).

⁹ “[W]hat do you suppose happens when rulers and ruled [in an oligarchy] come into contact, on journeys or in some other shared activity, whether it’s attending a religious festival or serving on campaign together, on board ship or on the field, and they look at each other, even at moments of danger, and the poor suddenly find they’re not the slightest bit inferior to the wealthy—often, indeed, the poor man, lean and sunburnt, stationed in battle beside a wealthy one, shade-reared and with rolls of excess flesh, will observe him hopelessly wheezing and helpless. Do you imagine he doesn’t draw the obvious conclusion that people this like are only wealthy because he himself is a coward? Or that when he and his like get together in private, they don’t pass on the message: “They’re ours for the taking; they’re nobodies!”” (556c-556e)

argument about democracy and capitalism, the echoes of Plato's account in Marx and other authors covered below are undeniable.

Aristotle, though not identifying democracy with elections, saw democracy on his definition¹⁰ as incompatible with unfettered market outcomes. To preserve a democracy, "They [the ancient laws of successful democracies] provided either that no one should possess more than a certain quantity of land, or that, if he did, the land should not be within a certain distance from the town or the acropolis." In addition, "Formerly in many states there was a law forbidding anyone to sell his original allotment of land" (*The Politics*, 1996, 1319a7-11). These "ancient laws," given that they decommodified land – the single most important asset of any pre-industrial economy – were in direct contradiction with what we might call, anachronistically, capitalism.

The tension between democracy and unfettered private property, in Aristotle's view, ran both ways. Not only did the preservation of democracy require hard limits on the tradability of key assets, implying that unfettered trade would undermine democracy; in addition, in a democracy "the poor, for example, because they are more in number, divide among themselves the property of the rich" (1281a14-15), implying that democracy would undermine private property.

While anticipated in ancient political thought and echoed repeatedly by early-modern and eighteenth-century thinkers, the full flowering of what I term orthodoxy – the belief that capitalism and democracy are incompatible – begins with Karl Marx and his

¹⁰ The core of Aristotle's concept of democracy was "For all to rule and be ruled in turn" (*The Politics*, 1996, 1317b2), with the selection of political officers organized through lotteries.

discussion of the short-lived Second French Republic (1848-1851). Although the relationship between democracy and capitalism was not a central part of his work,¹¹ where he wrote about this relationship he argued that “democratic capitalism is an inherently unstable form of organization of society” (Przeworski, 1985, p. 133).¹² What rendered capitalism and democracy, private property and universal suffrage, incompatible for Marx was the following dynamic:

“The classes whose social slavery the constitution [of the French Second Republic] is to perpetuate – proletariat, peasantry, petty bourgeoisie – it puts in possession of political power through universal suffrage. And from the class whose old social power it sanctions, the bourgeoisie, it withdraws the political guarantees of this power. It forces the political rule of the bourgeoisie into democratic conditions, which at every moment help the hostile classes to victory and jeopardize the very foundations of bourgeois society. From the first group it demands that they should not go forward from political to social emancipation; from the others that they should not go back from social to political restoration” (Marx, 2000 [1850], p. 319).

¹¹ As the preface to *Capital's* first edition states, “What I have to examine in this work is the capitalist mode of production, and the relations of production and forms of intercourse that correspond to it” (Marx, 1992 [1867], p. 90).

¹² Note that the long-run compatibility of capitalism and democracy is a different question from whether or not democracy might be a *means* by which to overcome capitalism (Bernstein, 1993 [1899]). One could hold, for example, both the incompatibility thesis *and* the parliamentary-road-to-socialism thesis without contradiction, by asserting a purely temporary compatibility between the two. As a matter of fact, it looks like Marx and Engels did hold both of these beliefs, though they also thought it likely that – outside the UK, the US, and potentially Holland – large electoral advances by the working class would trigger a counter-revolution by the bourgeoisie, so that the “parliamentary road” would at a certain point converge with the revolutionary path (Cammack, 2011; Nimitz, 2010). Going further than identifying an incompatibility between democracy and capitalism, and seeing in democracy a means for overcoming capitalism, Marx and Engels also thought that democracy and communism were a natural pair: “Engels shared with Babeuf the illusion that the restoration of the constitution of 1793 [i.e. democracy] would inevitably lead to the endorsement of communism by the proletarian majority” (Cammack, 2011, p. 45, see also p. 39). Schumpeter identifies this as a position that, until 1916, “seemed quite obvious to most people and to nobody more so than to the accredited exponents of socialist orthodoxy” (1942, p. 235).

In other words, capitalism and democracy are not compatible, Marx argued, because the capitalist mode of production generates, *among* classes that constitute a majority of the population (“proletariat, peasantry, petty bourgeoisie”) and *through* the grim material outcomes it reliably produces (“social slavery”) an interest in overruling the results of free market competition. Democracy in turn provides this majority with the means (“universal suffrage”) to act on this interest, by striking at the “very foundations of bourgeois society:” private property rights, in particular in the means of production.

Once the bourgeoisie and the masses become aware of this, the bourgeoisie will want to “go back” from *democratic* capitalism to *oligarchic* capitalism, to protect its material and social standing against political intervention. The popular classes will want to “go forward” from democratic *capitalism* to democratic *socialism*, to complete their political emancipation with social and material emancipation. Regardless of the direction in which this tension will be resolved, it is clear for Marx that the coexistence of capitalism and democracy must be of limited duration.¹³

Similar views were widely held, by Marxist and non-Marxist authors alike, throughout the nineteenth and early twentieth century. Vilfredo Pareto, for example, whom nobody could accuse of undue sympathy for the masses, argued that democracy, through empowering the many, tends to quash private property, the lynchpin of a capitalist social order (Pareto, 2014 [1906], esp. Chapter II). Pareto saw this conflict playing itself

¹³ In the specific case of the Second French Republic the tension was resolved through Napoleon III.’s coup d’état and his proclamation of the Second French Empire, i.e. through the “backwards” move from social to political restoration, or from democratic to oligarchic capitalism.

out through both taxation – “Within each country, modern democracies tend to replace indirect taxes by direct ones [...]; direct taxes – especially progressive taxes – exploit the well-to-do classes” (Chapter IX, §59, p. 262) – and through direct attacks on the legal foundations of property rights: “thefts of gold in the mines go unpunished, because thieves are legion, and owing to their voting power they have an appreciable influence in the government” (Chapter II, §87, p. 51). As a result, “democracy tends more and more to destroy the wealthy” (Chapter IX, §63, p. 263).¹⁴ Insofar as theft and taxation (once it reaches the level where it “destroys” the wealthy) constitute expropriation, there is implicit in Pareto’s theory of politics a conflict between democracy and capitalism.

James Fitzjames Stephen, British conservative judge, author, and prominent critic of John Stuart Mill’s *On Liberty*, made the same point in more colourful language: “It [Democracy] is the poor saying to the rich, We are masters now by the establishment of liberty, which means democracy, and as all men are brothers, entitled to share and share alike in the common stock, we will make you disgorge or we will put you to death” (Stephen, 1993 [1874], pp. 183–184). Not all conservatives shared this view: Prime Minister Disraeli advocated “One-nation conservatism” or “Tory Democracy”, believing that the masses could be formally included in politics while being guided from above; but, particularly towards the end of the century, the majority of conservatives shared Stephen’s incompatibilist views (Shannon, 1992).

¹⁴ See Chapter II, §123, of the *Manual of Political Economy* (Pareto, 2014 [1906]) for a paragraph-length description of this mechanism.

Perhaps more surprisingly, liberal writers and politicians, from John Stuart Mill to Lord Acton, argued along similar lines, though often in more cautious terms: “It is known even to the most inobservant, that the working classes have, and are likely to have, political objects which concern them as working classes, and on which they believe, rightly or wrongly, that the interests and opinions of the other powerful classes are opposed to theirs” (Mill, 1967 [1879], pp. 707–708). These objectives, Mill stated, arise from the fact that “No longer enslaved or made dependent by force of law, the great majority are so by force of poverty; they are still chained to a place, to an occupation, and to conformity with the will of an employer, and debarred by the accident of birth both from the enjoyments, and from the mental and moral advantages, which others inherit without exertion and independently of desert” (p. 710). When universal suffrage is instituted, “It will not be possible to go on longer in this manner” (p. 708).

Similar statements can be found in the writings and speeches of Maine, Acton, and Lowe. Lord Acton, for example, held that “Socialism [is] the infirmity that attends mature democracies” (Acton, 1907 [1878], p. 63), and that “As surely as the long reign of the rich has been employed in promoting the accumulation of wealth, the advent of the poor to power will be followed by schemes for diffusing it [...] That is the notorious danger of modern democracy” (p. 94-5).¹⁵

¹⁵ Concerning Maine and Lowe: “the mental picture which enchains the enthusiasts for benevolent democratic government is altogether false [...] if the mass of mankind were to make an attempt at redividing the common stock of good things, they would resemble, not a number of claimants insisting on the fair division of a fund, but a mutinous crew, feasting on a ship’s provisions, gorging themselves on the mean and intoxicating themselves with the liquors” (Maine, 1885, pp. 45–46). Implicitly echoing Aristotle, Maine also pointed out “that no form of property is so much menaced in such societies [Democracies] as property in land” (Maine, 1885, p. 228). Lord Lowe observed that democracy “is the rule of the rich by the poor.”

Indeed, when it came to constitutional reform in the United Kingdom, it was the *Liberal Party* that opposed the Second Reform Act of 1867 (which doubled the British electorate by lowering the franchise's property requirement) and the Conservatives who pushed it through. While democracy was thought dangerous to private property by thinkers from across the spectrum in the nineteenth century, in the decisive moment it was seen as a greater threat to nineteenth century Liberals than to Conservatives. A large enough fraction of latter believed that new, poorer voters could be dominated by landowners into voting in their interest; the former were profoundly afraid of its consequences for trade and industry, the currency and the national debt.¹⁶

Across the nineteenth century political spectrum, then, writers like Marx, Pareto, Stephens, Mill, and Maine thought that democracy is “the rule of the rich by the poor” (Lowe, 1867, p. 130). This, they believed—some approvingly, others with dread or disdain—would lead government “to recognize the universal brotherhood of mankind by an equal distribution of property” (Stephen, 1993 [1874], p. 183). Insofar as universal suffrage is a core component of democracy, and private property in the means of production of capitalism, this implies capitalism and democracy were seen as incompatible with each other.

Further, “In the colonies, they have got democratic assemblies. And what is the result? [...] there is no greater evil [...] to property” (Lowe, 1867, pp. 130, 153).

¹⁶ “Look at free trade. If we have a precious jewel in the world, it is our free trade policy. It has been everything to us. With what eyes do Democracies look at it?” (Lord Lowe’s speech of April 26th 1866 against the Second Reform Act, Lowe, 1867, p. 149). See also Lord Lowe’s speech from May 3rd 1865 on democracy and its consequences for the national debt and currency (Lowe, 1867, in particular pp. 44–6). Henry Maine: “Universal suffrage, which to-day excludes Free Trade [capitalization sic] from the United States, would certainly have prohibited the spinning-jenny and the power-loom” (Maine, 1885, p. 36).

This line of thinking, focused on the direct contradiction between universal suffrage on the one hand, and private property right on the other, continued well into the twentieth century. Anthony Downs' median voter model (Downs, 1957), although methodologically individualist, i.e. ignoring classes as political actors, and despite naturalizing capitalism as the "normal operation of the economy," can be seen as the swan song of this orthodoxy. Downs concluded that "Democratic government policies tend to favour low-income receivers as a class rather than high-income receivers. [...]. Consequently, because the free market produces a highly unequal distribution of income, the more effective democracy becomes politically, the greater is government interference with the normal operation of the economy." Significantly, Downs brought the marginalist turn from economics into political science, restating the central claim of nineteenth century orthodoxy in the language of twentieth century social science: "In the private sectors of the economy, resources are allocated to those uses of highest net marginal return. [...] A vote-maximizing government, however, upsets this marginal equilibrium by imposing certain obligatory costs upon some decision-makers and making subsidized benefits available to others" (Downs, 1957, pp. 202–203). In doing so, Downs distilled the core claim of the orthodox tradition – that universal suffrage is incompatible with private property rights – to its mathematical essence, capping more than a century of thought on the relationship between capitalism and democracy.

The authors of this tradition were not blind to the fact that, from the second half of the nineteenth century onwards, a growing number of states moved to manhood suffrage.¹⁷ This trend was, other than by socialists and other radicals, generally seen as a mixed blessing: “In contrast to the idea of free trade, this particular embodiment of “progress” [democracy] never achieved anything like intellectual hegemony [...] the undoubted advance of democratic political forms in the second half of the [nineteenth] century took place in the midst of a diffuse mood of scepticism and hostility” (Hirschman, 1991, p. 23). Nevertheless, while not necessarily welcomed, it became clear to the authors of this tradition that the advance of democracy did not immediately lead to the abolition of private property; but while they acknowledged this reality, they rarely revised their central thesis in light of it.

Mill’s *Chapters on Socialism*, for example, opened with an acknowledgment of manhood suffrage in the US, France, and the German Confederation (Mill, 1967 [1879], pp. 705–706),¹⁸ and the observation that the working class had not (yet) used this suffrage to encroach meaningfully on private property rights there (p. 706). Mill rendered this observation consistent with the incompatibility thesis he otherwise held by arguing that “The circumstances which have caused them, thus far, to make a very limited use of

¹⁷ The cases most often commented on were: the French Third Republic (founded 1870), the post-Civil War USA, the German Reich of 1871, and the post-Third Reform Act (1884) United Kingdom.

¹⁸ The German Confederation that Mill refers to was the North German Federation (Norddeutscher Bund), founded by Bismarck in 1866-7, the immediate predecessor of the German Reich (founded in 1871), not the German Confederation of 1815. The constitution of the North German Federation provided for a parliament (Reichstag) elected by universal manhood suffrage and secret ballot, and became the model for the German Reich’s constitution in 1871. Mill’s opening passage also mention the extension of the suffrage (to near-universal manhood suffrage) in the UK effected by the 1867 Second Reform Act.

that power, are essentially temporary” (p. 707). In particular, “However much their [the working classes’] pursuit of these objects may be for the present retarded by want of electoral organization, by dissensions among themselves, or by their not having reduced as yet their wishes into a sufficiently definite practical shape, it is as certain as anything in politics can be, that they will before long find the means of making their collective electoral power effectively instrumental to the promotion of their collective objects” (p. 707). In other words, while Mill noted that universal suffrage had not yet led to socialism, he held that it was highly probable – “as certain as anything in political can be” – that the features causing this were “essentially temporary.” Over time, Mill was certain, the workers would use their “collective electoral power” for “the promotion of their collective objects”, including the socialization of property.

Pareto, rather than looking towards political disorganization and the lack of a fully developed programme, pointed towards exceptionally high growth rates as the temporary factor permitting the coexistence of capitalism and democracy: “democracy, at least insofar as one has been able to observe it up to now, entails great destruction of wealth and even succeeds in drying up its sources.¹⁹ Consequently, it digs its own grave and destroys what

¹⁹ The nature of this destruction is not specified in this passage, but Pareto declares elsewhere: “The efforts of state socialism artificially to change the distribution [of wealth] have as their first effect the destruction of wealth” (Pareto, 1965 [1896], p. 17, own translation). What he seems to have had in mind is the reactionary trope that redistribution is literally perverse, in the sense of being counter-productive to the goal it aims at (Hirschman, 1991, Chapter 2): by directing income from rich to poor, total production, it is alleged, is harmed to such an extent that the poor become worse rather than better off. Consistent with this interpretation, Pareto also made a second argument that, according to Hirschman, is frequently made alongside the perversity claim, namely that only supply-side reforms could help the poor: “To bring about a distribution more favourable to the poor, there is only one way: to boost production and, through this, to increase wealth faster than the population grows” (Pareto, 1965 [1896], p. 17, own translation).

was giving life to it; if it appears that this is not the case today, that is not only because the period of time during which the destruction of wealth has been going on has not been very long, but also because the marvellous technical improvements of our time have made it possible to produce a larger amount of wealth than has been squandered” (Pareto, 2014 [1906], p. 204).²⁰ The implication is that, in the fullness of time, and once “the marvellous technical improvements” start to ebb, the popular classes would once again make use of universal suffrage to attack private property rights, which would, in Pareto’s view, inevitably “entail great destruction of wealth”.

For Downs, it was uncertainty and imperfect information that accounted for the – in his model counterintuitive – observed compatibility between democracy and capitalism: “Uncertainty and costliness of information redistribute political power so as to offset the economic levelling tendency of democracy [...] The greater the degree of uncertainty in politics, the more likely government is to be smaller – in terms of actions and size – than it would be in a perfectly informed democracy” (Downs, 1957, p. 202). In other words, it was a kind of misinformation that was inhibiting the incompatibility at the heart of his model from playing itself out. In the absence of uncertainty and the presence of full information, however, government would override free market outcomes, enforcing instead the more equal distribution of property preferred by the median voter.

²⁰ Note that Pareto is doubly anticipatory of later theoretical developments here: in claiming that growth is favourable to democracy, Pareto is prefiguring Modernization Theory, covered below, while in another passage he identifies the basic dynamics of tax-driven redistribution that Downs and Meltzer and Richard (1981) would go on to formalize later in the century: “Tax A hits only the rich, and will finance expenditures that will benefit only the less well-to-do; it is thus certain to be approved by a majority of the voters” (Pareto 2014 [1906], Chapter II, §107, p. 66).

From the nineteenth century until the middle of the twentieth, then, a long and long-dominant tradition saw capitalism and democracy—in particular private property rights and universal suffrage—as incompatible. Democratic capitalism, where it came into existence, was seen as an unstable social order, unsettled by the tension between the poverty of the masses and their potential empowerment through democracy. This incompatibility, usually arrived at deductively rather than inductively, was thought to be, once reflected upon, both obvious and foundational. It required the combination of only three premises, all of which seemed unquestionably true at the time: the great masses are poor; democracy entails the rule, indeed the tyranny, of the majority; and the majority can enrich themselves through expropriating the owners of capital. The later authors of this tradition were not blind to coexistence between private property and universal suffrage, but much like epicycles in Ptolemaian astronomy, auxiliary hypotheses—political disorganization, periods of exceptionally high growth, or uncertainty and imperfect information—were found to incorporate these observations while protecting the core of nineteenth century orthodoxy: the fundamental incompatibility of private ownership of capital and universal suffrage, capitalism and democracy.

D. As the twentieth century proceeded, orthodoxy was called into question

As time passed, however, the puzzle temporarily subdued through the addition of Ptolemaian epicycles intensified. In the French Third Republic, universal manhood suffrage and private property continued their stubborn coexistence for more than half a century, from the Republic's founding in 1870 until its collapse in 1940. In the United States, state-level franchise extensions and the largely unbridled rule of capital went hand

in hand during the nineteenth century; neither universal suffrage nor private property seemed under threat.²¹ In the UK, a similar pattern was visible: The Reform Acts of 1832, 1867 and 1884 greatly extended the franchise, reflecting and reinforcing intensifying conflict over economic questions; but British capitalism continued apace.²²

Against what many nineteenth and early-twentieth century authors had argued, even the near-complete extension of the franchise in the West after the two World Wars did not result in the elimination of private property rights in favour of socialised property in the means of production. While during the period between the Wars the future of democratic capitalism seemed sufficiently in doubt, so that abandoning the incompatibility thesis may have seemed premature then (Tooze, 2001, p. 16, 2014); and while the immediate aftermath of World War II saw significant nationalisations, especially in France and the United Kingdom, as well as widespread socialist and communist electoral success across Europe, democratic capitalism moved from strength to strength from the early nineteen-fifties on. As Crozier, Huntington, and Watanuki write, “If ever there was a *democratic* success story, it was written by the Trilateral societies during the quarter-

²¹ This is not to deny that there were episodes of intense contestation over how to govern the economy. Notable flashpoints include growing trade union activism after the Civil War, with peaks in 1877 and the last years of the nineteenth century; the Sherman Antitrust Act of 1890; and the Progressive Movement’s challenge to the Gold Standard, particularly in the course of William Jennings Bryan’s Presidential campaign of 1896.

²² As in the US, in the UK, too, there were episodes of intense contestation over the extent and nature of private property rights. Notable flashpoints here include the income tax, temporarily introduced in the course of the Napoleonic Wars, and a permanent fixture of the British political economy after the Crimean War; the intense debate around tariffs on food imports, centred on the introduction and then repeal of the Corn Laws in 1815 and 1846; and the comparatively early legal recognition of trade unions, with the Trade Union Act of 1871.

century following World War II” (1975, p. 157, italics added); and yet, the same age was later described as “The Golden Age of *Capitalism*” (Marglin & Schor, 1990, italics added). Real wages and living standards increased across the board, wealth and income inequality decreased, and universal suffrage, free elections, and freedom of speech spread to more countries than ever before. Seen through the eyes of orthodoxy, this simultaneous flowering of both democracy and capitalism constituted a profound puzzle, calling into question whether democratic capitalism was indeed an inherently unstable social order.

Three kinds of resolutions were proposed. In the Marxist tradition, Antonio Gramsci was the first to tackle the puzzle in earnest (P. Anderson, 1976, p. 47). In Anderson’s summary, what Gramsci observed in the nineteen thirties was

“The novelty of this consent [of the masses to their subordinate position] is that it takes the fundamental form of a belief by the masses that *they exercise an ultimate self-determination* within the existing social order. It is thus not acceptance of the superiority of an acknowledged ruling class (feudal ideology), but credence in the democratic equality of all citizens in the government of the nation—in other words, disbelief in the existence of any ruling class. The consent of the exploited in a capitalist social formation is thus of a qualitatively new type” (Anderson, 1976 p. 30, italics original).

The background assumption was that—in line with the orthodoxy charted above—if the masses were *actually* to exercise self-determination, in full awareness of their objective interests, they would overthrow capitalism. Hence their apparent consent to democratic capitalism was deeply puzzling to Gramsci, since *this* consent (unlike the consent of the exploited under feudalism) avows the idea of political equality, and yet the expected *manifestation* of this belief—the overthrow of capitalism—was noticeably absent.

Gramsci's response was to hold fast to orthodoxy's incompatibility thesis, and to argue that, universal suffrage notwithstanding, the regimes of Italy, France, the US, the UK, Germany, and other Western industrialized countries were not in fact democracies. "Private control over the means of production," socialists argued, "is at the bottom both of the ability of the capitalist class to exploit labor and of its ability to impose the dictates of its class interest upon the management of the political affairs of the community [...] The inferences are [...] that there cannot be democracy so long as that power exists – that mere political democracy is of necessity a sham" (Schumpeter, 1942, p. 235).

In other words, the Marxist response to the puzzle was to say that, while Western states *appeared* to be both democratic and capitalist, they were in fact 'bourgeois' or 'sham' democracies. The ruling classes, an amalgam of economic and state elites, purchased and produced the consent of their populations through any number of tools, from ideological hegemony (P. Anderson, 1965; Gramsci, 1971), via the promotion of consumerism (Marcuse, 1964), to political and cultural strategies to divide the many amongst themselves (Bowles & Gintis, 1986). The incompatibility between capitalism and democracy remained a fact, as did the capitalist nature of Western societies, for these authors. The apparently democratic nature of these states, on the other hand, was seen as deceiving. This line of argument never completely disappeared – traces of it continue to be

visible, for example, in the political writings of Noam Chomsky²³ – but it was largely relegated to the margins, particularly during the early Cold War and the nineteen nineties.

A second approach also held fast to the incompatibility thesis. For authors of this tradition, however, it was democracy that had compromised capitalism in the post-WWII settlement, rather than the other way around. The most important exponent of this argument was F.A. Hayek. Although not articulating the incompatibility thesis in quite as blunt a language,²⁴ his substantive position was clear: phrased as a clash between “collectivism” and “individual freedom” (Hayek, 2007 [1944], p. 100), democracy, when understood as popular sovereignty and majority rule, was incompatible with capitalism, or in his language, economic liberalism.²⁵

The latter required, for Hayek, an *ex-ante* limitation on popular sovereignty (Hayek, 1979, Chapter 3), in particular a non-negotiable division between economy and polity, and specifically the insulation of the price mechanism from political intervention (Hayek, 1979, Chapter 1). Despite the apparent coexistence of capitalism and democracy in the post-War era, Hayek concluded that capitalism was under grave threat. “All democracy that we know today in the West is more or less unlimited democracy” (Hayek,

²³ For example: “Americans may be encouraged to vote, but not to participate more meaningfully in the political arena. [...] The population has been carefully excluded from political activity, and not by accident” (Chomsky, 2004).

²⁴ *The Road to Serfdom* is a partial exception: “Scarcely anybody doubts that we must continue to move toward socialism [...]. It is because nearly everybody wants it that we are moving in this direction” (Hayek, 2007 [1944], p. 59).

²⁵ Like the Marxist response, this tradition is characterised by a peculiar use of the word “democratic.” Hayek referred to the regime form constituted by popular sovereignty and majority rule as ‘*unlimited* democracy’ (Hayek, 1979, pp. 34–36), reserving democracy simpliciter for what Aristotle would have called a mixed regime, or the *Federalist Papers* a republic, i.e. a regime with significant counter-majoritarian elements.

1979, p. 34), and, echoing Downs, “unlimited democracy is bound to become egalitarian” (Hayek, 1979, p. 39).²⁶

In making these arguments, Hayek referenced explicitly the nineteenth century orthodoxy summarised above: “What is happening is indeed precisely that which some had apprehended concerning democracy in the nineteenth century. A wholesome method of arriving at widely acceptable political decisions has become the pretext for enforcing substantially egalitarian aims” (Hayek, 1979, p. 33).²⁷

Hayek was not alone in making this argument: other neoliberals in the post-WWII era spoke of “rabies democratica,” ironically observed how “today’s ‘human rights’ [...] include the sacred right of a state to expropriate a power plant” (Röpke, quoted in Slobodian, 2018, p. 124), or asked “Why Have the Socialists Been Winning?” (Stigler, 1979). Making explicit what others left unsaid, Stigler answered his question as follows: “the large and growing role of government has been what the public as a whole has wanted: democratic majority rule likes what we have been doing” (Stigler, 1979, p. 66). Seeing

²⁶ For a study of Hayek and other neoliberals that focuses on their conceptualization of capitalism’s relationship to democracy, see Slobodian (2018). The book’s summary statement renders it concisely: “the neoliberal project focused on designing institutions [...] to inoculate capitalism against the threat of democracy” (p. 2).

²⁷ Strikingly, Hayek also claimed that “Whether it [majority rule] requires that some hated person should be boiled and quartered, or that his property should be taken from him, comes in this respect [‘this respect’ being the violation of the rule of law] to the same thing” (Hayek, 1979, p. 35). Which of course it does not: leaving aside that expropriation can and often does proceed in line with law, a person deprived of their property can still participate in juridical and political processes, demanding restoration or compensation, and potentially sway the majority to reverse its earlier decision. A person who has been boiled and quartered might struggle to do so. Following this false equivalence, Hayek, again revealingly, went on to say that “I must confess to preferring non-democratic government under the law to unlimited [...] democratic government” (Hayek, 1979, p. 35).

this line of argument through to the end, he added: “Do we not then face the hard choice between becoming collectivists and becoming non-democratic in our desired political institutions?” (Stigler, 1979, p. 66).

Nor was this position entirely restricted to neoliberal thinkers. John Hall, a left-leaning sociologist, claimed that “inside Western societies, capitalism is dead – that is [...] the separation of the economy from the power of politicians is now no longer feasible” (J. Hall, 1983, p. 76). Samuel Bowles and Herbert Gintis, two left-leaning economists, wrote that “By giving citizens the power to encroach upon the capacity of capital to invest profitably and to discipline its labor force, democratic institutions challenged the basic operations of the capitalist economy” (Bowles & Gintis, 1986, p. 5).

However, these exceptions notwithstanding, few outside the then-isolated Mont Pelerin Society endorsed the hard core of Hayek’s position. The view that “unlimited democracy” was *bound* to lead to interference with capitalists’ freedom to set prices, quantities, and production technologies (amounting to partial expropriation) and so, ultimately, the erosion of capitalism, remained a minority view in the second half of the twentieth century.²⁸

²⁸ It is not obvious, however, that this minority view was entirely wrong concerning the period between, approximately, 1945 and 1975. The 1975 *Crisis of Democracy* report produced by Huntington, Crozier and Watanuki for the Trilateral Commission – i.e. a report written for a technocratic elite forum, certainly not a left-leaning or socialist one – observed that “A long tradition exists in the West and in Japan of governmental involvement in the broad arena of labor and social policies. Such policies may be considered as one of the greatest achievements of Trilateral democracies. Health, hazard and security coverage, freedom of association, bargaining rights, the right to strike, and workers councils all provide broad protection and broad possibilities for corrective action” (Crozier et al., 1975, p. 185). This is indicative of the extent to which the polity-economy distinction had been eroded in the advanced democratic capitalist countries by the mid-seventies, and the extent to which this was widely endorsed at the time, even at the highest levels of

E. **The cluster hangs together: Modernization Theory as counter-orthodoxy**

Instead of the Marxist and the Hayekian response, it was a third answer to the puzzle that became hegemonic in the second half of the twentieth century: Modernization Theory. In many ways the boldest answer, this paradigm disputed neither the democratic nor the capitalist nature of the industrialized West. Rather, it disputed the core of nineteenth century orthodoxy: the alleged incompatibility between the two.

The key premise that yielded this frontal challenge was: modernity is a monolith (Gilman, 2004, p. 142). Rationalization, urbanization, industrialization; the moves from faith to science, from status to contract, from empire to nation; the growth of literacy, life expectancy, trade, and production; the emergence of large bureaucracies, mass politics, and the spread of democracy—these were conceived as forming a single, integrated, indeed epochal whole. “Men may question”, a leading proponent of Modernization Theory wrote, “whether any aspect of this interrelated cluster [...] is primary, but the fact remains that *the cluster does hang together*” (Lipset, 1981, pp. 57–58, italics mine).²⁹

A second central premise was that rapid growth, characteristic of capitalist modernity, would of itself lead to greater equality, without the need for political intervention. This premise drew its credibility from Simon Kuznets’ work on growth and inequality in the United States (Kuznets, 1955). Kuznets argued that, after rising in the early stages of industrialization, the inequality of market outcomes would naturally fall,

government, business, and academia. I will return to the accuracy of Hayek’s judgement in Chapter 3, section C (p. 156).

²⁹ See also Rostow (1971, Chapter 3 and 4).

with market-produced inequality giving way to market-produced equality once urbanization was complete and human capital eclipsed physical capital. On this basis Lipset and others could assert that “the distribution of consumption goods [...] tends to become more equitable as the size of national income increases” (Lipset, 1981, p. 50). This directly denied one of orthodoxy’s key premises – that the masses are sufficiently poorer than the rich to want to demand their expropriation – and gave a straightforward reason for capitalism’s compatibility with democracy: if the great majority are doing well, materially, then universal suffrage need not lead to expropriation, at least in advanced industrialized countries on the second part of the Kuznets curve.³⁰ And indeed, the nineteen fifties and sixties saw a plethora of books that argued various versions of the claim that affluence had solved the central conflict between capital and labour (e.g. Bell, 1960; Galbraith, 1958, 1967; Myrdal, 1963; Theobald, 1961).

In addition to the reconceptualization of modernity as a monolith, in which growth and development would solve poverty and inequality, it was the onset of the Cold War that made democracy and capitalism seem compatible, even mutually reinforcing. As fascism and communism were cast as variants of the same social order, totalitarianism (Arendt, 1951; Hayek, 2007 [1944]), democratic capitalism became understood as its polar opposite.³¹ Just as dictatorship and a planned economy summed up to a totalitarian system

³⁰ This, incidentally, helps to explain why Piketty’s work has been so influential. By disproving the Kuznets curve, it directly undermines one of the key premises of compatibility arguments concerning democracy and capitalism (see Grewal, 2014, pp. 630–632; Grewal & Purdy, 2017, pp. 64–67).

³¹ For an insightful study of the ways in which the encounter with totalitarianism shaped twentieth century American political thought and practice, see Cieply (2006).

of oppression, so free markets and free elections were cast as the components of a single system of mutually reinforcing freedoms: democratic capitalism.

Seen through this lens, democracy and capitalism no longer seemed incompatible. Instead, since both were essential components of modernity, since capitalism would over time ensure the prosperity of the masses, and since both democracy and capitalism were opposed to totalitarianism, they were understood as compatible and, insofar as Kuznets (“growth leads to equality”) and Lipset (“the cluster hung together”) were right, perhaps even mutually reinforcing.³²

Modernity, in the sense given by Modernization Theorists like Talcott Parsons, Seymour Martin Lipset, Walt Rostow, or Gabriel Almond, was both an equilibrium and a developmental, teleological concept. Drawing on Weber, and with strong echoes of both Marx and Hegel, they argued that history had a course, and that this course ran through market-driven economic development and industrialization, via social progress, to political democratization.³³ A typical summary statement of this view ran as follows: “the development of cities and the emergence of the bourgeoisie diversified the sources of power, led to the assertion of personal and property rights against [sic] the state, and

³² Schumpeter, while also a theorist of capitalism’s self-destruction, argued along similar lines: “modern democracy rose along with capitalism, and in causal connection to it [...] modern democracy is a product of the capitalist process” (Schumpeter, 1942, pp. 296–297). See also Barrington Moore’s seminal *Social Origins of Democracy and Dictatorship* (1966; often summarised as ‘no bourgeoisie, no democracy’, though the argument itself is more subtle than this) and Berger (1986).

³³ Unlike Parsons, Lipset, Rostow or Almond, “Weber himself had an exceedingly dour analysis of capitalist modernity” (Gilman, 2004, p. 92). While Weber was thus an important inspiration for Modernization Theory, his decidedly ambivalent stance vis-à-vis the normative desirability of modern society means that he is not easily classified as a Modernization theorist, along Parsons, Lipset, Rostow or others.

helped to make government more representative of the principal groups in society” (Crozier et al., 1975, p. 6).

Except for atypical societies diverted by special obstacles, like Germany or Japan, Modernization Theorists asserted that “the universal sociohistorical phenomenon of industrial development would lead to a postideological democratization the world over” (Gilman, 2004, p. 61).³⁴ Reinforcing the belief that this “postideological democratization” would be compatible with capitalism was the observation that, in the paradigmatic case of a modern society, the United States, democracy and capitalism *already* coexisted.³⁵ To be sure, the developmental claim was progressively qualified over time,³⁶ but it remained an important theme until the end of the twentieth century, with echoes audible to the present day.³⁷ Counter to nineteenth century orthodoxy and the Marxist and Hayekian answers to the twentieth century puzzle, then, Modernization Theorists thought of democracy and capitalism as compatible, for they were both integral parts of a “cluster that hung together.”

³⁴ This teleological, universal understanding could go hand in hand with a recognition that, internal to democratic capitalist modernity there are degrees of national difference. E.g. Rostow: “That the political life which emerges from the cauldron of our times in the developing world may differ from the particular forms of democracy we know in the Atlantic world, I have no doubt. But, equally, I have no doubt that the men and women of these nations will fashion, in time—in their own way—democracies that evidently belong in the political family we now easily recognize” (Rostow, 1971, p. 301).

³⁵ “Modernization theory imagined the end point of historical development as an idealized (and already achieved) version of the contemporary United States” (Gilman, 2004, p. 66).

³⁶ Rostow, writing in 1971, for example observed that “there is a long-run but not a short run relationship between levels of economic and social development, on the one hand, and the capacity of societies to sustain representative government, on the other” (Rostow, 1971, p. 279). For accounts of democratization in Western states that were in conversation with, but not part of, Modernization Theory, see Moore (1966), and Luebbert (1987). These were instrumental in driving the progressive qualification of Modernization Theory’s teleological, unidirectional understanding of political development.

³⁷ See for example Pye (1990), Rueschemeyer, Stephens, & Stephens (1992) and Przeworski et al. (2000).

In addition, at least in the fifties and sixties, some argued that, insofar as capitalism was conducive to economic development, and economic development would lead to both less inequality and “postideological democratization,” capitalism in fact made democracy more likely and more durable.

The claim that democratic capitalism is a, and perhaps even *the*, viable social order of modernity established itself as the reigning paradigm in US academia during the early years of the Cold War (Gilman, 2004, Chapter 2). However, as with earlier orthodoxy, here, too, there were counterexamples that theorists had to account for. Cases of a certain kind, such as pre-1945 Germany or Japan, could be absorbed in the manner of minor deviations, explained by “unique historical factors.” Concerning Germany, for example, Lipset could state: “a political form may develop because of a syndrome [note the medical term, implying a normatively charged deviation from a normal, regular path of development] of unique historical factors even though the society’s major characteristics favor another form. Germany is an example of a nation where growing industrialization, urbanization, wealth, and education favoured the establishment of a democratic system, but in which a series of adverse historical events prevented democracy from securing legitimacy and thus weakened its ability to withstand crisis” (Lipset, 1981, p. 28).³⁸ Given that idiosyncratic features explained Germany’s deviation from the ‘normal’ path of modernization, no deeper theoretical adjustment was necessitated by this case.

³⁸ In making this argument, Lipset prefigured a large and influential historiography that emphasized and sought to explain a “German Sonderweg” to democratic capitalism (e.g. R. J. Evans, 2004; Fischer, 1961; Kershaw, 2000; Jürgen Kocka, 1988).

F. The Soviet challenge

The Soviet Union and the Communist World, however, posed a deeper problem: a coherent, yet undeniably modern alternative to democratic capitalism, not reducible to the idiosyncratic features of Russia's, China's, or Eastern Europe's history. If it was possible to construct an industrial economy and a continental-scale transport system, build nuclear bombs and send satellites into space, and provide universal health care, housing, child care and education, all in the absence of democracy and capitalism, perhaps modernity did not point towards a uniform, internally coherent, democratic capitalist social order after all.

Rostow made this link—between the growth of the Communist world and doubt concerning the monolithic, capitalist-democratic nature of modernity—explicit: “In the midst of war and postwar chaos, mainland China fell, like Russia in 1917, under Communist grip; the postwar dispensation left power in Europe and Asia closely balanced between Communist and non-Communist worlds. A Castro appeared in Latin America [...]. By, say, 1960, it was not unreasonable for men to question whether democracy was to be the natural outcome of modernization in the twentieth century” (Rostow, 1971, pp. 267–268).³⁹

In the heyday of Red Plenty (Spufford, 2010), when the Soviet Union and Eastern Europe achieved growth rates of four to five per cent per year, and particularly around the time of the Sputnik launch in 1957, it was far from clear that modernity inevitably meant

³⁹ Huntington, although not a modernization theorist in the teleological sense, also observed that Soviet communism constituted an equally, perhaps even more, modern social order compared to that of the United States, in the specific sense of being able to bring “political order” to modernizing societies (Huntington, 1968, p. 8).

democratic capitalism.⁴⁰ In 1960, Conservative British Prime Minister Harold Macmillan maintained that “They [the Soviet Union] have a buoyant economy and will soon outmatch capitalist society in the race for material wealth” (Judt, 2005, p. 248). The best-selling economics textbook of the era, Paul Samuelson’s *Economics*, concurred, predicting Soviet GDP to overtake US GDP between 1984 and 1997 (Levy & Peart, 2011, p. 115).⁴¹ If the West fell behind the Soviet Bloc, as seemed eminently possible at the time, the equilibrium claim of Modernization Theory—that democratic capitalism was internally stable—stood at risk of slipping into irrelevance: regardless of its internal coherence, if democratic capitalism could not compete geopolitically with state socialism, then, perhaps like the city states of the Renaissance, it would eventually fail to be a viable social order.⁴²

By the nineteen seventies, however, the Moon Landing, the settled directions of illicit flows,⁴³ and the superior performance, both qualitatively and quantitatively,⁴⁴ of

⁴⁰ From 1951 to 1973, per capita GDP grew at an annual rate of 4.0% in Eastern Europe (4.7% for total GDP) and 3.6% in the Soviet Union (5% for total GDP), compared to 2.2% in the USA (3.7% for total GDP) (International Monetary Fund, 1990, table 18, p. 65). Francis Spufford’s (2010) *Red Plenty* gives a semi-fictional but deeply insightful account of the Soviet hope to overtake the West during the nineteen fifties and early sixties, as well as of the deep disillusionment that followed soon after.

⁴¹ The prediction was first made in the 1961 edition, and remained in the next six editions through to 1980, though with the dates for convergence receding further and further into the future (Levy & Peart, 2011, p. 115).

⁴² See Spruyt (1994) for an account of how city states, such as Florence, and urban leagues, such as the Hanseatic League, were eclipsed by large territorial nation states after the end of feudalism.

⁴³ With rock music, jeans, and consumer electronics flowing from West to East, protest literature and political refugees from East to West.

⁴⁴ Quantitatively, Western productivity exceeded that of the East by a factor of at least two to three: whereas an average Soviet steel worker, for example, would turn out around 300 tonnes of steel per year (1990), an American worker in 1990 could produce more than 1000 tonnes (Kotkin, 1991, p. 17). Note that steel was a sector in which Soviet productivity was comparatively close to that of the West (Eichengreen, 2007, p. 295). Qualitatively, a particularly revealing anecdote is the following: during the sixties and seventies, the Soviet Union successfully built a supersonic passenger airplane, the Tupolev 144, to rival the Franco-British

Western economies provided sufficient confidence that the West could durably compete with the East. Democratic capitalism would not succumb to competition from state socialism. While the continued existence of the USSR remained a challenge for the single track reading of history found in some of the earlier works of Modernization Theory, it no longer – once it became clear that the Soviet economy could not deliver on Khrushchev’s promise to “bury the West” – undermined Modernization Theory’s counter-orthodox claim that democracy and capitalism were *a viable social order in modernity*.

G. The internal challenge

However, just as the Soviet challenge to Modernization Theory’s compatibility claim receded, a new, internal challenge emerged. In the nineteen seventies, faced with the end of the post-war boom (Eichengreen, 2007, Chapter 9 and 10; Judt, 2005, Chapter 14), the two oil crises (Dietrich, 2017; M. Jacobs, 2016; Yergin, 2009), the Vietnam War, and

Concorde. While the Tu-144 achieved its maiden flight a few months before that of the Concorde, it was marred by technical faults and major inconveniences throughout its brief career. The second Tu-144 ever to be produced, model 77102, crashed at the Paris Airshow of 1973, though it remains unclear if this was from a technical fault or human error (Moon, 1989, pp. 154–163). After the inaugural passenger flight on the 1st November 1977, the next three flights were cancelled with no reason given, but almost certainly due to technical faults (p. 196). Once in regular service, Alexei Tupolev, the plane’s chief designer, and two USSR vice-ministers had to review personally the technical condition of each plane before take-off, making in each case a joint decision whether the flight could go ahead. In flight, the cabin noise was so loud that Western journalists reported having to communicate with written notes (p. 195). Passenger service ceased after only seven months and 102 flights, when a Tu-144D crashed on a pre-delivery test flight on 23rd May 1978 (p. 198). In 181 hours of regular service, 226 malfunctions occurred, 80 of which in mid-air (p. 197). The plane had problems with “de-icing equipment [...], fuel-system pipes and devices to improve the durability of these pipes, drain valves for fuel tanks, firefighting equipment, including warning devices and lightning protection, and emergency power supply” (p. 200). For comparison, Concorde operated continuously for more than twenty-five years, accumulating a total of more than 50,000 flights. The only crash of a Concorde, Air France flight 4590 on 25th July 2000, was due to debris from a previous plane left on the runway, not due to technical faults with the plane itself.

declining trust in traditional authorities, the democratic capitalist regimes of the West went through a deep legitimation crisis (Habermas, 1975; O'Connor, 1970a, 1970b).

This crisis was reflected in, among other things, vibrant student and political activism, the largest strike waves since the end of WWII, a series of new social movements, and a surge of political terrorism (Glyn, 2006; Judt, 2005, pp. 467–477, Maier 2010). In the US, besides Watergate and widespread anti-war protests, the Civil Rights movement turned towards armed struggle, feminism and environmentalism brought millions into the streets, and a wave of prison strikes and revolts washed over the country.

In the UK, amidst rising inflation and intense industrial conflict, the Conservative government called an election and ran on the slogan – in a direct challenge to trade unions and anti-government protesters – “Who governs Britain?” (The Conservatives lost). In West Germany, over the course of six months the federal Public Prosecutor General, the CEO of one of Germany’s biggest banks, and the head of the Federal Employer’s Association were assassinated. At the same time, a Lufthansa plane, the *Landshut*, was abducted, kept hostage, and flown around the Mediterranean and Middle East for four days.⁴⁵ Concerning Italy, Tony Judt would later write, “That democracy and the rule of law [...] survived these years is a matter of no small note” (Judt, 2005, p. 475).

⁴⁵ Siegfried Buback (killed 7th April 1977), Jürgen Ponto (of Dresdner Bank, killed 30th July 1977), Hanns Martin Schleyer (killed 18th October 1977). The *Landshut* was hijacked on 13th October 1977 on the way from Palma de Mallorca to Frankfurt. The kidnappers directed the plane to Rome, then to Dubai, from there to Aden and finally Mogadishu, where it was stormed by West German special forces in the night from the 17th to the 18th October 1977.

Unlike the Soviet challenge, which by the nineteen seventies undermined only the uniqueness of democratic capitalism as an internally coherent social order for modernity, the legitimation crisis of the seventies challenged democratic capitalism's internal coherence itself. Samuel Huntington asked in 1975: "Is political democracy, as it exists today, a viable form of government for the industrialized countries of Europe, North America, and Asia?" (Crozier et al., 1975, p. 1). Observing stagflation, strikes, political terrorism, mass demonstrations, corruption scandals, and rapid turnover of governments, Huntington and his co-authors concluded that "the operations of the democratic process do indeed appear to have generated a breakdown of traditional means of social control, a delegitimation of political and other forms of authority, and an overload of demands on government, exceeding its capacity to respond" (p. 8). The answer implied in their question, in other words, was: no, political democracy in its current form is *not* a viable form of government for industrialized, capitalist countries.

Different authors gave different diagnoses for this crisis of democratic capitalism. Not all of them foregrounded the relationship between capitalism and democracy as a leading cause, but in most it featured, either implicitly or explicitly, in the internal structure of the argument. Huntington, reflecting on the student protests of 1968, saw an "excess of democracy" as the crisis' main cause. This excess was a cyclical feature of American politics, "explained by the distinctive dynamics of the American political process [...]. During periods of rapid social change [the] democratic and egalitarian values of the American creed are reaffirmed." This, he added, "leads to the challenging of established

authority and to major efforts to change governmental structure to accord more fully with those values” (Crozier et al., 1975, p. 112).

While, *prima facie*, this may appear unrelated to the democracy-capitalism relationship in focus here, the inner logic of his argument contained two links between capitalism and the “excess of democracy” that he diagnosed: more than any other social order, capitalism facilitates and favours rapid social change.⁴⁶ Since rapid social change was, according to Huntington, the cause of creedal passion periods in American politics, which then lead to an “excess of democracy” and “ungovernability,” capitalism can be counted as a sufficient, though not a necessary, cause of the legitimation crisis of the nineteen seventies.

Closer to the surface, and resembling the mechanism at the heart of nineteenth century orthodoxy, Huntington also highlighted that “[b]y the early 1970s Americans were progressively demanding and receiving more benefits from their government,” which in turn “produced doubts about the economic solvency of government” (Crozier et al., 1975, p. 64). Insofar as the demands for government spending, whose importance Huntington stressed, were driven by the insecurity and inequality resulting from the

⁴⁶ In addition to the classic passage from the *Communist Manifesto* (“The bourgeoisie cannot exist without constantly revolutionising...”), the following gets to the heart of the matter: “Modern industry never views or treats the existing form of a production process as the definitive one. Its technical basis is therefore revolutionary, whereas all earlier modes of production were essentially conservative” (Marx, 1992 [1867], p. 617; see also pp. 637-9) (Marx, *Capital Vol. 1*, p. 617 of the Penguin ed.; see also 637-9). Lest this be thought ideologically biased: “Capitalism [...] is by nature a form or method of economic change and not only never is but never can be stationary” (Schumpeter, 1942, p. 82).

regular operation of capitalism, here too capitalism featured as a sufficient cause of the legitimization crisis of the seventies.

Other analysts were even more explicit about how tensions between capitalism and democracy caused or contributed to the general crisis of the nineteen seventies: from the right, the Virginia School of public choice theory claimed that democracy, unless restrained by strong social norms or outright constitutional limits, systematically tended towards permanent deficits and escalating inflation, and hence economic breakdown (Buchanan & Wagner, 1977). The mechanism was simple: “Elected politicians enjoy spending public monies on projects that yield some demonstrable benefits to their constituents. They do not enjoy imposing taxes on these same constituents.” Consequently “The effect is a regime of deficits, inflation, and growing government” (Buchanan & Wagner, 1977, pp. 56, 95).

Notice that this resembles the mechanism of nineteenth century orthodoxy, albeit modified by the advent of fiat currency and the Keynesian revolution: orthodox authors, up to and including Anthony Downs, expected that majority demands for higher incomes would be financed by taxation and ultimately expropriation. Now that untethered fiat money had become commonplace, public choice theorists expected the same demands to be financed through deficit spending, financed through central bank money creation and hence resulting in inflation rather than outright expropriation. For these theorists, the crisis of the nineteen seventies, and in particular stagflation, was therefore a perfectly predictable consequence of “unlimited democracy” in the context of a fiat currency market economy.⁴⁷

⁴⁷ A related, European version of this critique was offered by Alesina and Tabellini (1990), though in this case the mechanism is as follows: democratically elected governments of different partisan compositions wish to tie the hands of their successors. They hence implement their desired policies (tax cuts or social spending),

The non-Marxist left advanced analytically similar accounts. James O'Connor (1970a, 1970b, 1973) identified a “fiscal crisis of the state”, by which he meant the “tendency for government expenditures to outrace revenues” (O'Connor, 1973, p. 2). This was caused by the pursuit of “two basic and often mutually contradictory functions – accumulation and legitimation” (p. 6). As long as costs were socialized but profits were privatized a fiscal crisis was sure to result (p. 9).⁴⁸ Insofar as the socialization of costs was likely to result from democratic politics, while the privatization of profits was a functional requirement of capitalism, O'Connor identified a clear tension between the two.⁴⁹

Lastly, a somewhat different account of the crisis of the seventies, difficult to place politically, was provided by Fred Hirsch: “Economic liberalism is [...] a victim of its own propaganda: offered to all, it has evoked demands and pressures that cannot be contained”

and deliberately run up deficits to place their successors in a bind. Over time, this leads to unsustainable deficits and/or increasing inflation. See also Olson (1982). For a general summary and survey of “conservative theories of crisis”, see Offe (1984, Chapter 2).

⁴⁸ Socialized costs include both the costs of legitimation, especially welfare state expenditure, and the (public) costs of enabling private accumulation over time, especially publicly provided infrastructure, workforce training, policing, and so on.

⁴⁹ Soon after O'Connor's first pair of articles (1970a, 1970b), Jürgen Habermas identified a very similar tension (Habermas, 1975). Democratic capitalist states had to create profit-conducive conditions, while at the same time securing majority support for them: “Because a class compromise has been made the foundation of reproduction, the state apparatus must fulfil its tasks in the economic system under the limiting condition that mass loyalty be simultaneously secured within the framework of a formal democracy” (Habermas, 1975, p. 58). Unlike O'Connor, however, Habermas saw cultural justification (or “supplies of motivation from the socio-cultural system”, p. 93) as a possible substitute for fiscal expenditure, on which democratic capitalist states could draw in order to satisfy the twin constraints they were under. This meant that the tension between capitalism and democracy could take the form of either a fiscal-administrative crisis, or a legitimation crisis. Like O'Connor, though with this slightly different mechanism, Habermas saw an inevitable incompatibility between democracy and capitalism: “Genuine participation in the processes of political will-formation, that is, substantive democracy, would bring to consciousness the contradiction between administratively socialized production and the continued private appropriation and use of surplus value” (Habermas, 1975, p. 36).

in the context of political democracy (Hirsch, 1976, p. 11). Although his argument echoed Huntington's "excessive demands," Hirsch's analysis was more subtle: certain goods, he argued, such as prime real estate, rare art, positions of prestige or command, educational distinction, or personal staff, are *socially* and therefore *inherently* scarce.⁵⁰ While each of us may own or achieve these things individually, we cannot all own or achieve them simultaneously (Hirsch, 1976, p. 5).⁵¹ Achieving them simultaneously, however, is exactly what people came to expect under democratic capitalism, due to "its own propaganda." It was also what people demanded with their votes. This impossible-to-meet demand, Hirsch argued, rendered democratic capitalism unstable: either the widespread demand for socially scarce goods would be satisfied through redistribution and perhaps levelling down, i.e. through an assertion of democracy over capitalism; or the demand would be blocked at source, in ways that would clash more or less directly with the principles of popular sovereignty and majority rule, i.e. through an assertion of capitalism over democracy.

In the end, Hirsch's account, like those of Buchanan and Tullock, O'Connor and Habermas, lands surprisingly close to nineteenth century orthodoxy.⁵² In all of these

⁵⁰ These goods are known as positional goods. "Positional," because access to socially scarce goods depends on one's *position* in the society-wide distribution of income. A Rembrandt sold at an auction, for example, will always go to the highest bidder, regardless of whether the winning bid is £5000 or \$25,000,000. Because of this, absolute (real) income is irrelevant for access to Rembrandt paintings; what matters is one's position in the income distribution relative to other bidders.

⁵¹ Each of us, individually, may own a Picasso painting, an apartment in Manhattan, come first in one's class, or command the allegiance of a dozen workers, soldiers or servants; but all of us cannot own or achieve these things simultaneously.

⁵² The fact that they did so, and that they shared remarkable similarities, was recognised within a few years of their publications. Surveying various explanations of the crisis of the seventies, Offe concludes that "Much of this neo-conservative literature reads like a series of case studies confirming the Marxist thesis that bourgeois democracy and the capitalist mode of production stand in a precarious and immanently

accounts, the inner workings of capitalism generate demands that a market order will not satisfy itself: demands for an escape from social slavery (Marx), for government spending (Buchanan and Tullock, O'Connor, and Habermas), or for positional goods (Hirsch). In a democracy, voters then turn to politics for satisfaction of these demands, which interferes, to a greater or lesser degree, with the functioning of capitalism. For nineteenth century orthodoxy, the expected result was expropriation and socialism; for Huntington, the Virginia School, and O'Connor, it was deficit spending, inflation, and eventually economic breakdown; for Hirsch it was redistribution and a potential levelling down of positional goods. Of course, while these authors share an emphasis on the tension between democracy and capitalism, they differ in the direction in which they think this tension ought to be resolved; that, however, is neither here nor there for the purposes of this history.⁵³

H. Counter-orthodoxy triumphant

While these theories were never comprehensively refuted, by the mid-nineteen eighties both the Soviet and the inner challenge to Modernization Theory had lost their urgency. The elections of Margaret Thatcher in 1979 and Ronald Reagan in 1980 appeared to usher in a new and durable settlement, overcoming both economic and legitimation crises, and reconciling, once again, private property in the means of production and universal suffrage,

indissoluble relation of tension" (Offe, 1984, p. 66). Though his remarks are in this case restricted to right-wing analyses, we can take it for granted that he recognized the structural similarities of contemporary left-wing accounts.

⁵³ "[N]eo-conservative theorists of crisis", Claus Offe highlights, "see the source of crisis and what they wish to eliminate not in conditions of capitalist wage-labour but, rather, in the institutionalized arrangements of welfare state mass democracy" (Offe, 1984, p. 66).

capitalism and democracy. François Mitterrand's *tournant de la rigueur*—explored in Chapter 4 below—as well as the general social calming and economic recovery of the West during the eighties allayed remaining fears about the internal incoherence of democratic capitalism. The stagnation and eventual demise of the Soviet Union eliminated, in turn, the fear of ideological and geopolitical competition from a rival social order.

By 1989, George H.W. Bush could say in his first inaugural address: “We know what works: Freedom works. We know what's right: Freedom is right. We know how to secure a more just and prosperous life for man on Earth: through free markets, free speech, free elections, and the exercise of free will unhampered by the state” (G. H. W. Bush, 1989). In running together free markets, free speech, and free elections, George H.W. Bush was echoing the central conviction of Modernization Theory: that capitalism and democracy go together, and beyond that, that they reinforce and support each other.

Indeed, towards the end of the century, belief in the coherence, stability, and desirability of democratic capitalism was so pronounced that its proponent not only argued for its coherence and superiority, but denied that there were any legitimate alternatives or inner tensions at all.⁵⁴ In introducing the 2002 National Security Strategy, George H. Bush, the son of President G.H.W. Bush thus stated: “The great struggles of the twentieth century between liberty and totalitarianism ended with a decisive victory for the forces of

⁵⁴ This theme, dormant during the more conflictual and turbulent sixties and seventies, was already present in the end of ideology discourse of the fifties and early sixties (Bell, 1960; Lipset, 1981, Chapter 13; Shils, 1955). See Lipset (Lipset, 1981, Chapter 15, footnote 1, p. 524-5) for a comprehensive list of contributions to the nineteen-fifties and sixties end of ideology discourse.

freedom—and a single sustainable model for national success: freedom, democracy, and free enterprise” (G. W. Bush, 2002, p. 1).

I. The End of History? Doubts about democracy and capitalism in the early 21st century

What Downs was to orthodoxy, Francis Fukuyama was—in popular perception at least—to counter-orthodoxy: both its clearest theoretician and the singer of its swan song. Fukuyama’s argument was taken to be simple: capitalism, uniquely suited to harvesting the fruits of modern science, provides unrivalled affluence (Fukuyama, 1992, part I, esp. Chapters 5-11). Democracy, uniquely suited to meeting the human need for recognition through equality rather than superiority, provides unprecedented social peace and stability (Fukuyama, 1992, part II). No rival social order could compete with this combination: the absence of capitalism would mean technological, productive, and hence military and geopolitical inferiority; the absence of democracy would mean domestic strife and an ongoing struggle for recognition, causing instability and chaos. As a result, while history in the sense of “the occurrence of events” (Fukuyama, 1992, p. xi) might continue, History with a “capital h”⁵⁵ had ended at the terminus of democratic capitalism.

And yet, upon closer study, Fukuyama’s essay contains a remarkable amount of ambivalence. We may leave aside whether Fukuyama was fully committed to what is at first glance the book’s central thesis, that democratic capitalism is the terminus of History.⁵⁶ For even if one accepts this thesis, it can be separated analytically from the

⁵⁵ I.e. “history understood as a single, coherent, evolutionary process” (Fukuyama, 1992, p. xii).

⁵⁶ The final sentence of the book, somewhat cryptically, suggests that he may not have been: “Nor can we in the final analysis know, provided a majority of the wagons eventually reach the same town [i.e. a majority of

following two: first, that democratic capitalism is internally coherent and stable; and second, that History tends towards this end. Concerning the first, even *if* democratic capitalism is the summit of History, this need not imply that it is internally coherent and stable. Like the peak of Mount Everest, it may simultaneously be a highest peak, and yet dwelling there for any period of time may be difficult. Put differently, high achievements may be lasting or fleeting; the fact that they are high does not decide the question of durability either way.

Indeed, Fukuyama is noticeably ambivalent about the stability of democratic capitalism (Fukuyama, 1992, Chapters 28, 31). On the one hand, there are passages that suggest a sceptical, instability-centred view;⁵⁷ in others, he portrays a stable, even quiescent equilibrium.⁵⁸ Equally, there are passages suggesting he viewed democratic capitalism as a stable whole, much like some of the Modernization Theorists before him: he speaks of “liberal democracy [and] its companion, economic liberalism” (p. 48) and claims that “modernity is a coherent and extremely powerful whole” (p. 130). But while he attributes coherence to both liberal democracy and to History at various points

countries become democratic capitalist states], whether their occupants, having looked around a bit at their new surroundings, will not find them inadequate and set their eyes on a new and more distant journey” (Fukuyama 1992, p. 339).

⁵⁷ “Is there not a side of the human personality that deliberately seeks out struggle, danger, risk, and daring, and will this side not remain unfulfilled by the “peace and prosperity” of contemporary liberal democracy?” (Fukuyama 1992, p. xxii-xxiii)

⁵⁸ “Looking around contemporary America, it does not strike me that we face the problem of an excess of *megalothymia*. [...]. It is hard to detect great, unfulfilled longings or irrational passions lurking just beneath the surface of the average first-year law associate” (Fukuyama 1992, p. 336).

throughout the book,⁵⁹ and while he uses the term “capitalism” freely throughout,⁶⁰ not once does he attribute coherence to the combination of capitalism and democracy. Whether Fukuyama believes the end of History to be a stable destination, or a point that could only be reached in temporary tangent hence remains unclear.

Concerning the second, it may be true that, according to a certain normative orientation, democratic capitalism is the end of History, and yet it may be false that History always *tends* towards the realization of this end. Indeed, if democratic capitalism is like the summit of Mount Everest, then History may have an end (in the sense of goal or purpose), but, if lingering there is difficult or impossible, its tendency may sometimes run towards it, and sometimes, particularly after some time has elapsed dwelling on the summit, away from it.

Here, too, *The End of History* exhibits a surprising amount of ambivalence. In the final pages of the book, Fukuyama develops the following metaphor: “mankind will come to seem like a long wagon train strung out along a road.” Capturing the vagaries of historical development, while some wagons will be “pulling into town sharply and crisply [...] others will be bivouacked back in the desert, or else stuck in ruts in the final pass over the mountains. [...] There will be a few wagoners who, stunned by the battle, will have lost their sense of direction and are temporarily heading in the wrong direction, while one or two wagons will get tired of the journey and decide to set up permanent camps at particular points back along the road” (Fukuyama, 1992, p. 338). Alexandre Kojève,

⁵⁹ See for example pp. xii, 81, or 338 for History; or pp. xiii, 37, or 70 for liberal democracy.

⁶⁰ The index gives twenty individual pages under the entry “capitalism” (Fukuyama, 1992, p. 404).

Fukuyama says, “believed that [...] enough wagons would pull into town such that any reasonable person looking at the situation would be forced to agree that there had been only one journey and one destination.” However, Fukuyama concludes,

“It is doubtful that we are at that point now, for despite the recent worldwide liberal revolution, the evidence available to us now concerning the direction of the wagons' wanderings must remain provisionally inconclusive. Nor can we in the final analysis know, provided a majority of the wagons eventually reach the same town, whether their occupants, having looked around a bit at their new surroundings, will not find them inadequate and set their eyes on a new and more distant journey” (1992, p. 338-9).

Even if there is an End of History—expressed by the metaphorical town—Fukuyama thus remains ambivalent whether history always tends in this direction. Perhaps the majority of wagons will make it to town, but perhaps not. And even if a majority does arrive there, it remains open whether they will stay: perhaps, “having looked around a bit at their new surroundings,” they will “set their eyes on a new and more distant journey.” Contrary to its popular reception, then, *The End of History* can be seen as subtly hinting at certain inconsistencies and inaccuracies of Modernization Theory. Instead of making a clear-cut case for democratic capitalism as the permanent and stable terminus of history, the book is better understood as questioning, if perhaps not outright denying, democratic capitalism’s durability and internal coherence.

J. The sprouts of neo-orthodoxy

At the same time as Fukuyama wrote *The End of History*, the first sprouts of a new tradition, which I tentatively label neo-orthodoxy, became visible.⁶¹ The strands are diverse, ranging from critical globalization theory to recent comparative political science and sociology, from the new economic history of inequality to the literature on financialization, from the revival of democratic theory to intellectual histories of neoliberalism. What the various strands of this potential neo-orthodoxy have in common is that they, directly or indirectly, contribute to undermining the claim that democratic capitalism constitutes an internally stable, coherent social order.

One strand of this neo-orthodoxy is contributed by critical theorists of globalization. Susan Strange, for example, argued in a prescient series of books (1986, 1988, 1996, 1998) that “The end of history, in Fukuyama’s sense, may not be yet. The net result of the diffusion of authority upwards and sideways from the state to other states and to non-state authorities adds up to a democratic deficit much wider than that talked about in the European Union” (Strange, 1996, p. 197). Dani Rodrik (1997, 2000, 2011), following in her footsteps, claimed the existence of a “globalization trilemma,” in which states had to choose between hyperglobalization, national sovereignty, and democracy. This trilemma states that democracy could only coexist with markets the size of the polity or smaller, which in turn implied that democracy and globalizing capitalism

⁶¹ Tentatively, because it is not yet obvious to what extent, if at all, the various strands that I briefly outline below will coalesce into a single coherent theory or framework.

stood in tension. In a quickly burgeoning field, many argued along similar lines (e.g. Cerny (1997, 1999), Friedman (1999), Keohane and Nye (2000)).⁶²

A second strand is constituted by recent comparative and sociological studies of European, British, and American politics. These analyse the growth of power, wealth, and income inequality (Bartels, 2008; Gilens, 2012; Hacker & Pierson, 2010; K. Schlozman, Verba, & Brady, 2012); the decline of mass political parties and the transformation of the political class (Crouch, 2004; Mair, 2013); the erosion of trade unions and the hollowing out of labour power (Baccaro & Howell, 2017); the growing market-conformity of public policy and administration (Leys, 2001); and the tensions that exist between the European Union and national democracy (Scharpf, 1997, 2016). The picture that has begun to emerge from these studies is one of “post-democracy,” in which public power is neither connected to, nor aligned with, majority preferences. Instead, many of these authors argue, it is deployed for the construction of markets and competition and correlated with the preferences of the wealthy (Elsässer, 2018; Elsässer, Hense, & Schäfer, 2018; Gilens & Page, 2014).

Two further strands are closely connected. Originating in economics and history, they centre on inequality and finance as their objects of study: first, what may loosely be called the new economic history of inequality (e.g. Atkinson, 2008; Atkinson, Piketty, & Saez, 2011; Milanovic, 2005, 2016; Piketty & Saez, 2003), most prominently

⁶² Others, however, maintained that the nation state, and by implication national democracies, retained considerably policy discretion (Mosley, 2003) or that instead of races to the bottom, there was a “trading up” dynamic at play (Vogel, 1997). For a review of the various positions in the nineteen nineties literature around globalization-driven policy convergence, see (Drezner, 2001).

represented by Piketty's (2014) *Capital*; second, the rapidly growing literature on financialization (e.g. Jordà, Schularick, & Taylor, 2016b; Krippner, 2011; Lapavistas, 2013; Shaxson, 2018; Taylor, 2015). These texts highlight a significant, if uneven, increase in wealth and income inequality in the Western world, as well as the rising role of finance and the regressive distributional consequences thereof. Crucially, as pointed out in footnote 30 above, these strands, and in particular the new economic history of inequality, directly contradict Kuznets and the claim that rising prosperity leads, of its own accord, to lower inequality (Grewal & Purdy, 2017, pp. 64–65, 70; for Piketty on Kuznets, see Piketty, 2014, pp. 13–5, 336). They thereby restore, or at least deny the mid-century denial of, one of the three core premises of nineteenth century orthodoxy: that, in democratic capitalism, the masses will be far poorer than the capitalists.

Lastly, there are two strands from political theory and intellectual history that look poised to make important contributions to a potential neo-orthodox paradigm: first, the revival of democratic theorising, which reemphasises ancient and early modern insights into the aristocratic/oligarchic nature of elections (Manin, 1997). Besides rediscovering this old insight, this literature has also developed alternative, less election-centric visions of democracy (J. Cohen, 1989; Gastil & Olin Wright, 2019; Landemore, n.d.). By raising the bar of what it means for a regime to be democratic, these authors implicitly question the extent to which the mid-century class compromise state actually demonstrated the compatibility of capitalism and democracy.⁶³ Second, the blossoming of historical

⁶³ This is a theme I take up in the following chapter.

scholarship on neoliberalism.⁶⁴ This literature has charted both the profoundly sceptical view of democracy espoused by neoliberal thinkers—who, as McLean (2017) and Slobodian (2018) have shown, were *acutely* aware of the dangers to capitalism that emanate from democracy—and their growing influence in the capitalist democracies of the West.

Finally, there is an eclectic group of authors, ranging from legal scholars (Grewal & Purdy, 2017) to political theorists (Brown, 2015; Fraser, 2015), from sociologists (Streeck, 2014a, 2016) to economists (Glyn, 2006), who have begun to synthesize the multiple strands identified above into comprehensive narratives. These narratives stress, among other things, the breakdown of the mid-century class compromise state, the historically exceptional nature of that settlement, and the role that profit-driven behaviour and market-valorising ideas played in its demise. They highlight the fact that, when seen across time rather than across geographies, the countries of the capitalist core have travelled along a shared, neoliberal trajectory over the last two generations. While not yet conclusive, this series of synthesizing texts suggests that we may be at the cusp of a neo-orthodox paradigm. This paradigm, like its nineteenth and early-twentieth century predecessor, looks poised to stress the tensions and incompatibilities between democracy and capitalism, not their coherence or mutual reinforcement.

⁶⁴ The literature on this has grown enormously (e.g. Brown, 2015; Burgin, 2012; Cockett, 1994; Dardot & Laval, 2014; Davies, 2017; Harvey, 2005; Mirowski, 2013; Mirowski & Plehwe, 2009; Peck, 2010; Phillips-Fein, 2009; Slobodian, 2018; D. Stedman Jones, 2012; Walpen, 2004).

Having said this, it may be too early to tell whether the various strands identified above truly constitute a coherent whole, and if so, what its defining and distinguishing features are, particularly vis-à-vis nineteenth century orthodoxy. Counter-orthodoxy has by no means disappeared: in a recent book, Iversen and Soskice argue that “there are powerful *symbiotic* forces [between] democracy, the advanced nation-state, and advanced capitalism,” that “the advanced capitalist democratic state has paradoxically become strengthened through globalization,” and that “democracy and capitalism are in a symbiotic relationship” (Iversen & Soskice, 2019, pp. 2, 5, 20, italics original). Along similar lines, other authors have defended the conclusion that democracy is only mildly constrained, if at all, by the growth and construction of global markets for goods and capital (Iversen, 2005; Soskice & Hall, 2001) (see also footnote 62 above). In the realm of political theory, the liberalism of fear stands ambiguously between capitalism and democracy. It suggests that a modern commercial republic, perhaps cashed out as limited democracy and limited markets, may be a viable, perhaps even the only viable and legitimate social order that “makes sense, now and around here for us” (Sagar, 2016, p. 372; Shklar, 1989; B. Williams, 2005, pp. 7–12).⁶⁵ In arguing this, it is backed by a deep and perceptive re-reading of seventeenth- and eighteenth-century history of political thought (Hont, 2005), and an account—rival to the one developed in this dissertation—of political economy developed on its basis (Sagar, 2018).⁶⁶

⁶⁵ In Bernard Williams’s formula, reprised by Paul Sagar, legitimacy in modernity can only be provided by liberalism. Or: “Legitimacy + Modernity [...] = Liberalism” (Sagar, 2018, p. 478).

⁶⁶ The core claim of this account is “the logic of politics tends to dominate that of economics” (Sagar, 2018, p. 481). As will become clear in the next chapter, I argue for a more complicated relationship, in which the

While the strands summarised above thus suggest that a neo-orthodox position may well be about to emerge, once again foregrounding incompatibilities between democracy and capitalism, this is not yet certain. The individual strands remain too dispersed, and the arguments in favour of counter-orthodoxy too strong, to assert that a fully-fledged neo-orthodoxy has already come into being.

K. Conclusion

This chapter presented a brief intellectual history of past theorizing on the relationship between capitalism and democracy. With democracy defined as the selection of government through contested elections, and capitalism as private ownership of the means of production, I identified three waves or images of their relationship: first, an orthodox view, prevailing from the nineteenth until the middle of the twentieth century and held by thinkers across the political spectrum, in which universal suffrage and private property were seen to be in direct contradiction. Second, a counter-orthodox view, emerging out of post-WWII US academia, in which democracy and capitalism were seen as constitutive, mutually supportive features of modernity, which reigned from the early Cold War years until the turn of the millennium. Third, an incipient neo-orthodox paradigm, whose first sprouts emerged in the globalization debates of the nineteen nineties, and whose implication, should the literature coalesce, appears to be that capitalism and democracy are not, after all, compatible.

political constitution and therefore the logic of politics is itself up for grabs, in a complicated, contingent, and uneven contest between capitalists and those who stand to gain from capitalism, and a messy non-coalition of those whose interests are harmed or not realised under capitalism.

Perhaps, then, widespread belief in the compatibility of democracy and capitalism will turn out as the exception, not the norm, in the history of political thought. The coexistence of democracy and capitalism that significant parts of the world have seen for many years would certainly have come as a surprise to those who first bore witness to the births of capitalism and universal suffrage; and there is an emerging paradigm in which this compatibility is seen as fleeting and contingent. In any case, whether a belief in compatibility will turn out as the exception or the rule depends, one hopes, on what the truth is in this matter. To this the next chapter turns.

2. Like Water and Oil

The Relationship Between Capitalism and Democracy

A. Introduction

Is capitalism compatible with democracy? The intellectual history told in the previous chapter showed that, while the preponderant answer appears to be “no,” opposing analyses have been advanced.

Putting those past replies aside, what is the truth in this matter? Are capitalism and democracy mutually reinforcing, respectively representing freedom in economic and freedom in political affairs, as some Modernization theorists had it? Are they, if not mutually reinforcing, at least compatible? Or are they inherently in tension? And if the latter, are they incompatible, as nineteenth century orthodoxy held, or is the tension repressible, perhaps even resolvable?

This chapter advances the following answer: while democracy and capitalism are compatible when considered statically, they are incompatible when considered over time. Figuratively speaking, the relationship between capitalism and democracy resembles that of water and oil: historical contingencies can create an emulsion, but as time passes they tend to separate from each other. While a re-mixing is possible, there is nothing natural or automatic about it; this absence of automatic stabilisers distinguishes the simile of water and oil developed here from a rival conception of their relationship: the metaphor of a

pendulum, in which an excess of democracy leads to a strengthening of market elements, and an excess of market elements to a re-assertion of democratic control.¹

The chapter begins by reconsidering the definitions of democracy and, to a lesser extent, of capitalism offered in the previous chapter. Against Schumpeter, I show that democracy cannot be reduced to electoral competition. Instead, it should be understood as a regime whose regulative ideal is equal political power, and whose characteristic features are majority rule, popular sovereignty, open access to agenda setting and deliberation, and a division of political labour by lot. Concerning capitalism, I add as definitional features to private ownership in the means of production: a minimal degree of competition, and a maximizing, rationalist, competitive, and future-oriented ethos.

With fuller definitions established, I turn to considering whether capitalism and democracy are compatible. I first show that, when considered statically, there is a tension between democracy and capitalism because the latter aggregates preferences weighted by purchasing power, while the former gives, in its ideal type, equal weights to all. This tension, however, can be overcome by what I term “territorial truces,” in which a majority decides to endorse capitalist principles of regulation for some assets and activities, non-

¹ The pendulum metaphor is widely used, if often implicitly. Consider, for example, Gabriel Almond’s view: “Democratic welfare capitalism produces that reconciliation of opposing and complementary elements which makes possible the survival, even enhancement of both of these sets of institutions. It is not a static accommodation, but rather one which fluctuates over time, with capitalism being compromised by the tax-transfer-regulatory action of the state at one point, and then correcting in the direction of the reduction of the intervention of the state at another point” (Almond, 1991, p. 473). De Grauwe (2017) is a recent example that explicitly refers to a pendulum dynamic in its title.

capitalist principles for others. Considered statically, democracy and capitalism therefore appear compatible.

Yet this answer remains inconclusive. Neither capitalism nor democracy can be understood through static analysis alone. They are both defined in terms of future counterfactuals: a society is only democratic if changes in majority preferences are, over time, reflected in law; and a society is only capitalist if private owners have control, i.e. if future allocations of capital are determined by private owners.

When looked at dynamically, I then argue, they tend towards incompatibility. Majority support for the principles of capitalism cannot be guaranteed, neither in fact nor in rational reconstruction. Given that coercive power is a natural monopoly, this leads to the dynamic of water and oil outlined above: supporters of capitalism, worried about the emergence of possible future anti-capitalist majorities, pre-emptively seek to limit those majorities' power. This is only possible through placing limits on democracy itself. By the same logic, partisans of democracy—regardless of whether they are also pro- or anti-capitalist, so long as they *prioritise* democracy over capitalism—pre-emptively seek to limit the power of capital. This, too, is only possible through placing limits on the private control of capital. Though asymmetric collective action problems make an ascendancy of capitalism more likely, there is sufficient contingency in history so neither scenario can be ruled out.

The chapter concludes by considering arguments for the pendulum metaphor. This conception of the relationship between capitalism and democracy claims that, as a society tends towards an “excess” of either capitalism or democracy, counterbalancing mechanisms will be set in motion. Acknowledging that American history in the twentieth century

provides compelling examples for the pendulum metaphor, I nonetheless claim that the swings in question were contingent: they were driven by choices that could have been made otherwise, and shaped by specific contexts, technological, political, and cultural, that change over time. They are not, I hence conclude, suggestive of future developments. Proof of this contingency claim is not undertaken here, but the chapters in which their demonstration is attempted are briefly summarised in the concluding section.

Driven by a Hobbesian logic of defensive pre-emption, and only contingently counterbalanced in specific historical circumstances, I therefore maintain that the relationship between capitalism and democracy resembles that of water and oil: capable of temporary combination, but tending towards separation over time.

B. Definitions reconsidered: democracy

In the previous chapter, democracy was defined as the election of government, in particular the legislature and the head of the executive, in contested elections with wide and ideally universal suffrage. This definition is widely used, by Schumpeter (1942, Chapter 22), Hayek (1979, p. 33), Przeworski (Przeworski, Alvarez, Cheibub, & Limongi, 2000, p. 15), and a number of Modernization theorists (e.g. Lipset, 1981, p. 27),² among many others. But, as I will argue now, it is fundamentally flawed.

It is flawed, even though it departs from an important insight. This insight is that democracy cannot mean rule by the people, if ‘the people’ is understood as a collective

² See Gilman (2004, pp. 47–49) for others, as well as for an historical account of the narrowing of definitions of democracy in post-WWII American academia.

whole, i.e. a single collective agent (Schumpeter, 1942, Chapter 21).³ Given the multidimensionality of politics, the fact of reasonable pluralism (Rawls, 1993, p. 36, Lecture I, §6), and the burdens of judgement (Rawls, 1993, pp. 54–58, Lecture II, §6), among other reasons, the people, taken as a whole, does not usually have a “general will”, neither de facto, nor in rational reconstruction.⁴

If we put “rule by the demos” aside, then rule by people, taken individually, remains. Read in this way, democracy means that each citizen is to count for one in determining the course of the state; none for more, none for less.⁵ In other words, the heart of democracy, its regulative ideal—once we put aside the idea of collective self-government—is *equal political power*.⁶ Of course, this regulative ideal can be no more than

³ This insight is important because it targets the etymologically most straightforward meaning of the word ‘democracy.’ In English, ‘the people’ is ambiguous: it can mean the people, as a collective whole (what the French call *le peuple*, the Germans *das Volk*), or the people, as a collection of individuals (French: *les gens*, German: *die Menschen*). The Greek ‘demos’ refers to the former, so that the etymological roots of democracy point towards “rule by the collective whole”, rather than “rule by a collection of individuals equally empowered.”

⁴ Note that Schumpeter’s insight neither presupposes nor implies that group agency per se is impossible (for a convincing account of group agency, see C. List & Pettit, 2011). The crucial observation is that a general will does not exist in a large and diverse polity across the whole range of political issues: there is no unique and stable group agent whose will reigns in a democracy, across the entire political agenda, *and* relates meaningfully with that of all members individually over time. This does not foreclose, however, the possibility of democracy as the rule of multiple and shifting majorities, each with a temporary (group) will of its own (Ingham forthcoming). Nor does it rule out the idea of coherent aggregation of group preferences over particular issues, especially when these issues can be represented on a single dimension, as is usually the case with questions of distribution.

⁵ “That citizens ought to be political equals [...] is a fundamental axiom in the moral perspective of democracy” (Dahl, 1989, p. 325). This intuition is shared by some of the most vocal contemporary defenders of capitalism, e.g. Jason Brennan: “In a democracy, by definition, all adult members of that society possess an equal share of fundamental political power” (Brennan, 2014, p. 59).

⁶ Some argue that it is equal *access* to, or opportunity of, power, that is the heart of democracy, not equal power per se (e.g. Walzer, 1983, pp. 309–310: “it is not power that is shared, but the opportunities and occasions of power”). I resist this distinction, since genuine access to power *is* power. It may also be argued

a starting point for any fully-fledged definition of democracy, in part because all three concepts – equal, political, and power – are complex, and in part because equality of power does not exhaust the meaning of democracy.⁷ As a regulative ideal, however, it helps us to judge various definitions according to how closely they approximate it. And against this regulative ideal, Schumpeter’s definition has two flaws.

First, the Schumpeterian definition remains silent about the limits of public power, and, more importantly, about who sets these limits. This is problematic: while democracy likely entails *some* limits on public power,⁸ no particular delineation of public and private has stood the test of time, either in the court of public opinion or among political philosophers (Shapiro, 1994, pp. 5–10).

If “no domain of human interaction is,” as Shapiro puts it, “beyond politics” (1994, p. 6), if there is no uncontroversial delineation of public and private, then, in a democracy, the limits of the political ought themselves to be decided democratically. For where they are decided by counter-majoritarian institutions—for example by a Supreme Court—

that the focus on equal power neglects popular sovereignty as an equally important regulative ideal for democracy; however, insofar as equal political power is equivalent to denying that anyone has more power than anyone else, “equal political power” rules out all rivals to popular sovereignty. Stressing popular sovereignty as a separate regulative ideal is hence, in my view, superfluous—even though it constitutes an important feature of democracy.

⁷ A collection of equally powerless people, while formally an instance of equal political power, would hardly constitute a democracy. I doubt that such a scenario exists—power cannot be made to disappear—but the deeper point stands: the level of power, and not just its distribution, is germane to democracy (J. Nagel, 1988). In addition, it is not obvious that ‘equal political power’ can be parsed fully without introducing additional values or premises.

⁸ This is the case both contingently, because majorities will decide to remove certain questions from the sphere of politics, and conceptually, because the power to abolish democracy, for example, is not easily squared with the idea of democracy, nor are public acts that selectively remove (particular groups of) citizens from the political process.

strategically limiting the sphere of the political can impair the regulative ideal of equal political power, even where there is equal power in the selection of government officers.⁹ To define all regimes as democracies that hold contested one-person-one-vote elections thus risks mis-classifying governments that, while selecting political leaders democratically, unduly remove spheres of life from politics that a majority considers political.¹⁰

This blind spot¹¹ of Schumpeter's definition is particularly dangerous when analysing the relationship between capitalism and democracy, since—and this was well understood by Hayek (1979, Chapter 3) and the Virginia School of public choice

⁹ To render this more tangible: where an elected government may not interfere with the allocation of capital, the status quo in gender relations, with workplace norms, or with racial, ethnic, or religious hierarchies, decisions that a majority of the population may consider to be political decisions—e.g. where to construct a new factory, whether child labour is permissible, what kinds of discrimination are acceptable in hiring and firm management, who gets to live where, what kinds of education are provided to whom (and by who), or what kinds of marriages should the state recognise—will be decided by those who command the most purchasing power, those who dominate private hierarchies, or those who have the power directly to adjudicate the scope of the political. Poignant examples include *Lochner v New York* (1905) and *Hammer v Dagenhart* (1918), cases in which the US Supreme Court decided that government could not impose limits on working hours (*Lochner*) or on child labour (*Hammer*); or *Plessy v. Ferguson* (1896), which upheld racial segregation under the “separate-but-equal” doctrine.

¹⁰ There may of course be good reasons to place limits on the sphere of the political, for example certain readings of Kantian ethics, country-specific historical experiences, or—of pertinence here—a majority desire to protect a particular form of coordinating an extended division of labour; but insofar as these limits do not find continuous majority approval, they move the form of government away from that of democracy.

¹¹ It is unclear whether ‘blind spot’ is quite the right expression. Ignoring the scope of the political in his definition does important work for Schumpeter, so that it may have been a deliberate omission. In particular, he can justify his statement that “it is absurd to deny [...] that bourgeois [i.e. capitalist] democracy is democracy” (Schumpeter, 1942, p. 297) only on that basis. For he fully acknowledges that “The bourgeois scheme of things limits the sphere of politics by limiting the sphere of public authority,” and that it pursues the “ideal of the parsimonious state that exists primarily in order to guarantee bourgeois legality” (p. 297). Restricting the scope of the political in this manner would be incompatible with democracy were “democracy” to include majority control over the scope of the political.

(MacLean, 2017 *passim*, e.g. pp. xxiii-xxvi), among others—one of the historically recurring ways to resolve the tension between democracy and capitalism is to impose a tight scope restriction on the realm of the political (Meiksins Wood, 1981).

Second, the Schumpeterian definition of democracy makes elections a definitional regime feature. *Prima facie*, this looks like a reasonable specification. On consideration, however, I reject it as not being true to the regulative ideal of equal political power. This is not because I dispute the necessity of a political division of labour. Direct rule by the people is profoundly impractical; even ancient Athens was not run along such lines (Cammack, 2013). Rather, it is because elections are not a particularly democratic way of arranging a political division of labour.¹²

To see this, note that the identification of democracy with electoral representation is both comparatively young and more controversial than is commonly recognised. As recently as “the late eighteenth century, [...] a government organized along representative lines was seen as differing radically from democracy” (Manin, 1997, p. 4).¹³ For eighteenth-century defenders of representative government, elections did not serve to democratise an inevitable political division of labour. Instead, elections were intended “to obtain for rulers men who possess most wisdom to discern, and most virtue to pursue, the common good of the society” (Hamilton, Madison, & Jay, 2008 [1788], p. 282, Madison,

¹² Note the difference, here, between elections and voting. Voting is a decision-making procedure, e.g. in a referendum or for passing laws in a randomly selected assembly. Elections are the use of that procedure for the specific decision of filling a particular (set of) office(s).

¹³ Madison, for example, pointed out “great points of difference between a democracy and a [representative] republic”, including “the delegation of the government, in the latter, to a small number of citizens *elected* by the rest” (Hamilton et al., 2008 [1788], p. 52, Madison, *Federalist* 10, italics added).

Federalist 57).¹⁴ Montesquieu, Harrington, and Rousseau, among others, identified elections as a specifically *aristocratic* selection mechanism, with aristocracy understood in the classical Greek sense. For these authors, the purpose of elections was to select those best able to rule, not to reflect citizens' political equality (Manin, 1997, pp. 134–149) (Manin 1997, p. 134-149).¹⁵

The egalitarian way to organize a political division of labour is selection by lot. Unlike elections, lotteries give every citizen an equal chance to rule and be ruled in turn. Also unlike elections, lotteries do not create distinctions of rank and recognition between rulers and ruled: a lottery confers neither special dignity on winners, nor disdain on those who lose. On this, a long line of otherwise diverse thinkers agree: from Plato and Aristotle, via Montesquieu and Rousseau, to contemporary theorists like Guerrero (2014), Van Reybrouck (2016), or Landemore (n.d.).¹⁶ In Montesquieu's words: "The suffrage by lot

¹⁴ In this context, it also worth recalling "that most of the leaders of the American Revolution, including George Washington, John Adams, and James Madison, didn't think of themselves as democrats, either in theory or in practice" (J. Miller, 2018, p. 91).

¹⁵ For Montesquieu, see *Spirit of the Laws*, Book II, Chapter 2 (Montesquieu, 1989, p. 13), and the main text below. Concerning Harrington: "It is to permit the free recognition of this natural aristocracy that the author of *Oceana* [Harrington] advocates use of the election" (Manin, 1997, p. 68); Rousseau: "this Government [aristocracy] restricts them [magistrates] to a small number, and they become magistrates only by being elected" (Rousseau, 1997a, p. 93, Book III, Chapter 5). Madison, further highlighting the 18th century contrast between elections and democracy, went as far as stating that the main difference between a democracy and a representative republic was that the latter achieved "*the total exclusion, of the people in their collective capacity*" from government (Hamilton et al., 2008 [1788], p. 313, *Federalist* 63, italics original).

¹⁶ Plato, *Republic*: "And democracy, I think, comes about when the poor win [...] and then give everybody who is left an equal share in constitutional power, public offices being mostly distributed by lot" (2012, Book VIII, 557a); Aristotle, *The Politics*: "it is regarded as democratic that magistrates should be assigned by lot, as oligarchic that they should be elective" (1996, Book IV, Chapter 9, 1294b7-9), also Book IV, Chapter 15, 1300a32; Rousseau: "the selection of leaders is a function of Government, and [...] the drawing of lots is more in the nature of democracy" (Rousseau, 1997a, Book IV, Chapter 3). See also Hennig (2017) or Gastil and Olin Wright eds. (2019).

is natural to democracy; as that by election is to aristocracy” (Montesquieu, 1989, p. 13, Book II, Chapter 2, translation revised).

Having said that, the presence of elections is not always the absence of democracy. Egalitarian through and through, selection by lot ignores ability and eloquence, wealth and prominence. Relative to elections, this may impair the competence of the rulers so selected,¹⁷ or endanger the polity through increasing the likelihood of subversion from ambitious socio-economic elites.¹⁸ For prudential or other reasons, a majority may hence choose elections to fill certain offices, as ancient Athens did with its generalships (Aristotle, 1996, p. 245, *Constitution of Athens*, paragraph XLIV). As long as the rules for filling the relevant offices remain revisable, and as long as the sociological consequences of elections, such as the heightened prominence of the elected officers, do not unduly impair the equal power of citizens in the making of fundamental laws, the presence of elections need not compromise the overall democratic nature of a polity.¹⁹ The above does imply, however, that we cannot *identify* democracy with elections, as the Schumpeterian definition does.

¹⁷ Though see Landemore (2012) for arguments that democracy understood as the most inclusive decision-making procedure, i.e. precisely *not* as rule by the (elected) few, is the epistemologically best regime, i.e. the regime most likely to produce good or correct solutions to problems faced by the polity.

¹⁸ Selection by lot may frustrate notable citizens with political ambitions, so that prudence may recommend the use of elections to channel their ambition into regime-internal competition and away from regime-undermining machinations.

¹⁹ The same point may be found in Rousseau: “It is very important to regulate by laws the form of electing magistrates [since for Rousseau laws may only be made by the people as a whole, this implies that the regulation of elections always be under the control of the people]; because if it is left to the will of the Prince [the government], hereditary aristocracy is the inevitable consequence” (Rousseau, 1997a, p. 93, Book III, Chapter 5).

Though majorities may opt for elections to fill certain offices, a democracy is not constituted by them.

Schumpeter's definition hence fails for two reasons: it fails to include an essential feature of democracy, namely majority control over the scope of the political; and it renders definitional a feature – elections – that is in fact contingent, at best, to democracy.

With Schumpeter's definition ruled out, what should be used in its stead? As stated above, I take the regulative ideal of democracy to be equal political power for all citizens. Regime features essential to approximate this ideal include, in descending order of importance: majority rule, in the Lockean tradition (Shapiro, 2010, Chapter 1, esp. 59-67), which sets up majority voting as the default collective decision-making procedure;²⁰ popular sovereignty, in the Hobbesian tradition (Tuck, 2016), which denies the existence of any source of legitimate power outside or above the people, implying the absence of *ex-ante* limits on the political;²¹ open deliberation and agenda setting, as argued for by

²⁰ See Rae (1975) on why, contra Buchanan and Tullock (1962), democracy entails majority rather than consensual rule. In this context, it is also worth pointing out that countries with multiple super-majority requirements tend to be more unequal than countries that approximate majority rule more closely (Stepan & Linz, 2011).

²¹ Any definition of democracy that subjects the scope of the political itself to majority rule invites, of course, the spectre of tyranny of the majority. This concern, while real, can be excessive: the regulative ideal of democracy itself generates restrictions on majority rule. See Ingham (2019), the argument of which is: when the political power of any *minority* is curtailed, a potential *majority* is harmed: namely any would-be majority that is put over the top by the minority in question. Democracy-as-majority-rule therefore requires the protection of the political power of minorities because only thus can there be a fair and equal competition between different potential majorities over time. Further, it is salutary to remember that the alternative to tyranny of the majority is tyranny of the minority. The sceptre of the state cannot be locked away; where a majority is to be checked, somebody must do the checking. While the regulative ideal of democracy itself justifies some limits on majoritarian decision-making, more often than not outcries about 'tyranny of the majority' are but the sound of power slipping from the hands of an oligarchy.

Landemore (forthcoming), which is crucial to prevent the capture of majority rule by minority interests; and sortition and rotation as the default mechanism to structure the political division of labour, to counterbalance the iron law of oligarchy (Michels, 1962 [1911]) and the natural monopoly characteristic of coercive power (Nozick, 1974, pp. 108–113).

This defines democracy as a family resemblance concept: the four features outlined above do not harmonise perfectly, nor do they consider the various trade-offs that must be made in making and reforming real-world regimes and constitutions.²²

How, then, as a final consideration, do we recognise a democracy so defined in the real world? After all, no definition is useful if we cannot identify what it refers to. To answer this question, recall that equality of political power is the heart and regulative ideal of the definition defended here. Given that power can be opaque and difficult to measure,²³ I propose the following: In any society there are traditions and mores, informal or extra-political resources, hidden structures and prejudices that affect the real distribution of power, sometimes greatly. These are only partially visible when we focus on a polity's

²² Is decision-making by popular referendum more or less democratic than a vote taken by a deliberative, lottery-selected assembly? Is an expert civil service a hindrance to, or a sine qua non of, democracy? How many chambers should parliament have, how should randomness, election, and territorial representation (among others) be balanced in their selection mechanism(s), and how precisely should parliament relate to the executive and the judiciary? What, if any, is the role of political parties in a democracy? While these questions cannot be answered from the definition offered here, this does not seem particularly problematic to me. Their answers depend on context, tradition, and history. The definition *would* be called into question if answers were still impossible once both definition and contextual knowledge are combined; but I see no reason why that would be the case.

²³ See e.g. Lukes (1974), or Foucault (1977). Having said that, Hirschman (1970) and Gaventa (1980) demonstrate, in my judgement, that both the opacity and the immeasurability of power can be overstated.

constitutional features, even with ‘constitution’ broadly understood, say as a Rawlsian basic structure. To see how close or distant a polity is to democracy’s regulative ideal, one should therefore supplement the study of a society’s constitution (in which we look for the four features listed above) with a regard for what Tocqueville called “equality of conditions” (de Tocqueville, 2010 [1835], p. 4).

To be clear, in advocating this method of observation I assume a universal human desire to share fully in the social life of one’s polity, to be recognised as (at least) an equal by others of (at least) equal status.²⁴ It is because of this assumption that I assert a legitimate inference from the equality (or not) of social conditions to the “democraticity” (Landemore, n.d.) of the corresponding political regime. This inference is not always accurate: there will be false inclusions – equality of social conditions can be brought about by causes other than a democratic political regime, e.g. famines, pandemics, natural catastrophes, or egalitarian-authoritarian revolutions (Scheidel, 2017) – and there may be false exclusions, where, despite an equal distribution of political power, majorities choose to preserve socially unequal conditions. However, I believe that this method of observation places the burden of proof appropriately: it is possible, under this approach, to show that

²⁴ In this I follow Hegel in matter of substance and Hobbes in matter of method. Hegel: “they must bring their certainty of themselves, the certainty of being for themselves, to the level of objective truth [...] The individual, who has not staked his life, may, no doubt, be recognized as a Person; but he has not attained the truth of this recognition as an independent self-consciousness” (Hegel, 2017 [1807], §187) (My reading of Hegel is indebted to Kojève, 1969, Chapter 1). Hobbes: “He that is to govern a whole Nation, must read in himself, not this, or that particular man; but Man-kind: which though it be hard to do, harder than to learn any Language, or Science; yet, when I shall have set down my own reading orderly, and perspicuously, the pains left another, will be onely to consider, if he also find not the same in himself. For this kind of Doctrine, admitteth no other demonstration” (Hobbes, 2010 [1651], p. 9).

a socially unequal society is politically democratic; but it requires convincing evidence to show that this inequality is truly willed by a majority.²⁵

In sum, then, I define democracy as a political regime whose regulative ideal is equal political power. Majority rule, popular sovereignty, open access to deliberation and agenda setting, and sortition and rotation are its primary hallmarks. As in any family, not all its characteristic features will be equally present in all its members, and there may well be no cases where all features are fully present. To render the definition nonetheless measurable, we should supplement the observation of these four features by looking at what Tocqueville called “equality of conditions.” In this manner, it is possible to give a robust appraisal of the extent to which any given regime approximates the ideal of democracy: equal political power for all citizens.

C. Definitions reconsidered: capitalism

In the previous chapter, capitalism was defined as private ownership in the means of production. While, unlike in the reconsideration of democracy above, this will remain an important component of the definition of capitalism used here, it requires supplementation and expansion. In particular, no social order can be called capitalist, unless, in addition to

²⁵ See also Shapiro (1994, pp. 41–45). How regimes and societies evolve over time further supports this method of observation. “Power corrupts, and absolute power corrupts absolutely” (Acton, 1919, p. 504). Those who de facto rule society will desire to have that status recognised—in line with the recognition assumption—and, unless checked by countervailing power, will eventually use their own power to accumulate superior wealth, pass sumptuary laws, create physical spaces and representations of prestige, or introduce other distinguishing rules of social conduct. Even where the link between political power and social conditions is counterintuitive at the beginning of a period, over time it is therefore likely to come into alignment.

private ownership in the means of production, there is a minimal degree of competition and a maximizing, rationalist, and future-oriented ethos is pervasive.

To see the importance of competition, consider a case where a single firm dominates a polity, for example a small and isolated island or city state. With competition absent, private ownership of the means of production takes on a qualitatively different character. As the imperative to maximize profits becomes slack, private capital ownership approaches a form of despotism (unconstrained private rule) rather than capitalism (competition-, and in particular profit-driven private rule). Of course, competition need not take the form of markets (though this is its paradigmatic form under capitalism),²⁶ let alone the form of perfect competition, but there must be a sufficient amount of it so that economic agents are significantly constrained by it.

Second, capitalism depends on the prevalence of a certain kind of ethos. “For the transformation of money into capital [...] the owner of money must find the free worker available on the commodity-market” (Marx, 1992 [1867], p. 272). This requires, as Marx famously pointed out, that the “worker must be free in the double sense that as a free individual he can dispose of his labour-power as his own commodity, and [...] on the other hand, he has no other commodity for sale” (p. 272). This ‘double freedom’, however, is only a necessary and not a sufficient condition; for it is not natural to order one’s life in

²⁶ Numerous public administrations, for example, have introduced forms of competition – e.g. New Public Management in the UK, involving a weakening of process rules (granting (senior) civil servants “freedom to manage”), a tightening of output-contingent resource allocation (“performance pay”), the deliberate attempt to cultivate an entrepreneurial ethos, as well as decentralisation followed by competition between different administrative units (Hood, 1991) – over the last thirty years, without necessarily proceeding to full marketization, e.g. in the form of externally purchasing previously internally produced goods or services.

pursuit of profit.²⁷ Even ‘doubly freed’ workers, positively free from serfdom and slavery, negatively free from ownership of land or artisanal tools, may not provide their labour power reliably enough for purchase to create a functioning labour market, unless they are gripped by a certain ethos.²⁸ And where labour power is not reliably available for purchase, private ownership of the means of production does not amount to capitalism: money, in those circumstances, cannot reliably be transformed into capital.²⁹

Like any ethos, the ethos of capitalism is difficult to capture in a few sentences. Without claiming comprehensiveness, I identify the following as important characteristics: an ethic of maximisation – itself a combination of social acceptance of greed,³⁰ a particular

²⁷ Cooperation in small tribes, with existential risks largely born at the group-level, characterised the better part of human existence, leaving a deep imprint on our psyche (Tomasello, 2014). Our natural mindset – to the extent that there is one at all – leans towards cooperation, risk sharing and preference satisficing, not competitive individual striving and (necessarily conflict-inducing) preference maximisation. See also Roemer (2019).

²⁸ This is the central point of Weber’s discussion of the Silesian weavers: “only a human lifetime in the past it was futile to double the wages of an agricultural labourer in Silesia [...]. He would simply have reduced by half the work expended” (Weber, 1981 [1927], p. 355). In this situation, hiring more labour through offering more money is impossible: offering higher wages means *less* labour is forthcoming, not more.

²⁹ This is not a purely historical issue. Consider the following, from the World Bank’s *World Development Report 2019*: “In Cambodia, El Salvador, Honduras, the Lao People’s Democratic Republic, Malaysia, the Philippines, and Vietnam, more than half of firms report shortages of workers with specific sociobehavioral skills, such as *commitment to work*” (The World Bank, 2019, p. 72).

³⁰ “Accumulate, accumulate! That is Moses and the prophets!” (Marx, 1992 [1867], p. 742; see also the rest of Chapter 24, Part 3). “[T]he *summum bonum* of this ethic, the earning of more and more money [...] is thought of so purely as an end in itself, that from the point of view of the happiness of, or utility to, the single individual, it appears entirely transcendental and absolutely irrational. Man is dominated by the making of money, by acquisition as the ultimate purpose of his life” (Weber, 1992 [1905], p. 18, italics original). Keynes phrased this simply as “the love of money” (Keynes, 2015 [1930], p. 84). We know this attitude has become pervasive “when the pursuit of self-interest through trade and industry lost its stigma and was accorded social prestige instead” (Hirschman, 1991, p. 16).

form of rationality,³¹ and the ‘Protestant’ work ethic³²—a theodicy of competition,³³ and an open, progressive conception of the future.³⁴ Unless an ethos of this kind is prevalent, even competition and private ownership of the means of production may not suffice to render a society capitalist.

In combination, these three components imply an essential quality of capitalism: its lively, dynamic, change-producing, and inconstant nature: “Any capitalism that is worth its name, or its money, is necessarily on the move, and always from within” (Streeck, 2016,

³¹ As epitomised by double entry book keeping (Sombart, 1915, pp. 125–129; Weber, 1981 [1927], p. 276), valorising the calculated, cool pursuit of clearly identified ends, as against the hot, tempestuous pursuit of romantic ideals (see also Hirschman, 1977).

³² In Weber’s origin story, the Protestant work ethic emerged out of fear of the Last Judgement, in pursuit of certainty concerning future salvation. Since Protestants rejected indulgences and other Catholic means of assurance, worldly success crystallized as the best, albeit imperfect, sign of Divine Grace. Substantively, the Protestant work ethic consists in a conception of profit-oriented work as a vocation in its own right, combined with a “worldly asceticism” that militates against enjoying the material fruits of this labour. These elements stand in stark contrast to earlier (or indeed contemporary) conceptions of gainful employment as a means—effort and time spent on which is to be minimized—to enable the pursuit of other, profit-unrelated, ends (Weber, 1992 [1905]). To what extent this is specifically Protestant, as Weber asserted, is debated, but also beside the point for present purposes: after the “victory of modern capitalism”, “whoever fails to adapt to capitalist standards of success will go under or at least fail to rise” (Weber, 1992 [1905], p. 92). I thank Astrid Hampe-Nathaniel for saving me from sinful inaccuracy in my reading of Weber.

³³ Flesh and blood capitalists are not always supportive of competition: it reduces profit opportunities for would-be mono- and oligopolists and, above all, deprives the capitalist of her peace and quiet (Swenson, 2002). To reconcile capitalists with competition, a theodicy of market competition (an understanding of competitive markets as providers of cosmic efficiency and justice, even as they bring headaches to unfortunate individual capitalists) is therefore an important cultural ingredient of capitalism. This ‘market theodicy’ is a prominent theme in Bernard Mandeville’s (1988 [1732]) *Fable of the Bees* and Adam Smith’s (1976 [1776]) *Wealth of Nations*.

³⁴ This is opposed to seeing the future as a cyclical repetition of the past, the dominant understanding of time prior to modernity (J. Beckert, 2016; Koselleck, 2004). While this may appear as a less significant part of the capitalist ethos (less important than, say, the valorisation of the profit motive or the ‘Protestant’ work ethic), it is in fact just as central: “Imagining the possibility of an open future different from the present is the cultural basis of the notion of progress” (J. Beckert, 2016, p. 30), and without it, the risk-taking behaviour that is emblematic of capitalist entrepreneurship could not get off the ground.

p. 205). This dynamism is not contingent. The ethos of capitalism, especially the profit motive, combined with the use of markets to allocate products and factor inputs, and the presence of a minimal degree of competition, result in constant pressure (most directly on entrepreneurs, managers, and engineers, but ultimately also on doctors and lawyers, civil servants and politicians, parents and children, etc.) to invent and adopt lower-cost (or, equivalently, higher-efficiency) methods of production, to optimise one's organisation and one's inner life for financial performance, and to experiment with new, more profit-conducive, arrangements in the family, the firm, and the polity. The result of this constant striving for ever greater accumulation is that, more than merely tolerating change, capitalism actively propels it (see also footnote 46 in Chapter 1 above, p. 55).

Summing up, I use a tripartite definition of capitalism: private ownership in the means of production, a minimum degree of competition, and the prevalence of a recognizably capitalist ethos. Taken together, they cause capitalism's inherently dynamic, change-producing, and inconstant nature.³⁵

³⁵ There is a final feature of actual capitalism to mention here: the relative scarcity of capital vis-à-vis labour. After all, competitive, risk-free markets only yield positive returns on capital—profits—if capital is scarce relative to labour. Where capital is abundant, risk absent, and markets competitive, workers will bid up wages until profits are eliminated. This could “would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital” (Keynes, 2015 [1936], p. 255)—i.e. the end of capitalism. However, whether or not relative capital-scarcity is indeed a definitional feature of capitalism remains an open question: oligopoly or monopoly rents, rents on land ownership, on intellectual property, and on other inherently scarce assets, economies of scale, as well as compensation for risk may still result in profits of significant size, even where capital is abundant. The possible causes and consequences of relative capital abundance hence merit further investigation. I thank John Roemer for pointing this out to me.

D. Static compatibility: inconclusive

With these definitions on hand, let us consider the relationship between democracy and capitalism.

To begin with, there is a frequently observed static incompatibility between the two: any one activity, asset, or sphere of life is regulated either according to capitalist principles, or according to democratically determined rules and regulations, but not, usually, both.

This incompatibility is best illustrated with examples. Consider the following: the French Yellow Vests (*Gilets Jaunes*) movement of the winter of 2018-9 circulated a list of twenty-five demands that included the following: increase the minimum wage, pensions, and state subsistence payments by 40% (point 2); build five million new social homes to lower rents, prices, and boost employment (point 4); and prohibit the use of GMOs, carcinogenic pesticides, endocrine disruptors, and monocultures in agriculture (point 20).³⁶ An earlier list of 42 demands also included: support small shops in town centres and villages, stop the construction of large commercial zones/malls on city outskirts that undermine small traders and offer free parking in city centres (point 4); and immediately halt the closure of branch train lines, postal offices, schools, and maternity wards (point 30).³⁷ When these demands were published, opinion polling showed that between 60%

³⁶ Own translations. The list of twenty-five demands date from 5th December 2018 and have been publicized widely on Facebook, for example at <https://www.facebook.com/Charte-des-gilets-jaunes-756772671347085/>

³⁷ Own translations. The 42 demands date from 29th November 2018 and can be found at <https://yetiblog.org/le-programme-politique-des-gilets-jaunes-42-revendications/>

and 70% of the French public supported the Yellow Vests. Support has remained steadily above 50% in the weeks and months that followed.³⁸

What these demands make clear is that the core allocative principle of capitalism – allocation according to private profit maximization – and the core principle of democracy – allocation by rules willed by a majority – can, and regularly do, produce contradictory demands on reality. Either train stations, postal offices, schools, and maternity wards are shut in small towns and villages, because they are loss-making at market prices; or they are kept open, because a majority supports taxation and state spending to that end. Either zoning laws, business tax regimes, and road and public transport infrastructure are geared towards the specific result of saving small-town shops, or they are designed to maximize the scope for and volume of profit making, even if this predictably entails empty high streets and large shopping centres on city outskirts.³⁹ Either state power places a €14/h wage floor on the labour market,⁴⁰ or state power is thrown behind any wage contract

³⁸ The two programmes were released on 29th November and 5th December respectively. According to Harris polling, support for the Yellow Vests hovered around 70% from mid-November to mid-December (Lévy & Bartoli, 2018); IFOP polling had support ranging from the high sixties to the low seventies in the same period (IFOP, 2018). Support dropped after President Macron’s speech to the nation on 10th December 2018, in which he announced a series of concessions (an increase in the minimum wage equivalent to €100 per month, a tax cut for pensioners, and a tax and social security contributions exemption for overtime hours), but it remained above 60% (LCI Newsroom, 2018). Indeed, according to the Wall Street Journal (3rd January 2019), “Mr. Macron’s concessions have helped drain some public support for the yellow vests, but polls late in December showed they retained the backing of 70% of the French public” (Dalton, 2019). Polls in early and mid-January indicated support in the high fifties (IFOP, 2019), polls in March in the mid-fifties (ELABE, 2019).

³⁹ On the socio-geographical transformation of French society – to the detriment of rural areas and the French working class in particular – see Christophe Guilluy (2014, 2019).

⁴⁰ The French minimum wage (SMIC, short for *salaire minimum interprofessionnel de croissance*) was €10.03/h in 2019, so that a 40% increase would lift it to approximately €14, or around \$16.

determined by demand and supply. Either GMOs, carcinogenic pesticides, endocrine disruptors, and monocultures are outlawed, or farmers may experiment with whatever food production techniques and products are most profitable; and so on.

This conflict is not coincidental. Markets, where they function well, aggregate individual preferences into a social distribution of assets and activities—train stations here but not there, production technology A but not B, and so on—by weighing individual preferences according to *purchasing power*. Democracy does the same, but gives individual preferences *equal* weights. “Hence, the same set of individual preferences, for private as well as public goods, will normally yield a demand for a different allocation of resources when they are aggregated by political institutions rather than by the market” (Przeworski, 1985, p. 218, italics added). It would take a heavenly coincidence for two different weightings to yield the same aggregate outcome, if the underlying preferences are—as they surely are—not uniform.

This is not an original recognition. A wide range of thinkers have grasped and discussed close variants of it: the best-known rendition in political theory is perhaps Robert Nozick’s, in *Anarchy, State, and Utopia*,⁴¹ but similar thoughts, with various emphases, can

⁴¹ His distinction between entitlement or historical principles and end-result or patterned principles partially tracks the incompatibility between democracy and capitalism described here (Nozick, 1974, pp. 151–164): distribution can be regulated according to side constraints and historical rules—in particular the enforcement of any contract agreed to by two formally free contracting parties—or it can be regulated in pursuit of an ex-ante determined pattern—e.g. public transport, healthcare, and schooling in every town in France—but not, Nozick argues, by both. If an activity is regulated by side constraints only, it will not reliably conform to any one pattern of outcomes; and if a particular pattern of outcomes is desired, regulation cannot consist of side constraints only. In Nozick’s pithy formulation: “Liberty upsets patterns” (p. 160). The overlap between Nozick and the tension I discuss above is partial: non-democratic regimes can pursue patterned outcomes, and democratic majorities can, as I will discuss below, endorse regulation through side-constraints only.

be found among political scientists (Esping-Andersen, 1985), economists (Bowles & Gintis, 1986, p. 3), sociologists (Streeck, 2014a, pp. 57–59), critical theorists (Fraser & Jaeggi, 2018, p. 131), and others.⁴² It is also widely recognised in practice: as historians of capitalism unceasingly point out, one of capitalism’s core features is an institutionalized division between polity and economy (Fraser & Jaeggi, 2018; Meiksins Wood, 1981) that locks in a capitalist regulation of most assets, activities, and spheres of life and shields them against justification in front of, or control by, political institutions. There would be little need for such lock-in if, ordinarily, the principles of capitalism and the principles of democracy yielded concurrent instructions for the regulation of particular assets or activities.

Its wide recognition in theory and practice notwithstanding, however, this particular kind of incompatibility is not conclusive regarding the question at hand: it does not tell us whether democracy and capitalism are *in principle* compatible or incompatible. Given that this incompatibility applies to particular assets, activities, or spheres of life, there

⁴² “[C]apitalism and democracy are not complementary systems. Rather they are sharply contrasting rules regulating both the process of human development and the historical evolution of whole societies: the one is characterized by the pre-eminence of economic privilege based on property rights, the other insists on the priority of liberty and democratic accountability based on the exercise of personal rights” (Bowles & Gintis, 1986, p. 3). “Two competing principles of distribution were institutionalized in the political economy of postwar democratic capitalism: what I shall call *market justice* on the one hand and *social justice* on the other. By *market justice*, I mean distribution of the output of production according to [...] marginal productivity [...]. *Social justice*, on the other hand, is determined by cultural norms and is based on status rather than contract” (Streeck, 2014a, p. 58). “If the surplus of society is privately appropriated, then we can’t be part of the most important decisions that affect our individual and collective lives [...]. Capitalism truncates democracy by restricting the political agenda. It treats what should be major political matters as “economic” and hands them over to “market forces”” (Fraser & Jaeggi, 2018, p. 131). Michael Walzer’s *Spheres of Justice* combines a recognition of this incompatibility (e.g. Walzer, 1983, pp. 21–22, Chapter 4), with an argument in favour of what below I call a territorial truce, i.e. the regulation of some spheres by market principles, of other spheres by other principles (e.g. need or socially determined desert).

is nothing – at first glance – to prevent the following kind of accommodation: returning to the demands of the Yellow Vests, the state could collect taxes to build five million homes, pay for train stations and postal offices in rural France, and tightly regulate agriculture, while leaving the production of, say, electronics, clothes, and construction material to private owners of capital, guided only by the profit motive, individual judgement, and the pressure of competition.

And indeed, accommodations of this kind are common: we see spatial accommodations, as with Special Economic Zones;⁴³ sectoral accommodations, as with the Common Agricultural Policy of the EU, or public housing policies in many countries; or temporal accommodations, as with intellectual property law.⁴⁴ Other forms of ‘local’ accommodation are no doubt possible. While the principles of democracy and capitalism continue to be incompatible *internal* to a particular place, sector, or time period,⁴⁵ compatibility between capitalism and democracy as principles of social order is achieved through a division of sectors, leaving some under capitalist, other under democratic (or otherwise non-market) regulation. This kind of accommodation, then, might be called a “territorial truce.”

⁴³ On which, see Neveling (2014, 2015), and Wetherell (2016).

⁴⁴ Contemporary intellectual property (IP) regulation can be thought of as a temporal accommodation between two different principles of regulation, one being a regime of state-enforced private property and decentralized profit maximization, operative while patents or IP rights are in place, the other being a communal use regime in place after patents or IP rights have elapsed.

⁴⁵ For example, either economic activity in Katowice is regulated by the general laws of the Republic of Poland, *or* it falls under the Act of 20 October 1994 on Special Economic Zones; either an American court, backed by American police, will enforce Apple’s property claim to a particular design idea, *or* the idea can freely be used by all; either the earnings of a British farmer are determined by market trading, *or* an income floor is provided by the Common Agricultural Policy; and so on.

Importantly, there is nothing, in principle, that prevents majorities from choosing or endorsing capitalist principles for the regulation of a particular activity, asset, or sphere of life. At the limit, a majority could endorse commercial society or capitalism as such, i.e. as the universal principle for social order. The latter is in general unlikely, due to the differing weights that capitalist and democratic principles attach to each person's preferences, as explored above. However, it is not impossible: as above, this could be called a heavenly coincidence of the will of a majority with the demands of the market. Under certain historical interpretations, the election victories of Margaret Thatcher and Ronald Reagan can be seen as examples of this accommodation.

Combining these two modes of accommodation, democracy and capitalism appear in principle compatible: in full accord with the definition of democracy defended above, popular sovereignty, majority rule, open agenda setting, and sortition could obtain at the level of the polity. Exercising these powers, a majority could then will the adoption of Nozickian entitlement principles (i.e. capitalist rules of regulation) for some activities, assets, or spheres of life, and patterned or end-state principles for others. The result would be a territorial truce endorsed by majority will. To the extent that the society in question exhibits major inequalities, a considerable burden of proof would have to be discharged to show that equality of political power is still given, but this seems, again, not *prima facie* impossible. Indeed, something along these lines may be a good approximation of the class compromise state that obtained in Western Europe and North America after World War II (Przeworski, 1985).

E. **Dynamic incompatibility: bringing time back in**

The analysis in the previous section was a static one. It considered the extent to which the principles of democracy and capitalism could simultaneously be realized in one society in one time slice. Compatibility looked rare, due to the argument from different weightings, but not conceptually impossible, due to the possibility of assigning different sectors or spheres of life to different principles of regulation, and the possibility of a majority endorsing such a division.

However, insofar as this analysis did not consider how capitalism and democracy interact *over time*, it remains inconclusive. This is because neither capitalism nor democracy can be understood through static analysis alone. For a society to be capitalist, the means of productions must be privately owned. Ownership includes the right to control. It must be true, therefore, that private decision makers are free to deploy their capital, without punishment, in whatever way they deem to be profit-maximizing. In other words, to know whether a society is capitalist we must ask: if technologies, tastes, or resource endowments change—or if owners of capital simply feel like it—would capitalists and their agents be free to adjust prices, investments, and production decisions (and would everyone else have to adjust accordingly)? Is, in Hayek’s words, “government in all its actions [...] bound by rules fixed and announced beforehand” (Hayek, 2007 [1944], p. 112), so that private sovereignty is secured over the division of labour?⁴⁶ Only where the answer is yes, only

⁴⁶ The notion of private sovereignty over the division of labour may strike the reader as incongruous: property rights, after all, are a creation of the state. Hayek’s quote suggests how I intend this term: as the configuration of state power so to maximize the discretion that private owners of capital have regarding how to configure and shape the division of labour.

where this counterfactual is true, can we say that the society in question instantiates the principles of capitalism today.⁴⁷

For the same society to be a democracy, however, it must be true that the principles that regulate it are continually open for revision. Whatever else democracy is, it is also the rule of the living over the dead.⁴⁸ In other words, were a majority of people to change their mind about a particular issue, say the desired kind and regional distribution of transport or communications infrastructure, then, if this reflects a considered judgement, the laws of society ought to change over time to reflect it. If particular rules were unchangeable, say those governing property rights or the legitimate uses of capital, the democratic counterfactual would no longer be true, and the society in question could no longer be called democratic.

This points to a previously hidden tension. The truth of the capitalist counterfactual requires that owners of capital be free to adjust prices, investments, and production decisions, if either competition or their own will inclines them this way. But if the democratic counterfactual is true, then this freedom of capital is always precarious: any change in majority opinion may entail the overruling of private property rights, i.e. the abrogation of private control over capital, whether through direct calls for redistribution, re-regulation, or expropriation, or through the indirect effects of other public policy

⁴⁷ Besides the definitional element, there is also a functional aspect to this: where there is significant uncertainty around the safety of private property rights tomorrow, private investment is likely to be low today, hampering the present and future functioning of the division of labour.

⁴⁸ I owe this formulation to Joy Wang. The origin of the argument, if not the precise formulation, is Thomas Paine's *Rights of Man*, as Stuart Ingham pointed out to me. See also Thomas Jefferson's letter to James Madison from 6 September 1789 (Thomas Jefferson in Madison, 1979, pp. 382–388).

choices.⁴⁹ Some might argue that this is a conflict limited to the economic realm, to the question of who holds sovereignty over the division of labour in society, and hence a tension that, despite my arguments here, can be managed; but in agreement with Hayek I observe that “economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends” (Hayek, 2007 [1944], p. 127).

The only way for both counterfactuals to be reliably true is if a majority is continuously in favour of capitalist principles of organization. In that case, both the democratic and the capitalist counterfactual can be true simultaneously: if a majority *were* to change its mind, the principles of regulation would change, so that the democratic counterfactual holds; but, conditional on a majority continually supporting capitalist principles of regulation, they never *do* change, so that capitalists are continually free to redeploy their capital at will. The capitalist counterfactual also holds. Despite the latent tension identified between the two counterfactuals, a society could hence be both democratic and capitalist over time, if a majority is continually market conforming and market confirming.

The argument from different weightings makes this unlikely, but, again, it is not on its face impossible. In particular, where capitalists are able to say to any potential majority, truthfully, “our interests are your interests,” such continued majority support

⁴⁹ The mechanisms through which seemingly unrelated public policy choices can impact the freedom of capital are explored in section H (p. 117) below. See also Hayek (2007 [1944], Chapter 7), for an extended argument to the effect that public policy intervention in one area necessarily has knock-on effect in other areas.

may well be forthcoming. This may or may not be a sufficient condition—even an alignment of interests can be overwhelmed by momentary passions or the complications of collective action problems—but it appears to be a necessary one: where majorities believe that regulation according to capitalist principles violates their interests, the democratic counterfactual and the capitalist counterfactual will pull in contradictory directions.

Can this continued majority belief be assured? I believe not. There are two classic arguments for why capitalism is in the interest of all, or at least of the vast majority: an argument from freedom, and an argument from prosperity.⁵⁰ As I now show, neither succeeds beyond reasonable doubt.

F. The argument for capitalism from freedom

The argument from freedom claims that “the system of private property is the most important guaranty of freedom” (Hayek, 2007 [1944], p. 136) or that “capitalist institutions best promote freedom” (Gray, 1988, p. 77). More specifically, it claims that capitalism provides individual “freedom directly [...] [and] promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other” (M. Friedman, 1962, p. 9). To convince a (freedom-loving) majority to throw their support behind capitalism, both claims must be comparative: to constitute a reason in support of capitalism, the claim must be that capitalism provides *more* individual and political freedom than other feasible systems of social order.

⁵⁰ A representative statement is: “capitalism [...] is the only system that achieves both economic growth and individual freedom” (Meltzer, 2012, p. ix).

Beginning with individual freedom, the claim that capitalism provides more of it than other feasible social orders is both unstable and contentious.⁵¹ It is unstable for the following reason. If we are hard-nosed about freedom, then the *absence* of private property rights—*anarchy* or the state of nature—provides considerably more individual freedom than a state-backed system of private property. In the words of Cole Porter, “Anything goes.”⁵² Where private property reigns, on the other hand, only the owner has a right to each thing. Everyone else’s freedom is greatly restricted with respect to what they do not own. The creation and enforcement of private property rights thus entails “massive net losses in negative liberty” (E. Anderson, 2017, p. 47); (Berlin 2002 [1958], chap. 4), for they necessarily abrogate the right of everyone to every item or thing.

If, on the other hand, we (reasonably) conclude that individual freedom is in fact improved or extended by the introduction of private property,⁵³ then we are committed to believing that *some* restrictions of freedom, such as the introduction of private property rights, are in fact freedom-enhancing. If we believe *this*—as those who make the argument from freedom invariably do, for the argument must show that capitalism is freedom-

⁵¹ The claim is also conceptually slippery: it is unclear how to measure the ‘amount’ of freedom anyone has individually. It is also unclear according to which formula, if any, individual amounts of freedom should be summed into a social total. But since both the instability and the contentiousness of the claim can be demonstrated without going into definitional details, I leave aside definitional questions in this section.

⁵² “It is consequent also to the same condition [the state of nature], that there be no Propriety, no Dominion, no *Mine* and *Thine* distinct; but onely that to be every mans, that he can get; and for so long, as he can keep it” (Hobbes, 2010 [1651], p. 79, italics original).

⁵³ For the strongest argument in support of this conclusion, see Kant (1996 [1797], Part I, Doctrine of Right).

superior to the state of nature⁵⁴ – then it is profoundly unclear why *other* restrictions (egalitarian income- and wealth-taxation, licencing requirements and other mandates on firms’ behaviour, public provision that competes with private provision, and so on) could not *also* improve individual freedom. To take but one example, if my freedom is enhanced by the serenity of enforceable title over my landholding (with enforcement paid for from general taxation) even though this radically reduces the amount of land that I may freely use or walk on, then my freedom may well be enhanced *further* by the serenity of enforceable claims to healthcare, housing, food, or education (with enforcement paid for from general taxation), even though this may significantly reduce the amount of income I have discretionary control over. The latter cannot be excluded, at any rate.

The claim that capitalism is individual-freedom-maximizing is thus unstable: on a minimalist definition of freedom, anarchy or the state of nature appear superior with regards to individual freedom. On a richer account of freedom that allows some restrictions to be overall freedom-enhancing, restrictions far beyond those involved in enforcing private property rights may well register as freedom-increasing.

Next, even *if* capitalism could be shown to maximize individual freedom, the question remains *whose* freedom it maximizes. Shining a light on this shows why the claim under investigation is not just unstable, but also contentious. Observe that, like any system of rights and obligations, “private property [...] is a particular way of distributing freedom *and unfreedom*. It is necessarily associated with the liberty of private owners to do as they

⁵⁴ It is therefore no surprise to find Hayek saying: “We owe our freedom to restraints of freedom” (Hayek, 1981, p. 163).

wish with what they own, but it no less necessarily withdraws liberty from those who do not own it” (G. A. Cohen, 2011, p. 152, italics original). When a state enforces the right of a landowner to exclusive control over a particular meadow, for example, this provides the landowner with the freedom to build a house there, plant crops, or simply enjoy its natural beauty. However, *the same enforcement* deprives millions of others of the freedom to walk across that meadow, pitch a tent there, or otherwise enjoy it. As a result, “To think of capitalism as a realm of freedom is to overlook half its nature” (G. A. Cohen, 2011, p. 152).

Observe next that in a capitalist society, in which most goods and services are accessible only in exchange for money, money confers – and hence distributes – freedom.⁵⁵ This is true even on a negative reading of freedom. Just as someone prevented by policemen or vigilantes from entering a voting booth or restaurant is unfree because of man-made interference, so someone prevented from boarding a plane by airport staff (backed by the police) is unfree because of man-made interference. If we are committed to interpreting the removal of the former interferences, e.g. through the Civil Rights Act of 1964 and the Voting Rights Act of 1965, as the attainment of new freedom by and for those who

⁵⁵ I say most, because even in highly capitalist societies some goods are *also* accessible in virtue of “special access rules.” Access to schooling, for example, can usually be accessed not just in exchange for money, but also via being younger than 18 years old (G. A. Cohen, 2011, p. 176). There is also the complication that money is not by itself a *sufficient* condition for access to particular goods: knowledge about the existence of the good and willingness of the owner to sell or rent it out are, at minimum, also required. However, insofar as money extinguishes interference that would otherwise take place (e.g. by the police, who would stop you from exiting a shop with goods not paid for), it confers freedom even though it is not the only thing (or rather social relation) that does so and even though it is not, on its own, sufficient to create the situations in which this freedom can be exercised (G. A. Cohen, 2011, pp. 177–178).

previously faced race-based interference, then we are also committed to interpreting the removal of the *latter* interference, through spending money on a plane ticket, as an attainment of freedom by and for those who previously faced poverty-based interference. “Money provides freedom because it extinguishes interference with access to goods and services: it functions as an entry ticket to them” (G. A. Cohen, 2011, p. 181).

Authors like John Rawls or Isaiah Berlin are thus mistaken when arguing that the poor are just as free as the rich in a liberal capitalist society, lacking only the “conditions of its exercise” (Berlin 2002 [1969], 45) or the full “worth of liberty” (Rawls, 1971, pp. 204–205). As Cohen (2011, Chapter 7 and 8) has shown, in a society where most goods and services are accessible only in exchange for money, money confers freedom itself.

Now, given the concentration of economic resources to which capitalism tends (Piketty 2014), the above entails that individual freedom is unevenly distributed under capitalism. As a result, when advocates of capitalism argue that it maximizes individual freedom, many are likely to disagree, on the basis of their personal experience of unfreedom. The claim will appear contentious, and a majority may well decide that an alternative system of rights and duties, a different coordination of the division of labour, is in their freedom-interest.

Summing up, the claim that the capitalist scheme of things uniquely maximises individual freedom is an unstable claim: on a thin definition of freedom the state of nature or anarchy come out freedom-superior; on a thicker notion of freedom, additional restrictions, beyond what the capitalist scheme of things entertains, cannot be excluded as

freedom-improving. At the same time, it is also a contentious claim: the particular way in which capitalism distributes freedom and unfreedom may well be rejected by a majority.⁵⁶

The second claim of the argument from freedom is that, empirically speaking, capitalism supports political freedom. This argument has an elective affinity with republican political theory (E. Anderson, 2017, p. 47) (for a classic statement of republican political theory, see Pettit, 1997). Its classic positive statement is Friedman's (1962) *Capitalism and Freedom*:⁵⁷ "By relying primarily on voluntary co-operation and private enterprise, in both economic and other activities, we can insure that the private sector is a check on the powers of the governmental sector and an effective protection of freedom of speech, of religion, and of thought" (M. Friedman, 1962, p. 3).

This is a powerful argument: all modern democracies have emerged in the context of commercial societies, and no command economy has coexisted with democracy over any appreciable period of time (Dahl, 1990, p. 80). Moreover, the claim has a credible mechanism underpinning it. The same mechanism that renders capitalism in principle compatible with, even predisposed towards, eliminating racism, religious discrimination, and gender discrimination, also provides protection for the expression of dissent:⁵⁸ under

⁵⁶ This is a compressed version of arguments made by, among others, G.A. Cohen (1988, pp. 292–302, 1995, pp. 55–66, 2011 Chapters 7 and 8) and Hale (1952). The argument is given here without distinguishing in detail between negative, positive, and republican kinds freedom, and without considering in depth the three constituent components of freedom (agent, end, obstacle/absence of obstacle) (MacCallum, 1967). For a slightly less condensed account along similar lines that incorporates some of these distinctions, see Anderson (2017, pp. 45–8). See also Van Parijs (1997).

⁵⁷ The most famous negative version of this argument—that the politicization of the economy entails an inevitable loss of political freedom—is Hayek's (2007 [1944]) *Road to Serfdom*.

⁵⁸ See also the discussion of meritocracy in Chapter 5, Section F on this (p. 254). A striking recent example of this mechanism was the attempt by the Republic governor of Texas, Greg Abbott to pass a "bathroom bill"

the compulsion of competition, employers cannot afford to reject productive workers on the basis of their political views (or race, gender, and religion; M. Friedman, 1962, pp. 19–21), particularly if these workers are willing to pay (in the form of lower wages) for their political views.⁵⁹ The same goes for firms' relationships to customers: a capitalist attention merchant for example, say a local radio station or newspaper, cannot afford to reject the advertisement purchasing order of, say, a communist organization, if the merchant in question operates in a competitive market. This protects the livelihood and political activities of contrarians, at least insofar as they can portray themselves as productive workers or have inherited or otherwise acquired sufficient purchasing power to buy attention and other politically important goods and services.

Here, too, however, it is unclear whether capitalism offers the fullest realisation of the freedom-augmenting mechanism in question. First, its operation depends on the human and financial capital of the contrarian in question, as well as on labour market conditions. Where the contrarian is poor, does not have skills commanding a high wage, and the wage for low skill work is at social subsistence level, the political freedom in question remains theoretical. In particular, where the latter is true, as is often the case in

regulating which toilets transgender people could and could not use. As *The Economist* ("Political competition is moderating Texas Republicans," 2019) summarises, "Mr Abbott declared it a priority at the time, though ultimately it withered *after opposition from business.*"

⁵⁹ Importantly, this applies even to workers or customers who advocate against capitalism. Capitalists, as a class, face a collective action problem when attempting to deny anti-capitalist workers access to wage labour: any individual capitalist can benefit from employing such workers at a lower wage rate, which allows the capitalist in question to undercut his rivals in the product market. Even where but a single capitalist takes this route, the growth in profits enabled by it will permit this firm to grow, forcing its rivals to either mimic its behaviour or to surrender the market.

capitalism,⁶⁰ gaining employment at below-social subsistence wages (for the contrarian may have to pay for her political views in the form of lower wages) will lead to material constraints, i.e. poverty, and psychological and mental health costs, such as stress and depression, that greatly reduce the effective freedom of the contrarian. Given that much – though far from all – of the injustice of capitalism falls along class lines, this restriction on its protection of political freedom is significant.

Second, competition, on which Friedman’s argument for political freedom relies, is often far from perfect. In the US, the average labour market has a Herfindahl-Hirschman Index (HHI) of 0.44, considerably above the “high concentration” threshold used in US competition policy merger guidelines (0.25) (Azar, Marinescu, Steinbaum, & Taska, 2018).⁶¹ Since workers in concentrated labour markets have few alternatives available, this gives employers the ability to discriminate against politically unruly workers.

Further, the product and service market perhaps most important for political freedom – the market for attention – is also highly concentrated: “In 2017 Google and Facebook [...] accounted for 84% of all digital advertising outside China, including 96% of its growth” (Mark Epstein, 2017). While non-digital advertisement channels still

⁶⁰ See the discussion of convergence pressures towards social subsistence wages in Chapter 8, Section C below (p. 372).

⁶¹ The HHI is defined as the sum of the squares of the market shares of the firms within a market. An HHI of 0.25, for example, is the equivalent of four firms dividing a market between them ($0.25^2 + 0.25^2 + 0.25^2 + 0.25^2 = 0.25$). A value of 0.44 is the equivalent of approximately 2.3 firms doing the same, indicating a very high level of concentration. Note that this is not the result of a small number of extremely concentrated labour markets skewing the average: 60% of all US labour markets have an HHI above 0.25 (Azar et al., 2018, p. 2). In addition to this direct measurement, the minimum wage literature, too, strongly suggests the widespread existence of local labour market monopsony power, insofar as it frequently finds that raising minimum wages does not lead to rising unemployment (Cengiz, Dube, Lindner, & Zipperer, 2019).

account for around half of all advertisement revenue (Shaw, 2018), this level of concentration easily permits major attention merchants to reject purchase requests they deem politically unattractive. As a result, *private* government, by firms, may well be a threat to *political* freedom under oligopolistic capitalism (E. Anderson, 2017, Chapter 2); (see also Zuboff, 2019). By implication, political freedom may be gained by putting limits on the freedom of private capital, just as it can be gained by putting limits on the freedom of state government.

Finally, as a matter of broad historical observation (K. Polanyi, 1944), it appears to be the case that full-blooded capitalism leads to political reactions – the Polanyian double movement – that tend towards illiberalism, in a manner that a mixed economy, for example, does not.⁶² Whether or not this reaction leads to capitalism’s self-destruction is an open question (against Polanyi and Streeck, I argue in Chapters 5, 6, and 7 below that it is not), but that it tends towards an erosion of political freedom is undeniable. The force of Polanyi’s historical account is underlined by more recent research showing that “After a [financial] crisis,” – whose recurrence is an integral part of capitalism (Minsky, 1986, also Chapter 5 below) – “voters seem to be particularly attracted to the political rhetoric of the

⁶² To the extent that the mixed economies of the nineteen fifties and sixties have led to a major historical ‘double movement,’ this has been a movement in the direction of further social and political freedom, with emblematic slogans like “flower power” or “make love, not war.” On certain, somewhat more controversial interpretations of freedom, this kind of double movement may be taken to be a subversion of freedom, insofar as it may undermine the kinds of social cohesion and shared values necessary for the formation of stable identities (this in turn, the argument would go, is a necessary precondition for personal agency and hence freedom). Underlying these kinds of claims, however, is an extended and controversial argument whose truth is less than obvious. In contrast, nobody would dispute that the double movement of the nineteen thirties – both in its fascist and in its communist form – constituted a serious threat to (personal and political) freedom.

extreme right, which often attributes blame to minorities or foreigners” (Funke, Schularick, & Trebesch, 2016, p. 227).⁶³

It remains profoundly unclear then why the capitalist scheme of things should be political-freedom maximizing, and not market socialism (Roemer, 1994), a property-owning democracy (Meade, 1964; O’Neill & Williamson, 2012; A. Thomas, 2017), or a mixed economy, to name but the most obvious alternatives.

Returning to the main line of reasoning, the argument from freedom fails to secure reliable majority support for capitalism because it fails to demonstrate compellingly that capitalism maximises freedom, either political or individual. When capitalists say to the people at large “our freedom is your freedom,” majorities may or may not believe them. As a result, future majorities may decide, reasonably, that the pursuit of freedom should take them away from capitalism.⁶⁴

G. The argument for capitalism from prosperity

Though the argument from freedom fails to guarantee the concordance of interests on which a dynamic compatibility of democracy and capitalism relies, the argument from prosperity may yet succeed.

⁶³ “On average, far-right parties increase their vote share by 30% after a financial crisis” (Funke et al., 2016, p. 227). On this, see also the discussion of debt in Chapter 5, Sections H and I below (pp. 272-286).

⁶⁴ ‘Reasonably’ matters here: if it were only momentary flights of passion that would lead freedom-seeking majorities away from capitalism, then it would be enough to institute procedural checks on democracy, such as the suspensive counter-majoritarian veto granted to the king in the French constitution of 1791. If, however, settled majority opinion concludes that the pursuit of freedom leads away from capitalism, then the preservation of capitalism requires substantive limits on democracy, not just procedural ones.

“Without any intervention of the law”, in Adam Smith’s formulation, “the private interests and passions of men naturally lead them to divide and distribute the stock of every society, among all the different employments carried on in it, as nearly as possible in the proportion which is most agreeable to the interest of the whole society” (Adam Smith, 1976 [1776], p. 129).⁶⁵ In other words, the argument from prosperity claims that there is an optimal way to organize an extended division of labour, and this is coordination on capitalist terms.⁶⁶ Some authors, particularly those operating within the neoliberal, neoclassical or New Keynesian economic paradigms (e.g. Carlin & Soskice, 2015; Hayek, 1960; Mankiw, 2016), add the claim that the optimum is unique, implying that attempts to deviate from it will be perverse, in the literal sense of harming the interests of those demanding the deviation.⁶⁷

⁶⁵ Note that the argument is not: capitalism provides *much* prosperity. On this there can be little doubt, and even Marx is in wholehearted agreement: “The bourgeoisie, during its rule of scarcely one hundred years, has created more massive and more colossal productive forces than have all preceding generations together” (Marx, 2000 [1848], p. 249). The claim is: capitalism provides *the most* prosperity, more or at least as much as any rival social order.

⁶⁶ By “coordination of capitalist terms” I mean: create markets for all activities and assets, create private property rights and leave them as unencumbered as is coherently possible, tax only to fund state tasks essential to market creation and market enforcement, and do not legislate on prices, quantities, production techniques, or working conditions.

⁶⁷ E.g. Hayek: “It is, in fact, more than likely that, in countries where unions are very strong, the general level of real wages is lower than it would otherwise be.” “It seems at least probable (though nobody can speak on this with certainty) that under progressive taxation the gain to revenue is less than the reduction of real income which it causes.” Or “[c]an there be much doubt that poor countries, by preventing individuals from getting rich, will also slow down the general growth of wealth? And does not what applies to the poor countries apply equally to the rich?” (Hayek, 1960, pp. 271, 312, 322). For a collection of arguments along these lines, see Hirschman (1991, Chapter 2, and esp. pp. 27-35). See also Grewal and Purdy (2017, pp. 77-80).

The reasons given in support of these claims are strong. Schumpeterian creative destruction, enabled by laissez-faire in product and financial markets, makes a compelling case for the dynamic efficiency of capitalism.⁶⁸ Hayek's insight into the epistemological efficiency of markets complements this case.⁶⁹ General equilibrium theory, in particular the first theorem of welfare economics (Arrow & Debreu, 1954), demonstrates the Pareto efficiency of unregulated, untrammelled markets—albeit under restrictive assumptions that are rarely true in practice—suggesting that deviations from market equilibrium are costly.⁷⁰

⁶⁸ The argument is that market competition (Schumpeter, 1942, Chapter 7) and a profit-driven banking system (Schumpeter, 1934) incentivize and allow for the displacement of old production methods and products by new ones, without the need for centralized coordination. Sudden price increases, for example in oil, or changes in taste, for example for new types of fashion, will attract the attention of entrepreneurs and investors and direct them towards innovations that economize on, or produce more cheaply, these goods in particular. While the mechanism is real, note that it is not well understood in contemporary economic theory; strikingly, there is no convincing account of it in neoclassical economics. See also Marx (Marx, 1992 [1867], Chapter 15, and esp. pp. 617-8).

⁶⁹ Through the price system, market-led change mobilizes otherwise diffuse knowledge (which need not consist only in the invention of new ways of doing things, unlike in the Schumpeterian case, but could simply involve switching between various already-known techniques or arrangements), thus teasing out efficiency improvements that are likely lost where prices are absent or not allowed to vary freely. Hayek's description of it is clear and merits full citation: "Assume that somewhere in the world a new opportunity for the use of some raw material, say tin, has arisen, or that one of the sources of supply of tin has been eliminated. It does not matter for our purpose – and it is very significant that it does not matter – which of these two causes has made tin more scarce. All that the users of tin need to know is that [...] in consequence they must economize tin. [...] the effect will rapidly spread throughout the whole economic system and influence not only all the uses of tin, but also those of its substitutes and the substitutes of these substitutes, the supply of all things made of tin, and their substitutes, and so on" (Hayek, 1945, p. 526). This efficiency feature, too, is poorly understood in neoclassical economics. For a review article that identifies important differences between the Hayekian account of markets and knowledge, and the neoclassical economics of information, see Caldwell (1997).

⁷⁰ "If all economic actors are small relative to the market and cannot individually affect prices, if externalities are absent, and if there is a sufficient number of insurance and financial markets, a market economy will reach an equilibrium at which resources are allocated in a way that economists call Pareto-efficient" (Roemer, 1994, p. 2).

There are powerful truths in these arguments. To the best of my judgement, they demonstrate that central planning is not a democratically viable alternative in the twenty-first century. Nevertheless, they fail to establish the concordance of interests necessary for capitalism and democracy to be compatible over time. This is because they presuppose a definition of prosperity—a theory of value—that is itself contentious and may well lack majority support. When this particular definition of prosperity is removed, it is no longer clear whether capitalism does in fact maximise prosperity.⁷¹

To evaluate the argument from prosperity, we must first know how to measure prosperity. We need, in other words, a theory of value, by which I mean a theory of what people value, i.e. understood as a theory of *welfare* or *utility*, not as a theory of *price formation*.⁷² Without such a theory of value, it is impossible to assess the normative significance of material outcomes: does Robinson Crusoe become prosperous when a crate of diamonds strands on his island, or a suitcase filled with millions of dollars, his to take? On reflection, hardly. Neither diamonds nor dollars have value to him—*are of use*—on his island. Does his prosperity increase when the man Friday arrives, whom he can never own? Vastly, on the reasonable assumption that human company and cooperation are of immense value to him.

⁷¹ In the chapter that follows, I dispute whether capitalism is uniquely prosperity maximizing even *if* we grant the contentious theory of value that I here contest. This argument, however, would take us too far afield for present purposes.

⁷² I refrain from the more conventional description of this sort of theory as ‘utility theory’ precisely because I dispute that subjective utilitarianism is a universally convincing theory of welfare or value-to-persons.

Even if capitalism can be shown to result in the production of many gadgets and widgets, a large amount of money-denominated transactions (i.e. high GDP), or a large stock of dollar-denominated wealth, then, we cannot know if this is prosperity-maximizing in the normatively relevant sense, unless we also have a theory of value. Otherwise, for all we know the gadgets and widgets, the transactions, and the stock of dollar-denominated wealth might be like diamonds and dollars to Robinson Crusoe: monetary ‘wealth’, not meaningful prosperity.⁷³

Ever since the marginal revolution, driven by the work of Jevons, Walras, and Menger (Spiegel, 1991, pp. 505–507, 513–561), the theory of value used in the argument from prosperity has been that of subjective utilitarianism. This theory claims that value, or utility, resides exclusively in the satisfaction of personal preferences or desires (utilitarianism), and that the amounts of value or utility experienced by particular persons cannot be compared, i.e. interpersonal utility comparisons are ruled out (subjective).

Adopting this particular theory of value has important consequences. Whether, in a classical utilitarian vein we are interested in maximizing the simple social sum of value (i.e. total social prosperity, on a utilitarian definition of what constitutes prosperity), or in a welfarist-Rawlsian vein we are interested in maximizing the value received by the least-well off group in society, the adoption of subjective utilitarianism makes us largely blind as to the value-consequences of different social orders. Given the impossibility of

⁷³ This connects to the (vast) literature that asks to what extent GDP is a good proxy for welfare. In line with the argument presented here, the answer continues to be deeply contested. For a comprehensive literature review, see Fleurbaey (2009).

interpersonal comparison, it is strictly impossible to determine who the worst-off are, or what the total sum of utility is. Only Pareto comparisons are possible: where everyone is made better off, and nobody worse off, we may conclude that a change has increased total value and is hence prosperity-superior.⁷⁴

With outcomes compared according to Pareto optimality,⁷⁵ markets become unambiguously prosperity maximizing: where all mutually beneficial voluntary exchanges are made—as is the case in general equilibrium—no further Pareto improvements are available. Seen through the lens of subjective utilitarianism, capitalism thus appears to be prosperity maximizing, at least in the strictly Paretian sense.

Before going on to dispute subjective utilitarianism, I point out that even this version of the argument from prosperity may fail to convince majorities. Capitalism can be shown to be exploitative even against subjective utilitarianism, i.e. *without* assuming interpersonal comparison or departing from preference satisfaction as the source of value (Roemer, 1982).⁷⁶ When a majority finds itself on the side of the exploited, the argument that capitalism achieves a social Pareto optimum may not pass muster. This is particularly

⁷⁴ For problems with even this apparently minimal judgement, see Sen (1979, part IV).

⁷⁵ Pareto optimality can be defined in terms of actual Pareto improvements or potential Pareto improvements. In the former, a state is Pareto optimal if nobody can be made better off without harming someone else; in the latter, a state is Pareto optimal if there are no improvements left such that the gains made could be redistributed to fully compensate the losers, with a surplus left over. The latter, however, raises the question of how to determine ‘full compensation.’

⁷⁶ Exploitative in the precise sense that those who sell their labour power receive a wage that can only buy bundles of goods that embody *less* labour power than the worker himself expended in his wage labour: “an agent is exploited when the goods he can command through the market embody less social labor time than he expended” (Roemer, 1982, p. 122). Roemer shows that, in his model, this is true of all who optimize by selling their labour power (Roemer, 1982, pp. 78–82).

likely if, as I show in the following chapter, there are alternative ways of coordinating a social division of labour that promise to maintain Schumpeterian and Hayekian efficiency while eliminating or greatly reducing returns to capital.

However, more fundamentally, subjective utilitarianism is in fact a highly controversial theory of value. As a version of utilitarianism, some of the usual criticisms of that tradition apply:⁷⁷ in particular, it reduces the value of all human experience to preference satisfaction, which, as Amartya Sen (1979) and Elisabeth Anderson (1995) have argued, frequently fails to account for how and why we value our experiences, and how and why we make moral judgements. Further, as a subjectivist version of utilitarianism, it also renders impossible value judgements that seem intuitively obvious: a \$50 tax transfer from a billionaire to a pauper registers as value-indeterminate. More controversially, the payment of indecently low wages, predatory lending, or price gouging in areas afflicted by a natural catastrophe all appear as *value-maximizing*, because in engaging in these transactions the exploited worker, the vulnerable borrower, or the afflicted buyer ‘reveals’ that they derive greater subjective utility from employment at starvation wage, borrowing at usury rates, or purchase at exorbitant prices, than from the going alternatives. Further, by forcing the Pareto criterion as the only viable method for making comparative judgements, subjective utilitarianism is deeply status quo biased: a negative impact on a single person suffices to render a proposed change Pareto-

⁷⁷ Note, however, that Rawls’ canonical critique, “Utilitarianism does not take seriously the distinction between persons” (Rawls, 1971, p. 27), does not apply to subjective utilitarianism. Whatever its other flaws are, in ruling out interpersonal comparison it does take seriously the distinction between persons.

indeterminate. Finally, even where the strict Pareto requirement is relaxed, so that potential Pareto improvements are allowed to outrank the status quo, the determination of appropriate compensation usually introduces a morally controversial bias: through techniques like cost-benefit analysis, willingness-to-pay, or revealed preference analysis, the preferences of the rich are given inherently greater weight.⁷⁸

Given its many unattractive features, it is far from obvious that a majority will endorse subjective utilitarianism. Majority support for alternative theories, such as classical utilitarianism with interpersonal comparison (Bentham, 1907 [1823]; Mill, 2014 [1861]; Sidgwick, 2011 [1874]), value pluralism (E. Anderson, 1995; Berlin, 2002; see also Shapiro & Steinmetz, 2018), or a capabilities approach (Aristotle, 2004; Nussbaum, 2000, 2011; Sen, 1992, 2009) certainly cannot be ruled out in advance.

Once subjective utilitarianism is no longer presupposed, it becomes unclear whether profit-pursuing private ownership of capital is in fact dynamically efficient (Schumpeter), epistemologically efficient (Hayek), and statically efficient (Arrow and Debreu). Seen against a utilitarianism that permits interpersonal utility comparisons, for example, it may well be that capitalism maximizes the sum of utility of the top ten per cent of the population, but fails to maximize the utility of the worst-off group in society, or indeed the total sum of utility. Against both classical utilitarianism and a “minimax” version thereof, market socialism could well appear prosperity-superior to capitalism,

⁷⁸ A wealthy person, for example, may demand \$50,000 in compensation for the additional aviation noise coming from an airport expansion, while a poor person might be satisfied with a compensation of \$1000. This strongly biases zoning and infrastructure decisions towards imposing negative externalities onto poor people, not rich people.

delivering significantly higher total utility or higher utility for the worst-off group in society.

At a lower level of abstraction and seen against, for example, a capabilities approach, a tightly regulated housing sector, featuring rent control and ample public housing, may well be more efficient (in the sense of delivering greater capabilities for the same amount of dollar or Euro spending than an entirely privatised housing sector).⁷⁹ State-directed research and development or funding for the scale-up of selected early-stage technologies may equally be more (dynamically) efficient than purely privately-run research and development, when no longer measured against subjective-utilitarianism. And non-profit-maximizing infrastructure investments may yield a larger amount (or more just distribution) of capabilities, satisfy a broader range of plural values, or result in a higher minimum of interpersonally comparable utility than market-determined infrastructure investments.

Summing up, the argument from prosperity suffers from at least two weaknesses. First, in its canonical form it presupposes subjective utilitarianism as a theory of value. This theory is controversial, and where it is called into question, the argument from prosperity

⁷⁹ The total value of housing assets in Germany, for example, is around 200% of GDP, compared to 300% of GDP in the UK (Piketty, 2014, pp. 116, 141). Equally, the stock market valuation of firms is lower (measured as a multiple of their profits) in Germany than in the US or the UK, because German corporate law gives workers control rights (codetermination or *Mitbestimmung*) that diminish the arbitrary control of management (Piketty, 2014, pp. 144–146). While this will register as an inefficiency against subjective-marginalism (removing rent controls and codetermination would boost asset prices, the increase in which could then be used to compensate renters and workers), it is far from obvious that a capabilities approach would yield the same conclusion. Whether British and American workers and renters have a wider range of capabilities enabled through their respective rental and corporate law codes is, at the very least, an open question.

loses much of its force. Second, even if subjective utilitarianism is granted, it is far from clear that capitalism maximizes the prosperity of *majorities*: as Roemer has shown, capitalism is exploitative even according to subjective utilitarianism; and as I show in the following chapter, there are alternative modes of organizing the social division of labour that likely make majorities better off than unconstrained private control over the means of production. When capitalist say that “our prosperity is your prosperity”, they cannot, then, on the merits of the argument reliably expect majorities to believe them.

H. The dynamic of water and oil

It is time to recapitulate the argument up to this point. After turning from static to dynamic analysis, I pointed out that compatibility between capitalism and democracy over time requires two future counterfactuals to be true simultaneously: where preferences, technologies, or endowments change, or where capitalists simply feel like it, private owners must be free to redeploy their capital as they see fit; and where majorities change their view on the proper order of society, laws must over time change to reflect these views. The only way for both of these counterfactuals reliably to be true is if a majority continually remains in favour of capitalist principles of organization. In order to investigate the extent to which this can reasonably be expected, I surveyed the two most prominent arguments for why capitalism is in the interest of most: the argument from freedom and the argument from

prosperity. Although they are strong arguments, I showed that there is significant doubt around whether capitalism is freedom and prosperity maximising.⁸⁰

The implication is that, even in rational reconstruction, the heavenly coincidence that underpinned static compatibility above (where majorities endorse capitalist principles of social regulation) is just that: a true coincidence. If a society is democratic, then capital's freedom is always precarious, because when capitalists claim that "our freedom is your freedom, our prosperity is your prosperity", majorities may or may not believe them.

This has a destabilizing effect on any particular territorial truce. The issue is not, as it was for Downs or nineteenth century orthodoxy, that the poor, the masses, or the median voter will certainly socialize the means of production once political power is widely shared. The issue is rather that capitalists cannot be sure that their investments are safe, once political power is equally distributed. It is the *uncertainty* of property rights, both in their control and in their benefit component, that is the problem; not the certainty of confiscation. This uncertainty suffices to spark what I call the dynamic of water and oil.

It is widely acknowledged that coercive power is a natural monopoly (Nozick, 1974, pp. 108–113; Shapiro, 2016, Chapter 2). One expression of this fact is that the outcomes of power struggles have a cumulative quality: where trade unions succeed, for example, in gaining majority support for full employment policies, this reinforces their bargaining power both in direct bargaining with employers and in bargaining vis-à-vis the state (Kalecki, 1943). If this boosts the resourcefulness and attractiveness of unions, as it

⁸⁰ Note that my argument in this section turns not on the arguments from prosperity and freedom being wrong (though I do believe that both fail); it turns on both *not being obviously convincing to majorities over time*.

is likely to do, it will likely increase the political mobilization of lower-class voters (Ahlquist, 2017) whose support for democracy in general, and for redistributive policies in particular, may at the same time become more forceful (Verba, Schlozman, & Brady, 1995). By changing cultural norms away from the individual pursuit of profit towards solidary preferences and behaviour (Mosimann & Pontusson, 2017), the same process is also likely to ease collective action problems, further enhancing the class-identity and class-power of workers (Ahlquist & Levi, 2013), as well as the general functioning of democracy (Tuck, 2008) (see also footnote 83 below).

Conversely, where financiers succeed in causing the dismantling of capital controls, this creates new exit options and thereby reinforces the bargaining power of financial capital both vis-à-vis labour (Baccaro, 2011; Baccaro & Howell, 2017) and vis-à-vis any particular nation state (Abdelal, 2007; Roos, 2019). Through increasing profits and high incomes, this also increases the resources at the disposal of capitalists for further influencing the political process (Gilens, 2012; Gilens & Page, 2014; Hacker & Pierson, 2010; MacLean, 2017; J. Mayer, 2016; K. Schlozman et al., 2012).⁸¹ Because social norms are influenced by the distribution of income and wealth,⁸² growing profits and

⁸¹ The literature on the influence of money on politics is vast. For a review, albeit dated and focused on campaign finance, see Stratman (2005). Note that the influence of money on politics extends far beyond the electoral process: both the landscape of ideas and the judicial process are arenas where money can be (and is) deliberately translated into power and influence (e.g. MacLean, 2017; Sitaraman, 2017).

⁸² “The man of rank and distinction [...] is observed by all the world. Every body is eager to look at him [...]. His actions are the objects of the public care. Scarce a word, scarce a gesture, can fall from him that is altogether neglected. In a great assembly he is the person upon whom all direct their eyes; it is upon him that their passions seem all to wait with expectation, in order to receive that movement and direction which he shall impress upon them” (Smith 1984 [1759], Part I, Section III, Chapter 2).

incomes in finance also lead to the dissemination of profit- and competition-valourising norms, which render profit-curbing collective action harder to justify and carry out, and undermine the basic functioning of democracy (Brown, 2015).⁸³ One instance of this process in action – the retreat of President Mitterrand and the French Socialist Party from their election promises in the face of inflation and a persistent currency crisis – will be covered in detail in Chapter 4 below.

Not only do power struggles have a cumulative quality – in the sense of victory today rendering victory in the next round more likely – but they also have a cascading quality, with the conclusion of one power struggle making the occurrence of the next more likely. To see this, consider the labour market of any advanced democratic capitalist state. This market is generally bifurcated into a commercial and a non-commercial part. Wages, hiring decisions, and working conditions in the commercial part – e.g. banking, consulting, or hospitality – are made and set by private owners of capital. Those in the non-commercial part – e.g. the armed forces, the judiciary, education, perhaps healthcare, higher education and highly unionized sectors – are made and set by the state, trade unions, or other non-profit-maximising institutions, either unilaterally or in negotiation with other players.

⁸³ Given their payoff structure, most forms of popular participation in the political process depend on citizens *not* Nash-optimizing. Where citizens do Nash-optimize, elaborate institutional schemes and explanations are required to render rational voting, calling one's representative, turning out to a protest, and so on. Further, the *substance* of democratic politics becomes more contentious and unstable where citizens Nash-optimize: in the 'divide the dollar' game, for example, there is no stable Nash-equilibrium. Nash-optimizing firms and voters will continually lobby for material advantage, increasing instability and undermining the sense of solidarity and trust that is essential to the functioning of democracy (Putnam, 1993). In contrast, where citizens Kant-optimize (Roemer, 2019), popular participation is rational, 'divide the dollar' has a stable equilibrium, and a high-trust equilibrium may be stable over time. On the impact on social norms and public spiritedness of public choice theory in particular, see Kelman (1987).

Bifurcation, however, is not insulation. For example, when a power struggle over financial regulation concludes with profit- and salary-increasing changes (for banks and bankers),⁸⁴ workers in adjacent non-commercial sectors with privileged, profit-conducive knowledge (e.g. regulators or financial judges) or relevant skills (e.g. quantitative research in physics, engineering, or economics) will become more tempted, all else being equal, to become bankers.⁸⁵ One need not assume *homo oeconomicus* to suppose that higher salaries and a profession's growing prestige will, over time, attract newcomers.

This forces a new round of contestation: either the moral economy of the non-commercial sector has to follow the market – e.g. in the form of public administrations and research institutions stretching their salary ranges to keep relevant workers from moving into the market sector, thereby moving away from previous, more egalitarian salaries and norms – or the commercial sector must be brought back in line with the moral economy of the non-commercial sector – e.g. through steep taxation of high incomes.

This mechanism operates not just through salaries, but also through prestige: when outsized profits are made in a sector and not taxed or otherwise dampened down, whether this be in banking or information technology, railroads or steel, cotton or sugar, prestige

⁸⁴ E.g. the repeal of the Glass-Steagall Act of 1933 by the Gramm-Leach-Bliley Act of 1999, also known as the Financial Services Modernization Act.

⁸⁵ Note that it need not be the commercial side that initiates such a cascade: British private schools, for example, underwent a decades-long crisis in the wake of the 1944 Education Act. State investment in public education drove down private school enrolment numbers and created new competition (in the form of grammar school graduates) for one of the primary products of British private education: admission to Oxbridge (D. Turner, 2015, p. 195). As a result, “Through the sixties [...] the future of the Public Schools [British English for private schools] became a matter for speculation. No longer was there a settled class of conservative people, automatically and unquestioningly packing off their sons [sic] for three months at a stretch and confidently choosing schools on the basis of family tradition or a big name.”

has historically accrued to this sector (see footnote 82 above). As a manifestation of this, those in other sectors start to adopt the sector's language and metaphors, ask for advice from the sector's practitioners, and generally emulate its norms and practices. Just like a change in commercial salaries must either be mirrored in the non-commercial sector or dampened down in the market sector, so too the rise of prestige must either be acceded to, or stemmed at source.

A stable territorial truce, where the moral economy is insulated from changes in the market and vice versa, is thus not possible over time. Given that change is a constant, and given "the close interdependence of all economic phenomena" (Hayek, 2007 [1944], p. 137), the question is never: when change occurs somewhere, does a majority choose to change the relevant territorial truce or keep it in place as before? Instead, it is always: which side adjusts, and according to which principles?⁸⁶ In the labour market example, inaction

⁸⁶ Indeed, the history of the world economic and monetary order from circa 1870 to today is often written according to paradigm shifts of who has to adjust (e.g. Eichengreen, 2008; Frieden, 2006, 2017). In its potted form, it runs as follows: from circa 1870 to 1914, forced by the gold standard and its implementation through international central bank cooperation, deficit countries had to adjust internally to changing international conditions. In class terms, workers, farmers, and small businesses had to adjust, through lower wages and earnings, to meet the claims of international and domestic capitalists. From 1918 to 1945, there was a painful and bloody interregnum in which attempts to reimpose the pre-war pattern of adjustment ran up against democratisation in the polity and concentration in the economy, both of which rendered the previous adjustment mechanism (through falling wages and prices) inoperable (K. Polanyi, 1944). From 1945 to 1973, a kind of wage-standard reigned in which public budgets, firms' profits, and the range of legitimate business activities (esp. in the financial sector) adjusted around the living- and working conditions of the industrial working class of the capitalist core. In international rather than class terms, this regime, also known as embedded liberalism (Ruggie, 1982), provided space for domestic policy autonomy through the combination of capital controls and fixed but adjustable exchange rates. After 1973, lastly, the burden of adjustment was partly shifted back onto domestic adjustment, through the pressure emanating from drastically increased international capital mobility, and in the form of more flexible wages, working conditions, and public budgets that adjusted to financial conditions, rather than vice versa. The secular shift, outside the Eurozone, towards flexible exchange rates, however, constitutes an important dampener on the extent to which deficit countries alone must carry the burden of adjustment via domestic austerity today.

on the non-commercial side would result in losing workers—both those most desirous of money and those whose skills command the highest wages—to the commercial side, further tilting the balance of power and prestige. Sooner or later, an inability to recruit the necessary personnel will necessitate an adjustment, either in the scope of what the agency in question can do and deliver, or in its own salary and working norms, or in the salaries and working norms of the competing commercial sector. The longer the non-commercial side waits to initiate the struggle over who has to adjust in which way, the more likely it is that the balance of power and prestige forces an adjustment on the non-commercial side, in the form of mimicking commercial norms and practices, or in the form of retrenching its scope of activities.

Lest it be thought that the labour market presents a special case, I point out that similar dynamics of cumulative and cascading change can be seen all across society: to take

but three examples, this kind of dynamic is endemic in manufacturing,⁸⁷ the use of raw materials,⁸⁸ and perhaps most importantly, in finance.⁸⁹

⁸⁷ An early example from manufacturing, insightfully discussed by Marx, was the textiles industry: when the Spinning Jenny made cotton spinning vastly more productive, pressure emerged to adapt up and down the supply chain (Marx, 1992 [1867], Chapter 15, esp. p. 505). With spinning capable of absorbing much larger quantities of raw cotton, cotton farmers came under pressure to ramp up production—leading to higher and higher pressure on enslaved workforces in the American South in particular—, while weavers and textile manufacturers came under pressure to boost their capacities for turning yarn into cloth and cloth into finished textile products. To the extent that there was a territorial truce between different principles of social regulation in this particular sector, it had to be revised: preserving a moral economy in weaving, as the Luddites intended, would have required extending a moral economy to the change-inducing part of the supply chain (in particular putting pressure on both yarn-producers and fellow weavers not to expand production too rapidly). Letting private capital move freely in yarn-production, on the other hand, entailed the destruction of the moral economy in weaving.

⁸⁸ Linkages around raw materials became particularly visible in the context of the two oil shocks on the 1970s. When oil prices shot up in the winter of 1973, American interstate truckers, operating in a moral economy with politically determined prices, were pushed underwater: trucking freight rates were capped by the Interstate Commerce Commission (ICC), so that higher operating costs, both from the limited fuel price increases that the Federal Energy Office (FEO) permitted, and from the additional time costs of queuing for diesel (itself created by price caps on retail diesel), could not be passed on to customers. Caught between the ICC, the FEO, and fuel shortages at gas stations, truckers were structurally unable to break even, let alone turn a profit. The linkage thus created a choice: letting truckers preserve their livelihood required either following the impulses of the market (whether via deregulation or via mimicking the market price mechanism in the administrative pricing decision of the ICC and FEO), thus weakening the moral economy of trucking and revising the truce line in the direction of more market regulation; or extending a moral economy to the adjacent sectors of oil, refining, and fuel retailing, thus revising the truce line in the direction of an expanded moral economy. On the political context and consequences of this, see Chapter 6, Section H below (pp. 320), as well as M. Jacobs (2016).

⁸⁹ Indeed, the story of financialization across the West (Helleiner, 1996; Krippner, 2011; Lapavitsas, 2013) is essentially the story of the gradual breakdown of the particular territorial truce that had been concluded concerning finance at Bretton Woods in 1944. This unravelling began with the British government's creation of tax havens in colonial dependencies in the nineteen fifties, to channel loyalty-preserving investments there without spending scarce public money (Ogle, 2017); continued with the take-off of the Eurodollar Markets in the nineteen seventies, initiated by profit seeking banks, permitted by the British government to preserve and support the City of London, and tolerated by the American government to make dollars a more attractive asset and to ease the banking lobby's pressure on profit-inhibiting New Deal financial regulation at home (Helleiner, 1996, pp. 84–91); and eventually extended to the full dismantling of capital controls across the rich world, pushed by the IMF and national governments alike in order to attract now-growing pools of footloose capital (Abdelal, 2007). Its effects included the evisceration of the American New Deal framework of financial regulation, in particular Regulation Q and the separation of commercial and investment banking (Krippner, 2011); the erosion of Germany's bank-centred cross-holding structure of capital ownership

Given path-dependency—i.e. the cumulative nature of power struggles—and the fact that one round of change in itself triggers the next round(s) of change—i.e. their cascading nature—a Hobbesian dynamic is sparked. Partisans of capitalism cannot rest with the kind of territorial truce described in the static compatibility section above, because what majorities have given, they may (while popular sovereignty remains in place) take away. Equally, partisans of democracy cannot easily permit the bargaining power inequality that comes from markets that greatly exceed the scope of the polity; or the inequality in political power and the divergence of political preferences that comes from great economic inequality; or the cultural consequences that come from a pervasive capitalist ethos, because permitting their respective existence greatly weakens the power to deliberately amend or remove them, should majorities later wish to do so. Democracy only lasts when there is no one with both the interest and the ability to end it; “there are no third parties to enforce it” (Przeworski, 2008).

Because of the cumulative and cascading nature of contestation, partisans of either principles have good reason to aim at “non-reformist reforms” (Gorz, 1968) at every possible opportunity. The inherent instability of any territorial truce over time creates incentives to revise it *now*, in a direction favourable to the future power of those who now hold the relevant decision-making power. Not doing so carries the risk of a revision on

(Streeck & Höpner, 2003), which led to the fundamental transformation of Germany’s political economy (Streeck, 2009) (on the settlement thus displaced, see Shonfield, 1965, Chapter 11 and 12); and an analogous process of financial transformation in Japan (Rosenbluth, 1989).

unfavourable terms in the future, when decision making power may lie elsewhere, with actors with opposing or at least differing interests.⁹⁰

Even where, in one way or another, capitalism and democracy have emerged within the same society, they are thus incompatible over time: like water and oil, they will be driven apart by the attempts of capitalist to narrow the scope of majority rule so to insure themselves against the fickleness of future majorities; and by attempts of partisans of democracy to preserve bargaining power equality, a democratic ethos, and a minimum degree of economic equality against the natural course of capitalist development.

I. The dynamic of water and oil is uneven but not deterministic, comparatively weak but pervasive

This dynamic of water and oil is uneven but not deterministic, comparatively weak but pervasive. Concerning the former, I claim that in democratic capitalism, capitalism is more likely to eclipse democracy than vice versa, all else being equal. This results from, on the one hand, the asymmetric nature of the collective action problems faced respectively by partisans of democracy and partisans of capitalism; and, on the other, from the fact that in democratic capitalism capitalists *always already* control significant resources. However, since all else is never equal in history, this translates into a higher likelihood of capitalism ascendant, not into its historical inevitability. Concerning the latter, I recognize that politics is complicated, and that economic concerns are rarely the only interests at stake. The

⁹⁰ “And the cause of this, is not always that a man hopes for a more intensive delight, than he has already attained to; or that he cannot be content with a moderate power: but because he cannot assure the power and means to live well, which he hath present, without the acquisition of more” (Hobbes, 2010, p. 61).

dynamic of water and oil, in other words, does not dominate everything else in politics. However, like a prevailing wind or a magnetic field, it is pervasive and constantly acting. Over the course of decades and decades, and unless special and contingent circumstances intervene, it is therefore likely to play itself out, eroding either the capitalist or the democratic component of democratic capitalism.

Concerning collective action, because of capitalism's tendency towards income and wealth inequality, the partisans of capitalism are likely to be both relatively few and to have large personal stakes in the successful "dethronement of politics" (Hayek, 1981, Chapter 18). Of course, partisans of capitalism still face a collective action problem: each wants someone to undertake the political project of fencing in democracy; but equally, each wishes to be spared the costs of contributing their own time, money, or energy to that project. The comparatively small number of capitalists in society,⁹¹ the cultural homogeneity that comes from shared life experiences (Putnam, 2015) and geographic proximity (Murray, 2012, esp. Chapter 3; Reich, 1991), and the large stakes involved for each individual capitalist, however, have rendered this collective action problem historically solvable.⁹² Partisans of democracy, on the other hand, face a similar collective action problem—each wants the preservation of democracy, while wishing to be spared the

⁹¹ The top five per cent of the US population owns around 60% of all wealth. Around two thirds of that is owned by the top one per cent (World Inequality Database, 2019b, data for 2014, latest year available).

⁹² Nancy MacLean may have exaggerated when she described the political activities of Charles Koch as "an audacious stealth attack on the foundational notion of government [...] of, by, and for the people" (MacLean, 2017, p. 211), but not by much (see also J. Mayer, 2016). Further evidence of concerted, intentional action by partisans of capitalism to fence in majority rule and popular sovereignty is found in Phillips-Fein (2009), Mirowski (2013) and Slobodian (2018). See also Offe and Wessenthal (1980).

personal cost of contributing to the cause – without the advantages of large personal stakes, cultural homogeneity, and small numbers (for further discussion of this, see Chapter 8 below).⁹³

Further, where trade is internationally integrated, an additional asymmetric collective action problem emerges: to undermine a high-demand, high-employment equilibrium, which tends to empower workers, lift wages, and reduce the bargaining power of capital (e.g. Modestino, Shoag, & Ballance, 2019), it suffices for just one (significant) trading partner country to run a low-domestic-demand, cost-competitive economic strategy. Where this happens, firms producing in the country in question will have lower costs, gain market share, and thus create “race to the bottom” pressure on firms and governments in other countries.⁹⁴ In theory, this dynamic should apply to any policy area that is consequential for capitalists’ profits: not just aggregate demand management, but tax policy, labour law, liability law, health and safety regulation, or environmental standards, to name but a few.⁹⁵ While in practice race to the bottom dynamics are more

⁹³ Indeed, insofar as democracy is often a “subordinate or conditioning good” (Shapiro, 2016, p. 32), there may not be many who self-describe primarily as partisans of democracy. More likely, the “partisans of democracy” are thus a motley assembly of partisans of other causes who come to see democracy as an important tool to realise their wider aspirations, creating further coordination and communication problems.

⁹⁴ This mechanism acts directly in countries that are integrated into international trade. Its shadow, however, also falls over countries that are not so integrated: the (quality-adjusted) low prices that the low-domestic-demand, cost-competitive exporter achieves serve as a carrot for isolationist countries to begin trading with it. As Marx put it, “The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls” (Marx, 2000 [1848], p. 249).

⁹⁵ In principle there should also be an offsetting mechanism: where policy in these areas is overly hostile to labour, workers should move to labour-friendlier countries, creating countervailing pressure. However, since workers have families, friends, hobbies, languages, religions, homes, and memories – while capital is unencumbered by such considerations – the mobility of capital will always greatly exceed that of labour.

complicated than this (Carruthers & Lamoreaux, 2016; Drezner, 2001),⁹⁶ in part due to the existence of multiple equilibria and so the possibility of deviations from free market competition to be self-sustaining,⁹⁷ note that their initiation does not rely on capitalists dominating the political process in first mover countries: Germany, for example, ran a deliberate undervaluation regime from 1951 on, centred on competitive disinflation, but did so as the result of strategic interaction between the country’s central bank, its export industry, trade unions, and political parties, and not as a result of capitalists alone dominating the political process (Höpner, 2019). For its effect on trade partners, however, the particular domestic coalition that produced this regime was irrelevant: Germany became the “nightmare of [workers in] the eurozone and, even more, the world economy” (Höpner, 2019, p. 2) all the same.⁹⁸

⁹⁶ Broadly speaking, race to the bottom dynamics appear to exist for corporate taxation and banking regulation (Abbas & Klemm, 2013; Carruthers & Lamoreaux, 2016, pp. 82–86; Garretsen & Peeters, 2007; Scheve & Stasavage, 2016, pp. 195–200). For labour standards and minimum wages, the evidence is mixed: see Carruthers and Lamoreaux (2016, pp. 57–64) for an overview; Baccaro and Howell (2017) for strong evidence in favour, concerning the weakening of unions; Card and Krueger (1995, 2000) and Krueger (2015) for evidence against, concerning the resilience of minimum wages. The evidence is also mixed for environmental standards (Carruthers & Lamoreaux, 2016, pp. 64–70). For income taxation, the evidence is inconclusive (Scheve & Stasavage, 2016, pp. 196–199) but suggestive: Tax evasion is rampant at high incomes today, even in otherwise administratively highly capable states – the top 0.01% evade approximately a quarter of their taxes in Norway, Sweden, and Denmark (Alstadsaeter, Johannesen, & Zucman, 2017) – but it is unclear whether permissiveness around high income tax evasion has increased over time, and how closely, if at all, it correlates with international economic integration.

⁹⁷ On this, see Section B of the following chapter (p. 144).

⁹⁸ Indeed, Nicholas Mulder recently proposed an interpretation of the neoliberal turn in Europe that insists on “the primacy of domestic politics” (Mulder, 2019). This fits well with the uneven but contingent race-to-the-bottom pattern highlighted here: without a supra-national conspiracy, one by one and under the pressure of first-movers (esp. Germany), individual European countries opted, *through their domestic politics*, to embark on their respective neoliberal turns.

Third, a certain kind of drift towards capitalism requires no collective action at all, while counteracting it does. Where political decisions are profit-inhibiting, say a minimum wage that drives up wages and reduces profits, evasion is in general *individually* profitable, while enforcement is a collective action problem. Smuggling, tax evasion, tax optimisation and planning, and much of financial innovation constitute examples of this. The same goes for cultural or historical norms that keep certain items or practices outside the scope of the market: “The natural tendency of the market is to increase the scope of the social relations that it covers, because entrepreneurs see opportunities at the edge to turn what is not yet a commodity into one” (G. A. Cohen, 2009, p. 81). Insofar as legal rules, cultural norms, and historical practices are always subject to re-interpretation and change over time, and insofar as the firms and entrepreneurs that re-interpret them in a more profit-conducive manner will outgrow those that do not, this mechanism results in a tendency of erosion of profit-inhibiting norms or laws over time.

Seen through the lens of collective action problems, then, the dynamic of water and oil is likely to be uneven. Generally speaking, the strongest partisans of capitalism are few, geographically concentrated and culturally comparatively homogeneous, and have large personal stakes in seeing capitalism ascendant; in international trade, the deviation of a single significant trading partner—regardless of the domestic politics that cause it—can trigger a race to the bottom, particularly in aggregate demand management, banking regulation, and corporate taxation; and at the micro-level, the erosion of profit-inhibiting norms and laws is individually profitable, while countervailing enforcement is, generally speaking, not.

Linked to the third observation on collective action, there is a final factor that makes it more likely, all else being equal, that when democratic capitalism dissolves into its constituent components, it is capitalism that rises to the top: under such a social order, capitalists *always already* control large amounts of resources.⁹⁹ This has the obvious consequence that capitalists can wield greater personal influence over the political process (see footnote 81, p. 119 above); but more interestingly, it also implies the following. Because capitalists are reliably profit-seeking, politicians can indirectly command the resources that capitalists control by ‘bribing capital’, i.e. by engineering changes in rules and regulation so that whatever activity or outcome the politician in question wants to cause become unusually profitable. This mechanism was visible, for example, in successive British governments’ decisions to grant tax haven status to Caribbean colonies;¹⁰⁰ in the decision of British and American governments to respectively foster and tolerate the rise of

⁹⁹ This distinguishes, after all, democratic capitalism from democratic socialism or a property-owning democracy.

¹⁰⁰ The purpose of this was to bring investment to under-developed British colonies to safeguard their loyalty in the face of communist and independence movements. Due to the stretched nature of the British budget after WWII, governments saw the direction of private capital towards these colonies (through tax breaks, free port status, and other concessions to capital) as a practical substitute for a public investment strategy there. For a detailed history of this, see Ogle (2017).

the Eurodollar markets¹⁰¹ and other national governments not to oppose it more firmly;¹⁰² and in the decision of the French socialist government of the nineteen eighties to deregulate its financial sector.¹⁰³ In this manner the ethos of capitalism can become pervasive and the bargaining power of capitalists can grow, without any individual political decision maker

¹⁰¹ In the wake of World War II, with the decline of Sterling as a reserve currency the City of London had gone into decline. When the Midlands Bank discovered, in 1955, that it could make a risk-free profit on dollar loans by arbitraging between US short term interest rates (low because capped by Regulation Q) and UK short term rates (high due to the Bank of England's tight monetary policy), with the exchange rate risk hedged through forward foreign exchange contracts, the Bank of England decided to let the business grow so to support business activity in the City (Catherine R. Schenk, 1998). The US government, which could have forbidden the use of dollars abroad for loans in violation of US domestic financial regulation, in turn decided to tolerate this, under the condition that American banks (through their British subsidiaries) would be allowed to participate in it. Through opening up new profit opportunities for American banks, as well as through making the holding of US dollars more attractive (the Regulation Q cap on interest rate made "onshore dollars" a relatively unattractive asset to hold, esp. for non-Americans) this reduced the pressure for financial reform in the US itself (Helleiner, 1996, pp. 84–91).

¹⁰² As Ogle puts it, "It was well known to observers at the time but has since been largely forgotten that the European public sector was a frequent borrower in offshore markets" (Ogle, 2017, p. 1449). By tolerating the rise of the Eurodollar and Eurobond markets, governments made available for themselves pools of capital from which they could borrow cheaply and without causing inflation at home. The importance of this can be seen in the fact that, in the mid-nineteen seventies, public sector borrowers accounted for 44% of all Eurobond borrowing (Ogle, 2017, p. 1449).

¹⁰³ As with the toleration of Eurodollar and Eurobond markets, here too the decisive consideration was that financial deregulation would allow the French state to borrow both cheaply and without causing additional inflation (for a similar account of the Swedish path to financial de-regulation, see Blyth, 2005). During the post-war era (the thirty glorious years or *trente glorieuses*), French governments had regularly borrowed newly created funds from the Banque de France (via commercial banks as intermediaries, in a system known as the "circuit du Trésor;" since banks were legally required to lend to the state, but could in turn re-finance their loans at the Banque de France, this intermediate step was technical). However, this practice was inflationary unless offset by sufficient growth, increased taxation or higher interest rates. As growth fell and inflation became a persistent problem in the nineteen seventies and early eighties, politicians were faced with a choice between borrowing at higher interest rates, implementing austerity (whether via higher taxes or lower spending), or deregulating the financial sector. They chose the latter. A comprehensive account of this history is given (in French) by Lemoine (2016). Though differing in many details, the centrality of inflation as the driver of financial deregulation is the same as in the American case: "the deregulation of domestic financial markets emerged as a response to the [...] eruption of inflation in U.S. society" (Krippner, 2011, p. 58). This suggests a shared logic at work across the capitalist core in the seventies and eighties.

intending this as a conscious goal.¹⁰⁴ Unlike much of the ordinary influence of money in politics, this mechanism does not rely on politicians already being corruptible; for, in the manner described here, bribing capital is often in the interest of even those politicians who reject being bribed *by* capital.

This mechanism as well as the third collective action asymmetry outlined above explain why, despite being comparatively weak, the dynamic of water and oil is pervasive, like a magnetic field or a prevailing wind. In any one political question, a multitude of interests will be at stake, only some of which will be economic. It is likely, then, that economic interests will be dominated, not dominant. All else being equal, however, both politicians and businessmen can gain from revising any particular territorial truce in the direction friendly to capital: politicians can temporarily attract resources to their favourite courses in this manner; and businessmen can realise a previously blocked trade.¹⁰⁵ This possibility always being present, the dynamic of water and oil is weak in each individual case, but pervasive across all of them. While not necessarily dominant in any one case of contestation, over the course of decades and decades, and unless special and contingent circumstances intervene, it is therefore likely to play itself out, eroding either the democratic or, less likely, the capitalist component of democratic capitalism.

¹⁰⁴ This meshes with Greta Krippner's (2011) account of financialization in the United States: "the financialization of the U.S. economy was not a conscious policy objective, but an inadvertent result of the state's attempt to solve other problems" (Krippner, 2012, p. 13).

¹⁰⁵ Decommodifying or otherwise market-interfering legislation only has a *raison d'être*, after all, if in its absence people would make the otherwise blocked trades, or would make the trades at different prices or quantities.

Finally, despite its unevenness and pervasiveness, the dynamic of water and oil is not deterministic. Where ideology, political entrepreneurship, and historical circumstances give partisans of democracy cohesion and bargaining power, they can emerge triumphant. The pressure of international competition in combination with manpower-intensive technologies of warfare, for example, organises the masses, thus helping to overcome their collective action problem, and puts them in a position of heightened bargaining power vis-à-vis state elites, who—in these circumstances—require the cooperation of the masses for success in war. This mechanism has been an important driver of both democratization (Ferejohn & Rosenbluth, 2016) and income-equalizing taxation (Scheve & Stasavage, 2016) throughout history. Particular energy or transport technologies, such as a coal-based energy system or a railroads-based transport system, can have similar effects: when these technologies are both pivotal to the economy as a whole and rely on large labour forces, they, too, make it more likely that political entrepreneurs or social movements succeed in organizing the masses, bringing them into a position of high bargaining power and defeating the claims of capital (e.g. Mitchell, 2011). Persistent organizing, in the form of trade unions, social movements, or pro-democracy political parties—though not independent from the factors just mentioned—have similar effects.

Finally, where historical junctures result in a strong democratic ethos and a relatively equal distribution of income, the mechanisms of unevenness described above may weaken: the individual stakes to preserve democracy rise, for example, where they are culturally treasured, and where continued income and wealth equality depend on the preservation of democracy. This may weaken the collective action problem faced by the

partisans of democracy.¹⁰⁶ Further, where international trade is restricted to other non-capitalist states, the domestic politics of each member state may render it feasible to prevent all from initiating a race to the bottom. And finally, where social norms against rule bending in pursuit of profit are strong enough, the individual payoff to rule bending may in fact become negative, since social sanctions are considerably harder to evade than legal ones, and since, as social constructivists would highlight, people may then perceive ill-gotten material gains as no gains at all, all things considered. Whether these effects suffice to render non-capitalist democracy a stable social order remains an open question (see also section C in next chapter, p. 156).¹⁰⁷

While the dynamic of water and oil is thus uneven and pervasive, it is not deterministic: all else being equal, capitalism is more likely to eclipse democracy; but all else is never equal in history.

J. Countervailing forces?

Like the static tension identified in section D above, versions of the dynamic of water and oil have been recognised before.¹⁰⁸ What has often accompanied its recognition, however,

¹⁰⁶ For an argument that explains the persistence of relatively low levels of inequality in Scandinavia in virtue of such an equilibrium shift, see Barth et al (2015).

¹⁰⁷ Progress on this question might be made through closer historical investigation of the nineteen seventies, as well as of the prehistory of this “pivotal decade” (Stein, 2010). Was the demise of the post-war settlement inevitable or contingent? If the former, did it become so in 1971, in the sixties, or were the seeds of its demise sowed in its very creation, during the New Deal and its post-war consolidation? Was the loss of legitimacy for the politicization of the division of labour (“government intervention in the economy”) the result of shocks and decisions that could have gone otherwise, or the inevitable result of politicization itself? To the best of my knowledge, we do not yet have compelling answers to these questions.

¹⁰⁸ Marx’s original formulation of the tension between democracy and capitalism, cited in the previous chapter, has a family resemblance to the arguments made here (Marx, 2000 [1850], p. 319). Hayek, too,

is the claim that the tension between democracy and capitalism is balanced by *countervailing forces*.

In particular, when a society approaches the ideal type of capitalism—i.e. when most everything is for sale, when competition pervades life, and when the ‘love of money’ becomes hegemonic—will not a natural reaction set in among voters, with majorities demanding the de-commodification of valued practices, the social sharing of existential risks (and hence weakening of competition), and cultural critiques of the ethos of capitalism? And equally, when an ‘excess of democracy’ results in an abundance of restrictions on the private use of (and benefit from) capital, will this not weaken Schumpeterian and Hayekian effects on the division of labour—perhaps to such an extent that, even seen through theories of value other than subjective utilitarianism, reforms back in the direction of market coordination seem inviting? Finally, does not the history of democracy and capitalism in the United States, certainly during the twentieth century, provide a compelling example of precisely these balancing forces? If the answer to these questions is “yes,” then the best approximation of the relationship between capitalism and democracy may be the metaphor of a pendulum after all, and not the simile of water and oil developed and defended here.

was acutely aware (though he did not put it in these words) that democracy, unless fenced in, risks overpowering capitalism over time, overlaying it with a moral economy that mutes price signals and tends towards greater politicization of the economy (Hayek, 1948a, Chapter XII, 1979, Chapter 3, 2007). For a similar critique from the perspective of the left, see e.g. Bowles and Gintis (1986, p. 5): “But the expanding claims of democracy proved to be the accord’s [between democracy and capitalism] undoing.” Echoes of this critique, though again not explicitly formulated in terms of a tension between capitalism and democracy (unsurprisingly, given the Cold War context), are also present in the Trilateral Commission’s 1975 report *The Crisis of Democracy* (Crozier et al., 1975).

Conventional historical narratives do point in this direction: the Roaring Twenties, the Great Depression and the New Deal could be read, and often are, as a story of capitalist excess, crisis, and then the reassertion of democratic government control over the economy.¹⁰⁹ Equally, the story of the nineteen seventies could be told, and often is, as a swing from excessive government control, via stagflation, to a reassertion of capitalism.¹¹⁰ If so, is not America's history in the twentieth century that of a "Pendulum between Government and Market", as De Grauwe (2017) put it (see also Hirschman, 1982); or, as a long line in the study of American politics has it, a regular sequence of "drift" followed

¹⁰⁹ In the briefest of sketches, a narrative along these lines would point towards the Gold Standard and the jurisprudence of the *Lochner* era Supreme Court as evidence that capitalism was ascendant before 1929, democracy and popular sovereignty on the decline. The subsequent reassertion of popular sovereignty consisted in, among other things, leaving the Gold Standard in 1933; fencing in the financial sector with the Banking Acts of 1933 (the Glass-Steagall Act) and 1935 and the Security Acts of 1933 (establishing the Securities and Exchange Commission) and 1934; and FDR's facing down the Supreme Court in 1937 (resulting in *West Coast Hotel Co. v. Parrish*, March 1937, which upheld a minimum wage law after the Court had earlier struck down similar minimum wage laws in *Adkins v. Children's Hospital*, 1923, or *Morehead v. New York ex. rel. Tipaldo*, 1936).

¹¹⁰ This narrative would provide as evidence that democratic control over the economy had become excessive: LBJ's Great Society legislation; the various experiments with capital controls in the nineteen sixties (e.g. the Interest Equalization Tax or the "Voluntary" Foreign Credit Restrain Program); Nixon's taking the US (again) off gold in 1971; and the introduction – by a Republican President no less – of outright price controls and, in the all-important energy sector, direct government control over production and allocation decisions in the early nineteen seventies (M. Jacobs, 2016, Chapter 1 and 2). The subsequent reassertion of capitalist principles of regulation would be demonstrated by pointing towards the dismantling of capital controls from the mid-seventies on; the unwinding of price controls; the withdrawing of the Federal Government from quantity and production decisions in the energy sector; the Volcker Shock, amounting to the de facto abandonment of full employment as a policy goal; the beginning of financial deregulation, e.g. with the Deregulation and Monetary Control Act of 1980 and the introduction of International Banking Facilities in New York City in 1981 (this amounted to permitting US banks to conduct offshore business from their New York branches; Ogle, 2017, p. 1453); and a frontal attack on trade unions (in particular via President Reagan's unprecedented decision to fire and bar from future public employment over 11,000 air traffic controllers, ending the PATCO strike).

by “mastery” (Lippmann, 1914), “drift” followed by “renewal” (Hacker & Pierson, 2010, pp. 83–90), or “drift” followed by “progress” (Runciman, 2013, p. xv)?

That may be so, I answer, but it does not contradict the thesis argued for here. While I do not deny the existence of such countervailing forces from time to time, it is a core contention of this dissertation that these forces are *contingent*, their operation depending on political context, technological developments, and international competition, among other factors. The tension at the heart of democratic capitalism, on the other hand, is *inherent*, driven by the partial but inevitable divergence of the interest of majorities and of capitalists, and the cumulative and cascading nature of power struggles. As a result, I claim, the relationship between democracy and capitalism is best described with a simile of water and oil, and not the metaphor of a pendulum. Historical events may lead to a figuratively renewed emulsion, to a re-mixing of water and oil—or they may not. The tendency to separate, with either one or the other rising to dominance, on the other hand is universal.

The full argument for the contingency of those countervailing forces extends over multiple chapters. Given the unevenness of the dynamic described above, and given that the recently ascendant principle appears to be that of capitalism rather than democracy, four chapters are dedicated to showing that there is nothing necessary about the weakening of capitalism, or the strengthening of democracy, as a society approaches capitalism’s ideal type.

In particular, Chapters 5, 6, and 7 argue that we cannot be certain that the ascendancy of capitalism leads to its self-destruction. It may or may not do so; the claim I

defend in those chapter is that there is nothing certain about it, so that a renaissance of democracy cannot be predicted on the basis of a certain weakening of capitalism.¹¹¹

Chapter 8 then argues that we cannot be certain that the ascendancy of capitalism will create so powerful an opposition, democratic or otherwise, as to necessarily be reined in by it. In particular I argue against theories of revolution that see capitalism as endogenously generating revolutionary agency. While an *interest* in such agency may well be endogenously generated, I show that its translation into action is ridden with contingency. In any case, the American coercive state shows no signs of weakening, given the technological and social circumstances of the twenty first century, so that even if there were mass protests and revolutionary leadership, a state crackdown would likely prevent revolutionary change. There is little to suggest, I conclude across these four chapters, that the ascendancy of capitalism is inherently self-reversing.

Albeit in less detail, I also defend a similar contingency claim for the case of democracy ascendant, capitalism in retreat. An excursion on the question of multiple equilibria,¹¹² in the next chapter, argues that we cannot be certain that an ‘excess’ of

¹¹¹ Of course, even *if* self-destruction theories of capitalism were accurate, it is important to remember that a weakening of capitalism does not necessitate a renaissance of democracy. As Polanyi (1944) and the first half of the twentieth century make abundantly clear, a version of Rosa Luxemburg’s crossroad, “socialism or barbarism,” always applies (Luxemburg 1967 [1915], p. 9). (Incidentally, Luxemburg misattributes the expression to Engels. The actual origin is Kautsky (1908 [1892], p. 137): “*entweder vorwärts zum Sozialismus oder rückwärts in die Barbarei*” in the original German, or “either forwards to socialism or backwards to barbarism” in English. Its widespread currency dates from Luxemburg’s pamphlet).

¹¹² By multiple equilibria I mean multiple stable alternative ways of coordinating a social division of labour. (The intended sense of stability is a broad one, since every division of labour undergoes constant change of at least some magnitude over time). This is a different and broader conception of the term than its technical meaning in general equilibrium and game theory (where it means that, given particular preferences, endowments, and technologies, there are multiple competitive or Nash equilibria). I do not insist on preferences, endowments, and technologies being constant between equilibria, but allow feasible (self-

democracy will lead to a resurgence of capitalism. In particular, once we acknowledge the widespread existence of multiple equilibria in market coordination, it is no longer clear that politicizing the economy necessarily has large efficiency costs, even if we grant subjective utilitarianism as the criterion of value and hence efficiency. Insofar as majorities may restrict themselves to choosing between these multiple equilibria, even an “unlimited democracy” (Hayek, 1979, Chapter 3, *passim*) may pay heed to Schumpeterian and Hayekian efficiency, while still exercising significant agency and choice.

Across this set of chapters, I show that the pendulum view of the relationship of capitalism and democracy is false. While the mechanisms that tends towards their separation are inherent, as I hope to have shown in this chapter, the mechanisms that tend towards a restoration of balance are contingent, as I show in what follows. The relationship of democracy and capitalism, then, is best captured by the simile of water and oil, not the metaphor of a pendulum

stabilizing) changes in these between one equilibrium and another. “Technical” multiple equilibria are thus a subset of my wider conception.

3. Excursion

A Detour on ‘Excessive Democracy,’ the Great Reversal, and the Politics of Single Equilibrium

A. Introduction

The preceding chapter argued that the relationship between capitalism and democracy is, figuratively speaking, like that of water and oil: capable of emulsion, but tending towards separation over time. The chapters that follow after this one work the same quarry: first, in Chapter 4, the case for a logic of separation is defended against the argument that the existence of national “Varieties of Capitalism” demonstrates the possibility of substantive democratic choice within capitalism, through a study of the economic policy turnaround of the early Mitterrand Presidency. Then, in Chapters 5 to 8, I make a case why an ascendancy of capitalism is not necessarily self-reversing, against what the pendulum metaphor of the relationship between democracy and capitalism suggests. This case is made through a critique of canonical theories of (capitalist) self-destruction, first those that argue for self-destruction through gradual processes of destabilization (Chapters 5, 6, and 7), then those that argue for self-destruction through revolution (Chapter 8).

Before the dissertation continues along these lines, however, this chapter explores three detours. Each is an exploration of an issue raised by the water and oil account developed in the previous chapter. Though all three deserve fuller treatment, even a long dissertation must be finished at some point, so this excursion presents outlines only.

Specifically, first, this chapter presents an argument for why an ‘excess’ of democracy need not introduce a pendulum swing back towards capitalism. Like the

chapters on capitalism and crisis theory later in this dissertation, the contention is not that a deepening of democracy is never reversed, but rather that there is nothing *necessary* about any such reversal. In particular, I take aim at the claim—associated with public choice theory—that the politicization of economic affairs inevitably entails major efficiency costs, whether in the form of increasing public debt, microeconomic ‘distortions,’ escalating inflation, weakening incentives for investment, or in yet another guise. Against this, I show that, due to an abundance of multiple equilibria, substantive democratic choice over economic outcomes is consistent with Schumpeterian and Hayekian efficiency, even with efficiency defined in terms of subjective utilitarianism. An extension of popular sovereignty over the economy is not, therefore, necessarily self-reversing.

Next, like the orthodox, counter-orthodox, and neo-orthodox accounts explored in Chapter 1, the water and oil account must fit with the actual history of democratic capitalism. Comparing my theory with the history of the American Republic in the twentieth century gives rise to (at least) two puzzles, which I address in parts C and D of this chapter. First, if an extension of democracy to the economic realm is not necessarily self-reversing, why *did* the rise of popular sovereignty over the division of labour give way to capitalism ascendant after the nineteen seventies? In particular, why did it give way in the particular way that it did, namely in a blaze of stagflation and economic chaos? Does this not provide proof for precisely the equilibrating mechanism outlined by Hayek and the public choice theorists, in which an ‘excess of democracy’ entails “a regime of deficits, inflation, and growing government” (Buchanan and Wagner 1977, p. 56), which inevitably leads to the election of market-friendly politicians like Ronald Reagan or

Margaret Thatcher, and a subsequent re-assertion of capitalists' private sovereignty over economic decisions? And second, if capitalism is in tension with democracy, as I argued in the previous chapter, and if it has been ascendant for a half-century by now, as I also take to be self-evident, why has democracy not been eviscerated *more fully*?

Concerning the first puzzle, I suggest that a combination of a mistaken analysis of the growth slowdown of the seventies, the sudden (and exogenously caused) rise of energy prices as well as a contingently poor response to it, and incipient international integration explain the otherwise puzzling reversal of the post-war trajectories of democracy and capitalism. Insofar as these are largely contingent factors, the Great Reversal of the nineteen seventies thus does not constitute proof of 'excessive' democracy being self-reversing.

Concerning the second, I point out that democracy *has* been eroded, but that this is easily missed when assessed against the Schumpeterian definition of democracy-as-elections. Once we adopt the definition of democracy argued for in the previous chapter, it becomes clear that democracy has been under sustained attack from what I call a politics of single equilibrium. This involves commercial federalism, an intellectual architecture of single equilibrium, and a slow-moving constitutional revolution. None of these three components primarily target the electoral rotation of office holders, but they *do* undermine the regulative ideal of equal political power. Seen against a fuller definition of democracy, the politics of single equilibrium therefore constitute a considerable erosion of American democracy.

B. An ‘excess’ of democracy is not necessarily self-reversing

I observed in the previous chapter that the biggest difference between the simile of water and oil and the metaphor of a pendulum lies not in the thought that democracy and capitalism are in tension with each other. On this they agree. The difference instead is that the metaphor of a pendulum suggests there are inherent or automatic mechanisms that tend towards restoring balance whenever either capitalism or democracy become preponderant, while the simile of water and oil sees no such automatic or inherent mechanisms.

This section considers the most prominent self-reversal argument for the case of democracy ascendant:¹ the alleged economic inefficiencies from extending popular sovereignty over the division of labour.² Where democracy becomes “unlimited,” in Hayek’s words, it is “bound to become egalitarian” and soon institute “discriminatory measures of coercion, such as tariffs or taxes or subsidies” (Hayek, 1979, p. 39).³ This results in perverse effects, Hayek’s argument continues: “There can be little doubt that it is largely a consequence of the striving for security by these means [...] that unemployment

¹ Self-reversal arguments for the case of capitalism ascendant are analysed in Chapters 5-8 below.

² Hayek and others have also formulated a freedom-, as opposed to a prosperity, version of the self-reversal argument against democracy ascendant: “[t]he triumphant claim of the British Parliament to have become sovereign, and so able to govern subject to no law, may prove to have been the death-knell of both individual freedom and democracy” (Hayek, 1979, pp. 35–36). In a more extended consideration of the politics of a non-capitalist democracy, this critique too must be tackled. However, given that the historical experience of democracy ascendant did see a decade of stagflation, but did not see “the death-knell of both individual freedom and democracy”—quite the opposite in fact—I here prioritise the economic argument for self-reversal.

³ Indeed, according to Hayek “Omnipotent democracy [...] leads of necessity to a kind of socialism” (Hayek, 1979, p. 30).

and thus insecurity for large sections of the population has so much increased” (Hayek, 2007 [1944], pp. 153-154). A Chilean paper – fittingly from the Pinochet era – distilled this argument to its essence: “Government interventionism is simply inefficient” (MacLean, 2017, p. 279, note 17).

If true, this would make steps back towards capitalism attractive whenever a polity approaches popular sovereignty over the division of labour: moves back towards market coordination will be expected to boost overall prosperity, which may bring majorities to vote for self-abdication and a return to non-democratic, capitalist control over the division of labour. If popular sovereignty over the division of labour leads to grave inefficiencies, democracy ascendant would thus be self-reversing.

This argument fails for two reasons. First, certain versions⁴ rely on the assumption that politicians in a democracy act as self-interested Nash optimizers. It is usually in virtue of this behavioural algorithm that public choice theorists assert that an ‘excess’ of democracy inevitably leads to escalating debt, inflation, unemployment, and hence economic chaos. This assumption, however, is questionable. Public choice theorists *themselves* are forced to drop it when arguing for alternatives to unlimited democracy: if all agents were Nash optimizers at all times, the ideal of rule-based, constitutionally enshrined private sovereignty over the division of labour would not be sustainable. At some point, marginal profits from political expenditure (lobbying) would exceed those from productive investment, so that Nash optimizing entrepreneurs would over time turn their energies

⁴ In particular the public choice version, e.g. Buchanan and Wagner (1977).

towards eroding the legal order of the market. Where the civil servants on the other end of this expenditure also Nash optimize, they will rationally accept the overall efficiency losses that come from giving particular firms regulatory advantages, as long as their personal payoff is high enough. Where the Nash optimizing assumption is granted, in other words, public choice theory entails that capitalism inevitable deteriorates into ‘crony capitalism.’ To deny this outcome, partisans of public choice theory can assert that firms and entrepreneurs will only be profit-maximizing *internal* to the spirit of the law – but if this assumption is granted for entrepreneurs, there is no reason why it should not also be granted for politicians. In other words, public choice theorists themselves are forced to assert, albeit usually covertly, that culture and ethos matter.

If this is so, and if the determination of culture and ethos is sufficiently complicated, then it cannot be asserted, *ex ante* and in general, that unlimited democracy will lead to the corruption of public officials, and to the self-reversing economic consequences that follow from such corruption. A relevant and telling finding in this context is the fact that the “historical record since 1870 generally suggests prudent fiscal behavior by democratic governments in the Western world.” Indeed, “countries have generally responded to high public debt levels by increasing primary surpluses” (Schularick, 2014, p. 193).

This response only counters a fairly naïve version of the self-reversal argument. A deeper version, which does not rely on the universal *homo oeconomicus* assumption, asserts that even *benevolent* politicians in a democracy cannot help but create grave economic inefficiency, because departures from a purely capitalist social order – to which democracy inclines, as I argued in the preceding chapter – inevitably lead to ‘economic distortions’ of

various kinds. These, the argument continues, are like a bulge in a balloon: they can only be repressed at the cost of new distortions emerging elsewhere.

This version, while more sophisticated, also fails, for a related but separate reason. In part because ethos and culture are causally important and malleable, there are in fact multiple feasible ways of coordinating an extended division of labour that broadly respect Schumpeterian and Hayekian efficiency. This existence of multiple equilibria⁵ implies that majorities can make meaningful choices concerning the coordination of productive activity without necessarily triggering escalating ‘distortions’ whenever choice is exercised. *Even where subjective utilitarianism is granted*, democratic sovereignty over the economy can thus be meaningful without being necessarily self-reversing.⁶

Since much rides on the question of whether multiple equilibria do exist, I now describe one example in detail, inspired by Przeworski (1985) and Roemer (1994), then list a number of further examples, before ending this section with concluding thoughts.

The example inspired by Przeworski and Roemer concerns the relationship between returns to capital and the amount of investment in society. Let us concede, for the purpose of argument, that the best way to preserve and increase prosperity is to have the market coordinate investments.⁷ Let us also concede that, because investment requires

⁵ I repeat (see footnote 112 in Chapter 2 above, at p. 139) that I use the term multiple equilibria in a non-technical sense.

⁶ Of course, the demonstration of multiple equilibria leaves it quite possible for majorities to choose policies that result in heavy productivity losses; but the point is that there is nothing inherently necessary about such choices when other, non-destructive, choices are also available.

⁷ This is a contentious claim whose truth is not obvious: purely private, market-driven investment may reduce future total prosperity and lead to higher inequality relative to publicly-guided forms of investment coordination, even where subjective utilitarianism is used to translate material outcomes into prosperity or

savings (i.e. the use of some real resources for the construction of future capacity, not current consumption), and because we assume that savings mostly come out of profits,⁸ current profits are required for future prosperity. On this basis, one might argue that letting capitalists make and then keep profits—i.e. have low to no taxes on corporate income, dividends, and high personal incomes—is in everyone’s interest, because it maximizes investment and hence future prosperity.⁹

Now, assume that the technological profile of the economy means that, say, twenty per cent of GDP are required for investments to support future prosperity.¹⁰ This twenty per cent could be achieved by capitalists receiving 40% of GDP in profits¹¹ and then

welfare (see e.g. Roemer, 1994, pp. 20–22, 90–108). The argument of this section is stronger, however, if this assumption is granted.

⁸ Again, this assumption can be challenged; but the argument is strengthened by letting it stand, for it renders it easier for capitalists to argue that “our prosperity is your prosperity.”

⁹ Indeed, this was the argument put forward by proponents of the tax reform legislated in late 2017, the Tax Cuts and Jobs Act of 2017. The *Wall Street Journal*, for example, stated: “The GOP bill will spur investment and make the U.S. more competitive. [...] Reducing the cost of capital should raise business investment and invite a capital inflow to the U.S. More investment means more hiring and more productive workers, which is what increases wages” (Wall Street Journal Editorial Board, 2017). In contrast, “It’s not too much to say that capital was on strike as CEOs and small-business owners tried to avoid becoming a target of new taxes or Obama regulators [...]. The Obama Democrats put income redistribution ahead of growth and got more inequality and less growth. Mr. Trump and the GOP Congress have made growth a priority” (Wall Street Journal Editorial Board, 2018). President Trump expressed similar thoughts in less conventional language: “it’s because of the tax bill. So they’re making tremendous investments. That means jobs; it means a lot of things. [...]. I consider this very much a bill for the middle class and a bill for jobs. And jobs are produced through companies and corporations, and you see that happening. Corporations are literally going wild over this, I think even beyond my expectations, so far beyond my expectations” (Trump, 2017).

¹⁰ Total public and private (gross) investment in the US has been around 20% of GDP over the last decade (author’s calculations, based on (U.S. Bureau of Economic Analysis, 2019c, 2019b, 2019a)). Of this, approximately half is used to replace the existing capital stock as it wears out (i.e. to counter depreciation), half to make new investments (i.e. net investment).

¹¹ The current capital-labour split of the US economy is roughly 40-60%, i.e. 40% of all US output goes to owners of capital, 60% to wage earners (Giandrea & Sprague, 2017).

investing half of it, while consuming, exporting, or hoarding the other half; or it could be achieved by capitalists earning twenty per cent of GDP in profits, and investing all of it. Crucially, *a polity can choose between these two scenarios*, or any of the intermediate ones, via its tax policies: a combination of punitive taxes on consumption out of profits,¹² together with (far) lower taxes on profits used for investments, e.g. in the form of investment tax credits, could be legislated to tilt the use of profits away from consumption and towards re-investment.

To underline the stakes to this, consider that the complete elimination of consumption income out of capital, i.e. the restriction of capital income to use for re-investment, would shift twenty percentage points of GDP from capitalists to workers and other non-capitalists. If distributed as a per capita lump sum, this would amount to approximately \$10,000 per person per annum of additional consumption income, or a thirty per cent income boost for the median American.¹³

¹² Four main taxes would be necessary for this: taxes on distributed earnings (dividends etc.), taxes on capital gains, taxes on high incomes (since otherwise high salaries might be used to disguise profits), and taxes on corporate net profits (since otherwise consumption could be disguised as corporate spending, e.g. in the form of company cars, company apartments, or corporate jets).

¹³ US average GDP per capita in 2018 was around \$60,000 per person, so that twenty per cent correspond to \$12,000. Against the gross gain of \$12,000, people would lose any capital income they previously received. For the median American, this loss of capital income is around \$2000 per year: the median American holds around \$45,000 in net personal wealth, albeit highly skewed by race. If we assume a generous four to five per cent return on capital, this implies that the median person receives around \$1800 to \$2250 in capital income per year (World Inequality Database, 2019b, data for 2014, latest year available). In fact, median capital income is likely to be lower than this, since returns on capital correlate positively with the amount of capital invested (Piketty, 2014, Chapter 12). Median per capita income is around \$32,000 per year (US Census Bureau, 2018), so that \$10,000 amounts to a 31.25% increase. To see the significance of such an increase in median income, consider that pre-tax income for the bottom 50% of Americans has increased by only one per cent between 1980 and 2014, post-tax income by only twenty-one per cent

Concerning efficiency, price signals would continue to distinguish profitable from unprofitable investments, preserving the Hayekian epistemological efficiency of markets; and no obstacles would be placed in the way of Schumpeterian dynamic efficiency, suggesting that negative effects on growth would be minimal.¹⁴ Indeed, underlining the credibility and expected efficiency of this counterfactual, a low rate of consumption out of profit coupled with a high investment share was precisely the political economy behind Germany's post-WWII growth miracle.¹⁵

A sceptic might argue that such a tax system would destroy incentives to invest. Empirically speaking, however, there is no evidence that the growth-inhibiting effect of confiscatory taxation is large, and some evidence that it is small.¹⁶ Further, while re-

(Piketty, Saez, and Zucman 2018, p. 578, table II). In one fell swoop, half of the population would gain considerably more than it has gained from 34 years of economic growth under the current social order.

¹⁴ For explanations of Hayekian and Schumpeterian efficiency, see footnotes 68 and 69 in Chapter 2 above (p. 110).

¹⁵ “The German Government’s use of tax concessions to speed the postwar economic recovery is a familiar story. [...] firms [...] were given exceptionally large depreciation allowances for any new investment, which they were able to set against their profits for tax purposes [...]. To make the trick work, tax rates had to be high. They were” (Shonfield, 1965, p. 282). Where similar tax structures were in place in other countries, the effects were the same: “The high taxation inherited from the war and the immediate postwar period made the tax reliefs granted by governments, notably by way of generous allowances for industrial investment, an extremely powerful stimulus to plough back profits which would otherwise have gone into dividend distributions” (Shonfield, 1965, p. 6).

¹⁶ “There is no statistically significant relationship between the decrease in top marginal tax rates and the rate of productivity growth in the developed countries since 1980” (Piketty 2014, 510). Despite widely different tax systems and levels of governments expenditure (as percentage of GDP), “Britain and the United States have not grown any more rapidly since 1980 than Germany, France, Japan, Denmark, or Sweden” (Piketty, 2014, p. 510). Concerning the period 1950 to 1980, in the US, corporate tax hovered around 50% (vs. twenty-one per cent today), top marginal income tax ranged from more than 90% in the fifties and early sixties, to 70% in the sixties and seventies (vs. 37% today), while per capita growth averaged two per cent per year, as opposed to 1.3% from 1980 to 2012 (Piketty, 2014, p. 94). In this context, note also that the *Wall Street Journal*—after it had welcomed the passing of the 2017 US tax reform for its likely growth-

investing profits may not boost future *consumption*, it allows the capitalist in question to retain *control* over the capital in question. *Both* consuming it *and* not re-investing it would mean the loss of considerably prestige, through forfeiting the status of “captain of industry” and the trappings associated with directing a large amount of business activity.¹⁷

Of course, capitalists would prefer to have both control and consumption. But this choice is not available to capitalists in the scenario at hand. *That* choice is only available at the level of deciding between the two economic orders in question; and here there is no reason why a majority—assuming that the choice is made democratically—should be swayed by the consumption claims of a small group of capitalists (See footnote 91 in Chapter 2 above, p. 127).¹⁸

This stylized example is but one case of multiple equilibria in the organization of an extended division of labour. Other examples abound: the Keynesian revolution can be interpreted as the discovery of multiple equilibria on the demand side of the economy.¹⁹ As

boosting effects—wrote that “Twelve months after Congress cut business tax rates and sped up deductions to set off a capital spending boom, the results are proving modest at best” (Rubin & Francis, 2018).

¹⁷ “[C]ompetition subordinates every individual capitalist to the immanent laws of capitalist production, as external and coercive laws. It compels him to keep extending his capital, so as to preserve it, and he can only extend it by means of progressive accumulation” (Marx, 1992 [1867], p. 739).

¹⁸ Moreover, it may well be that, over the long run, a large amount of profits in excess of investment needs are the result of rents. Keynes observed that, where capital becomes abundant—not unlikely in a social order oriented towards maximizing capital growth—the interest rate would drop to close to zero, which in turn would trigger the implementation of all investment projects with a (risk-adjusted) hurdle rate of zero per cent. The marginal project in this scenario would yield no net profits. Whatever net profits remain are either the result of risks turning out positively, or of various kinds of rents: “this state [...] would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital” (Keynes, 2015 [1936], p. 255).

¹⁹ In brief: the role of animal spirits in driving investment decisions and the paradox of thrift imply that there are multiple stable equilibria of aggregate demand, each associated with different income distributions and levels of total output (also Fisher, 1933; Keynes, 1936, pp. 4–22, 46–51, 147–174). Central banks and

with the example described in detail above, here too the stakes are significant. I will not describe the obvious economic consequences of switching from a low- to a high-employment equilibrium—the Great Depression suffices to make that point—but it is worth dwelling on the bargaining power consequences of a high-employment equilibrium. These are most visible against the positive argument for unemployment, for example in Hayek’s (2007 [1944]) *Road to Serfdom*: “There should be a place from which workers can be drawn, and when a worker is fired he should vanish from the job and from the payroll. In the absence of such a free reservoir discipline cannot be maintained without corporal punishment” (Hayek, 2007 [1944], p. 151). A ‘positive’ argument for unemployment, in other words, is that it serves as a functional replacement for corporal punishment. Seen against this argument it is clear that greatly reducing unemployment frees the worker from the whip of the manager or capitalist, thereby forcing more equitable employment conditions in a decentralized manner, without creating obvious efficiency costs.

Briefly listing a number of further examples, the “Varieties of Capitalism” literature could be interpreted as a parallel discovery on the supply side, similar to the Keynesian insight about multiple equilibria on the demand side (Soskice & Hall, 2001). Hysteresis effects, as well as other effects of aggregate demand on aggregate supply, fall into the same category: through them, Keynesian boosts to material prosperity carry over into the long

finance ministries can steer the level of aggregate demand to different levels relative to supply side capacity, so that a political choice between the different equilibria is possible. Generally speaking, high aggregate demand equilibria imply both a more equal distribution of income, due to bargaining power effects in the labour market (Kalecki, 1943; Stockhammer, 2013), and higher levels of average prosperity, as the persistent negative effects of severe recessions are avoided (Cerra & Saxena, 2008).

run, moving the economy on a permanently different trajectory from how it would otherwise have developed (Benigno & Fornaro, 2018; Blanchard, Cerutti, & Summers, 2015; Girardi, Meloni, & Stirati, 2018; Martin, Munyan, & Wilson, 2015). In all three cases—Keynesianism, Varieties of Capitalism, and hysteresis and other effects of demand on supply—choices are open between equilibria that are similar in terms of overall prosperity, varying mainly in how egalitarian or inegalitarian the distribution of an otherwise similarly sized pie is. Indeed, in the Keynesian case and especially once hysteresis effects are considered, the more egalitarian equilibrium is in fact *more* prosperous—certainly if workers choose to translate higher bargaining power into higher real incomes rather than shorter hours.

New Trade Theory (Krugman, 1979) and New Economic Geography (Krugman, 1991) imply that there are multiple equilibria concerning trade patterns and the location of economic activity.²⁰ Relatedly, it has been a staple of economic thought since Ricardo that much of the returns to landownership are rents, i.e. payments not needed to elicit the economic activity for which they are made (Ricardo, 2004 [1821], Chapter 2). The scale of these can be staggering: in the UK, for example, land constitutes 50% of all national wealth, or 250% of GDP (UK Office for National Statistics, 2018); depending on the share of returns to land that are rents, land rents may well account for income flows of

²⁰ For accessible summaries of this work, see the synopsis of Krugman’s work provided by the Royal Swedish Academy of Sciences on the occasion of his Nobel Memorial Prize (The Royal Swedish Academy of Sciences, 2008). See also Myrdal (1957) for an anticipation of some of these ideas. Certain spatial equilibria are considerably more egalitarian than others: consider the dispersal of economic activity in Germany and the US versus its highly concentrated nature in France and the UK, and the real distributive effects of these differing patterns through, for example, real estate prices.

around ten per cent of GDP each year.²¹ In virtue of being rents, their distribution is arbitrary for the size of total national product, so that, as with the distribution of consumption income out of capital, an entire family of multiple equilibria that vary only in distribution, not in total output, is possible.

Finally, at the level of production technology itself, the research of Maria Mazzucato suggests that public investment into research and development (R&D), historically (but not necessarily) channelled through the military, can lead to the creation of technologies that the private sector would not have created otherwise.²² Given the many ripple effects of technological change, the impact of public R&D is potentially enormous – though difficult to predict – entailing large downstream changes in prosperity, distribution, and political economy (Mazzucato, 2013).²³

Even seen against the subjective utilitarian theory of value, then, it is far from clear that capitalism, i.e. private ownership in the means of production, uniquely maximizes prosperity and that the meaningful exercise of democratic choice necessarily has major efficiency costs. Schumpeterian and Hayekian efficiency can be preserved, for example,

²¹ Relative to GDP, total land value is around 250% of GDP (UK Office for National Statistics, 2018). If the rate of return on land is around four per cent – a low estimate, given that Jorda et al. (2017, p. 33) find a historical average of seven per cent, with a low benchmark of six per cent – this implies that around ten per cent of UK GDP flows as returns to landownership each year.

²² See also Gordon (2016), for the productivity-enhancing effects of US public spending during WWII: “The most novel aspect of this chapter is its assertion that World War II itself was perhaps the most important contributor to the Great Leap [in productivity]” (p. 537).

²³ Showing the endogeneity of technological change/productivity further supports the idea (common in Post-Keynesian macroeconomics, e.g. Lavoie, 2014) that aggregate demand has effects on long-run aggregate supply. If true, the economy is no longer pinned down to a unique long-run equilibrium through the Non-Accelerating Inflation Rate of Unemployment (NAIRU), as New Keynesian macroeconomics maintains (Carlin and Soskice, 2015).

without conceding consumption income to rentiers; workers can acquire significant control rights in firms, as in Germany, *with* a noticeable penalty to stock market valuations but *without* a noticeable penalty to productivity, even with productivity measured purely in market terms, i.e. against subjective utilitarianism (see also footnote 79 in Chapter 2 above, p. 116); fiscal and monetary policy, never distributionally neutral, can be used to boost prosperity in downturns as well as to tighten labour markets, increasing workers' bargaining power and wages, and moving the economy to a trajectory of permanently higher prosperity; public regulation and funding can steer innovation away from the path that private capital would take on its own; and the same holds for the spatial distribution of economic activity.

This abundance of multiple equilibria establishes the possibility of meaningful democratic control over the division of labour without necessarily entailing large efficiency costs. Against public choice theory, democracy does *not* necessarily imply “a regime of deficits, inflation,” (Buchanan and Wagner, 1977, p. 56, 95) and economic dysfunction.

Concluding this section, note that besides undercutting “necessary self-reversal” arguments, this existence of multiple equilibria also lends further support to the separation element of the dynamic of water and oil. In particular, even *if* the argument from prosperity survives the challenge that I mounted in the preceding chapter, given the existence of multiple equilibria it would no longer justify rational majority support for capitalist control over the division of labour. Defenders of capitalism, this section has shown, cannot simply say “[i]t is to everyone’s advantage to live by rules under which a Steve Jobs or Warren Buffett can accumulate more wealth than less talented, ambitious, or conscientious people”

(Brennan, 2014, p. 51) and expect majorities to agree. Even prioritising total social prosperity can now go hand in hand with scepticism vis-à-vis privatizing benefits from capital and allowing private control over the use and deployment of capital.

The possibility of even (subjective utilitarian) prosperity-loving majorities voting for the erosion of the benefit and control elements of private ownership of capital overdetermines the Hobbesian dynamic outlined previously: even where the argument from prosperity convinces, once majorities become aware of the existence of multiple equilibria, the democratic case for retaining ultimate economic sovereignty in the political institutions of the polity becomes overwhelming. Capitalists, also broadly understood, will of course still be reticent to surrender that control because of a legitimate fear that democratic politics may result in moves towards property-owning democracy, a mixed regime, or even market socialism, all of which entail their full or partial expropriation. If a stable accommodation is unlikely even where all prioritize total prosperity, monopolizing power as quickly and completely as possible is both rational and important. This amplifies and overdetermines the dynamic of water and oil.

C. Contingent, not necessary: the Great Reversal of the nineteen seventies

The rest of this excursion considers two puzzles that arise from comparing the simile of water and oil with the actual history of democratic capitalism, particularly that of the US in the twentieth century. The first puzzle, considered in this section, is the following: if an extension of democracy to the economic realm is not necessarily self-reversing, why *did* the rise of popular sovereignty over the division of labour give way to capitalism ascendant after the nineteen seventies? In particular, why did it give way in the particular way that it

did, namely in a blaze of stagflation and economic chaos?²⁴ Does this not provide proof for precisely the equilibrating mechanism outlined by Hayek and the public choice theorists, in which an ‘excess of democracy’ entails “a regime of deficits, inflation, and growing government” (Buchanan and Wagner, 1977, p. 56), which inevitably leads to the election of market-friendly politicians like Ronald Reagan or Margaret Thatcher, and a subsequent re-assertion of capitalists’ private sovereignty over economic decisions?

A full revisionist history of the nineteen seventies is beyond the scope of this dissertation, let alone this brief excursion. Nevertheless, I hope that the sketch that follows may prompt the reader to suspend judgement concerning the *necessity* of the Great Reversal of the seventies, until a full revisionist history of this period can be told.

Before considering the causes of the reversal it bears recalling that, when persistent economic difficulties first surfaced in the early seventies, few advocated a return to liberal capitalism as the solution. Faced with rising inflation, slowing growth, and the first oil shock, the Nixon administration’s response was to re-assert discretionary (domestic) control over the currency, to introduce price controls, and to deploy—in addition to price controls—direct command-and-control measures in the all-important energy sector (M. Jacobs, 2016, Chapters 1 and 2).²⁵ Showing the initial resilience of this paradigm, President Ford’s attempt to prioritise price stability over protecting employment and real wages, the “Whip Inflation Now” (WIN) campaign of 1974, was widely perceived as a

²⁴ For general accounts of the turbulent nature of the nineteen seventies, see e.g. Maier (2004), Panitch and Gindin (2012, Chapter 6), or Hobsbawn (1994, Chapter 14).

²⁵ Note: “[n]o single act of Nixon’s first term was as popular as the adoption of price controls” (M. Jacobs, 2016, p. 33).

failure and rebuked at the mid-term elections of that year. In 1975 it was replaced by a deliberate stimulus package, re-asserting popular sovereignty over the economy against the self-equilibrating, private-economic-sovereignty view of market liberals (Maier, 2010, p. 31). As late as 1978, Congress passed the “Humphrey-Hawkins *Full Employment Act*” (italics added), which explicitly committed the United States Federal Government to aim at full employment.²⁶ Until the later Carter administration, momentum was – in line with the water and oil account – with popular sovereignty and majority rule over the economy. The first response to economic problems was not to trust capitalists and entrepreneurs, providing them with additional discretion and resources if necessary, but to assert the majority’s right and ability to regulate the division of labour.

Given the existence of multiple equilibria, as pointed out above, Hayek and others were thus right to be worried during the post-war decades. As a striking 1979 essay by George Stigler, no friend of social democracy, observed, social democracy *was* winning,²⁷

²⁶ “It is, therefore, the purpose [of this act] to require the President to initiate, as the President deems appropriate, with recommendations to the Congress where necessary, supplementary programs and policies to the extent that the President finds such action necessary to help achieve these goals, including the goals and timetable for the reduction of unemployment” (Pub. L. 95–523, title II, § 201, Oct. 27, 1978, 92 Stat. 1899). The details of this act, however, already reflected the turning of the tide. The idea of mandating the government as employer of last resort, prominent in earlier drafts, did not survive Congressional negotiations. In addition, by introducing price stability as a goal of equivalent standing next to full employment, the intensity of the legal commitment to full employment was significantly reduced (Stein, 2010, pp. 190-2).

²⁷ Besides the developments mentioned in the text below, this was visible in the fact that “Between the late 1950s and the early 1970s, the legal underpinnings of the right to vote were transformed more dramatically than they had been at any earlier point in the nation’s history. [...] nearly all formal restrictions on the suffrage rights of adult citizens were swept away, and the federal government assumed responsibility for protecting and guaranteeing those rights” (Keyssar, 2009, p. 205).

and it was winning *because* societies had become more democratic (Stigler, 1979).²⁸ Given that much of this period was also a period of strong and widely shared growth, this *was* a defeat for capitalists and capitalism, visible in full employment, strong trade unions, historically low inequality in incomes and social conditions, and, as economically secure populations stepped up Maslow's pyramid of needs, the bubbling-to-the-surface of non-economic demands. Contra a single equilibrium worldview, the assertion of popular sovereignty over the division of labour was not accompanied by lower prosperity nor, prior to 1973-4, excessive inflation, nor was it the beginning of the road to serfdom.²⁹

And yet the Great Reversal, from democracy ascendant to capitalism unleashed, *did* happen. If not because of inherent tendencies for democracy ascendant to overreach, then why? I suggest the reversal was due: the mistaken analysis predominant at the time of the economic slowdown of the seventies; the outsized political effects of (exogenously caused) energy price increases, as well as of the mangled initial response to them; and the effects of intensifying international integration, or the "Shock of the Global" (Ferguson, Maier,

²⁸ The title of the Stigler's essay is "Why have the Socialists been winning?", but by "Socialists" Stigler refers to Western left-wing social democracy, not the state socialist parties of the Eastern Bloc. The answer he gives to this question was remarkably straightforward: "the large and growing role of government has been what the public as a whole has wanted: democratic majority rule likes what we have been doing" (Stigler, 1979, p. 66). This reading is widely shared: "Historically, there can be little doubt that as the suffrage was extended in the last century, and as mass political parties developed, democratic development impinged significantly on capitalist institutions and practice" (Almond 1991, p. 472; see also Judt, 2005).

²⁹ Hayek was thus right to observe in 1976 that "the highly interventionist 'mixed' economy existing in most countries today [...] has in fact attained its character largely as a result of governmental measures aiming at what was thought to be required by 'social justice'" (Hayek, 1984, p. 81), but wrong when he had stated earlier that "There can be little doubt that it is largely a consequence of the striving for security by these means [...] that unemployment and thus insecurity for large sections of the population has so much increased" (Hayek, 2007 [1944], pp. 153-154).

Manela, & Sargent, 2011). None of these three were caused by “politicians [who] enjoy spending public monies on projects that yield some demonstrable benefits to their constituents,” but “do not enjoy imposing taxes on these same constituents” (Buchanan and Wagner, 1977, p. 95). In addition, none of the three were inevitable, perhaps with the partial exception of the third (to be discussed in the next chapter). But taken together, they discredited the idea that popular sovereignty over the division of labour is in the majority’s interest.

Taking the three in turn, the first factor contributing to the Great Reversal, I assert, was the misreading of lower growth as being due to poor economic policy. The flagship McCracken Report, commissioned by the OECD in response to the troubled first half of the decade, concluded: “in our view, growth in the future will be limited not so much by constraints of a physical or technological kind as by the need to overcome the present economic and social stresses and imbalances of which inflation is one of the main symptoms” (McCracken et al., 1977, pp. 15, 141). In other words, the report concluded that poor economic policy, too permissive of inflation, was to blame for lower growth, rather than technological factors.

Public policies likely did reduce GDP growth marginally (see the discussion of energy policy below). In particular, public policy held the key to reducing inflation, which itself had small but negative effects on output and productivity. There can be no doubt, however, that the lion’s share of the decline in growth was due to the economic exhaustion of the inventions of the Second Industrial Revolution (Gordon, 2016). Against what the McCracken report argued, growth after the nineteen seventies *was* limited by constraints

of a technological kind. Even *after* the Reagan Revolution, US total factor productivity growth, when measured per decade, never reached more than *half* the level of the nineteen sixties, or even a *quarter* of that of the fifties (Gordon, 2016, p. 547).

This misreading of the causes of lower growth, a contingent failure of social scientists, journalists, politicians and civil servants to recognise and publicize the true causes of the slow-down, was crucial. It explains why inflation was a persistent problem during the seventies: in the belief that supply-side constraints were not binding, there was majority support for demand-boosting policies, particularly in the early parts of the decade. Persistent inflation, in turn, was a major contributor to the delegitimization of popular sovereignty over the division of labour.

Further, once it was widely recognised that supply side constraints *were* binding, the failure to recognise the technological nature of these constraints gave credence to supply side economics. A false narrative of incentive problems, distortionary regulation, and excessive taxation as the causes of low growth took hold. These were minor problems at best: President Reagan's reforms, aimed at addressing precisely these obstacles, failed to increase productivity growth to anything like the levels of the fifties and sixties. While total factor productivity grew at an average of 1.4% p.a. during the seventies, productivity growth *declined* to 0.3% during Reagan's two terms, and only recovered to 0.8% during the nineteen nineties and two thousands (Gordon, 2016, p. 547). Had it been recognised that the decline in growth was largely a technological story, the false promises of monetarists and other apostles of capitalism would have had less persuasive pull, and

majority support for restricting popular sovereignty over the division of labour may have been less forthcoming.³⁰

A second factor contributing to the Great Reversal was the sudden and stunning rise in oil prices, quadrupling in 1973-4 then doubling again in 1979-1980 (Yergin, 2009, p. 792). This, like the decline in productivity growth, had little to do with the assertion of majority rule and popular sovereignty over the division of labour. Rising energy prices were not caused by government spending or the particulars of how oil trading and production were regulated. Instead the causes were rapidly growing private consumption demand, limited supply growth, and the growing strength of the governments of oil-exporting countries (Dietrich, 2017; M. Jacobs, 2016; Yergin, 2009).

Having said this, the command-and-control response formulated by different American governments during the nineteen seventies *was* counterproductive. The

³⁰ One might argue that a party running on “slower growth is technologically determined” would stand no chance, electorally, against either a Keynesian party (“we can spend our way to greater growth”) or a Friedman-esque, (incentive) supply side party (“we can reform our way to greater growth through cutting taxes and unleashing capitalists”). No doubt, it is easier to win on optimism than on pessimism. However, a technology-focused analysis need not be exclusively pessimist. It, too, can tell an optimistic story, based on a rival set of policy recommendation: instead of boosting demand or cutting taxes and regulation, positive recommendations would focus on, say, doubling the budgets of the NSF, the NIH, NASA, and perhaps DARPA, to produce the technological progress that underpins long run growth. Further, the counterfactual I have in mind relies in large part on journalists, academics, and other non-politicians to shift the accepted explanation of the growth slow-down. I accept, in other words, that an attempt by politicians alone to shift the narrative (towards “the slowdown is technologically driven”, perhaps with a family resemblance to Carter’s attempts at moral suasion during the second oil shock) was likely doomed to failure; but I point out that the production of public opinion around the causes of the slow-down was a complex process that, perhaps, could have resulted in a different explanatory paradigm, against which monetarism and Reaganite supply side economics would have appeared unreasonable and ineffective, while a state-driven R&D push might have appeared reasonable and promising.

introduction of administrative controls by the Nixon administration,³¹ for example, was a failure: “shortages worsened and the public’s nerves frayed” (M. Jacobs, 2016, p. 73). This resulted in part from too little intervention – “The absence of a systematic rationing government program, with clear rules, accelerated public panic” (M. Jacobs, 2016, p. 80) – but mostly from the unforeseen interactions of different elements of energy market regulation.³² With queues at petrol stations, violence on the highways, and a sense that the government was losing control, the energy crisis did much to delegitimize popular sovereignty over the division of labor: “the failure of the nation’s politicians to address the energy crisis contributed to the erosion of faith that Americans had in their government” (M. Jacobs, 2016, p. 9).³³

While the introduction of a systematic rationing program – which may have reduced the extent to which faith in government was eroded – was never particularly likely, the particular form of intervention was contested and contingent. The “seismic shift in national politics” that the energy crisis resulted in “was anything but inevitable” (M. Jacobs, 2016, p. 6-7).³⁴ As with the interpretation of declining growth as driven by policy

³¹ In December 1973 the Nixon administration created the Federal Energy Office and gave it the power to control “to what industries, dealers, and regions the oil companies sent their products [...] [and] what the oil companies refined and when” (M. Jacobs, 2016, p. 71).

³² On this, see footnote 88 in Chapter 2 above (p. 124).

³³ For background on how and why oil shortages translated into violence on highways, in particular via the truckers’ strike of February 1974, see section H of Chapter 6 above (p. 320).

³⁴ In particular, something closer to the German *Energiewende* of the two thousands cannot be ruled out as a credible counterfactual. This involved transforming the energy sector not through command-and-control measures and price controls, but through feed-in tariffs, public investment in R&D, energy taxes, and targeted regulatory changes in the electricity market. These have succeeded in boosting the share of renewable

mistakes rather than a technological slow-down, the effect was real – popular sovereignty over the division of labour came to look counterproductive, supply side reform to strengthen capitalists’ discretion came to look attractive in comparison – but its cause was contingent.

The third factor driving the Great Reversal of the nineteen seventies was increasing international financial and trade integration. This had a twin effect: it created new exit options for US capitalists, boosting their bargaining power vis-à-vis government and workers. In virtue of foreign capitalists gaining symmetrical exit options from their countries, it increased the amount of real resources that American politicians could command and attract by creating favourable conditions for capital at home. This tilted the terms of the choice between popular and capitalist sovereignty over the division of labour in favour of capitalist sovereignty.

The extent to which this factor was contingent is harder to assess than for the first two. On the one hand, had petro-dollars been recycled through the IMF, as both Western Europe and Saudi Arabia favoured (Sargent, 2010, p. 59), rather than via banks, as the United States advocated, the lure of capital account liberalization would have been weaker, for the pool of capital that could thus be attracted would have been smaller.³⁵ On the other

energy, drastically driving down the price of wind and solar, and reducing carbon emissions, while attracting and retaining broad popular support

³⁵ Supporting the case for contingency, the American preference for private sector-based recycling was not part of a neoliberal masterplan: “the United States in the mid-1970s found itself as bereft of long-range strategic vision as any other country” (Sargent, 2010, p. 59). This, in combination with Western European and Saudi preference for IMF-organized, politically regulated recycling, gives credence to the idea that the modality of petro-dollar recycling was not predetermined.

hand, the growth in international trade and the gradual collapse of Bretton Woods increased demand for exchange rate hedging and other inherently international financial products.

This increase in demand appears structurally determined, not contingent, once trade integration proceeded,³⁶ but the extent to which this demand made international financial integration *itself* inevitable is unclear. As with any financial market under capitalism, international financial markets experience crises from time to time. When these are not resolved on terms advantageous to the financial capitalists involved, they have a chilling effect going forwards. This effect was “made apparent by the collapse of the German Herstatt Bank in June 1974, when the Bundesbank [chose] not to repay the bank’s international creditors immediately. The decision almost caused the U.S. bank-clearing system to collapse” (Helleiner, 1996, p. 173). Had the subsequent policy response, both by the West German government and via the founding of the Basel Committee on Banking Supervision, been to the detriment of internationally operating banks and investors, these players would have perceived international transactions as permanently riskier (C. R. Schenk, 2014). This would have rendered them more expensive, hence rarer, and financial integration would not have proceeded as quickly, and perhaps not gone as far, as it in fact did. Given that crises and crisis-responses are often moments of contingency, the translation of the (structurally determined) demand for international financial integration into actual integration was, perhaps, contingent.

³⁶ Whether the growth in trade and the collapse of Bretton Woods *themselves* were necessary or contingent developments are questions that would take us too far afield for present purposes.

Lastly, however, weighing against contingency, if the economic and political costs of commercial closure or of politically managed financial and trade flows were high, then a less internationally integrated counterfactual may not be credible. Politicians would have faced strong pressures to realise these gains from integration, and the success of first movers would have increased the pressure on, as well as facilitated the politics in, other countries moving along similar lines.³⁷ In such a scenario, financial integration would not have been as contingent as the first two factors behind the Great Reversal. How large these anticipated gains were, how large the real gains turned out to be, to what extent international trade integration was contingent, and whether there were realistic alternatives to it in the nineteen seventies, are deep questions that I cannot settle here.³⁸

Summing up the sketch offered here, while the seventies began with democracy ascendant and capitalism in retreat, the decade saw a Great Reversal at the end of which capitalism was being unleashed and democracy fenced in. This reversal was not the inevitable result of overreaching and mismanagement by spendthrift politicians reluctant to tax their constituents. Instead, it was driven by a misdiagnosis of the causes of slowing

³⁷ Where the gains are substantial, they also create micro-level incentives for particular politicians and economic decision-makers to legislate financial integration: insofar as capital flow liberalization leads to a predictable boost in profits, politicians can tax them and bankers can use them to buy off veto players. Note that this mechanism can apply even where net gains are zero, i.e. where no real, economy-wide productivity gains are made (as appears to have been the case with financial liberalization, by and large; Shaxson, 2018): if the potential pools of new profits and tax revenues are known to realise themselves rapidly and visibly, while the offsetting losses elsewhere are expected to take place gradually and in a dispersed manner, micro-incentives are favourable towards realising these potential profits and losses. The higher speed at which finance adapts to regulatory changes, compared to other sectors of the economy, makes this a possibility worth investigating.

³⁸ I return to this question in the following chapter and in the conclusion, but there, too, a final answer is not possible.

growth; an exogenous energy shock that was badly handled; and the decision to prioritise international integration over democratic sovereignty. Although it remains unclear to what extent there were meaningful alternatives available to deeper international integration, the first two factors were contingent. The Great Reversal, this suggests, may not have been inevitable. A fuller revisionist history may perhaps conclude that, instead of giving birth to neoliberal capitalism, the nineteen seventies could have ended with a turn towards a world of commercially closed market democracies.³⁹

The actual history of capitalism and democracy shows that momentum may turn for many reasons: sudden bursts or slowdowns of technological productivity may legitimate or delegitimate whichever principle of social order is hegemonic at the time;⁴⁰ the interpretation of these bursts or slow-downs may amplify or reduce their political impacts; resource shocks—and their analysis and policy responses—may do the same; or the international context, both political and economic, may shift, whether suddenly or gradually. Further reasons can easily be imagined: old political coalitions may collapse, new ones may coalesce; technologies of warfare may change, shifting bargaining power;⁴¹ and

³⁹ The concept of commercially closed market democracies is expanded upon below (pp. 486-507).

⁴⁰ A further example of this mechanism: the respective experiences of the period 1945 to 1975 gave social democracy more legitimacy and popular support in Continental Europe than in the US and UK. In all three geographies, this was a time of strong popular control over the social division of labour. But while in France and Germany this coexisted with rapid catch-up growth, in the US and UK it coexisted with the experience of the Continent catching up, i.e. with a relative loss in status (Piketty, 2014, pp. 96-99). Note that despite this heightened legitimacy, social democracy in Continental Europe has been eroded, see section D below, also Judt (2011) and Baccaro and Howell (2017), though perhaps less than in a counterfactual where this boost to legitimacy had been absent.

⁴¹ See Ferejohn and Rosenbluth (2016) and Chapter 8, section E (p. 393) for an exploration of this mechanism.

the same may happen through changes in transport or energy technology.⁴² The same history also shows, however, that many, even most, of these drivers of momentum reversal are contingent. Few, if any, appear to be reliably triggered by the ascendancy of democracy or, conversely, by the assertion of private sovereignty over the division of labour. Even though the actual history of capitalism and democracy in the twentieth century approximates that of a pendulum, the future path of highest probability thus remains that of water and oil and of gradual separation.

D. Visible through the correct lens: the politics of single equilibrium as erosion of democracy

With this historical sketch on the table, a second puzzle remains to be addressed: why, if what has been said above is correct, and if capitalism has been ascendant for approximately a half-century by now, are most countries of the capitalist core still democracies? And if that is indeed the case, why do not majorities simply vote for one of the equilibrium shifts that I outlined in section B above? In other words, does not the actual history of capitalism and democracy in the US after the nineteen seventies show that majorities can reliably endorse capitalism, and that a prolonged ascendancy of capitalism need not undermine democracy?

Pointing towards recent literature on the erosion of electoral democracy ameliorates but does not fully resolve this puzzle.⁴³ On the one hand, reports of the death of electoral

⁴² See Rae (2003) and Mitchell (2011) for an exploration of how transport and energy technology can affect the distribution of political power and the likelihood of effective democratic government.

⁴³ Talk of democratic recession (L. Diamond, 2015), deconsolidation (Foa & Mounk, 2016, 2017; Inglehart, 2016) or backsliding (Norris, 2017; Waldner & Lust, 2018), a crisis of democracy (“The Crisis

democracy may well be exaggerated: The United States has never missed an election, and, despite gerrymandering, voter suppression, and an abundance of money in US politics, important elections continue to be unpredictable. Further, even if this literature were fully accurate in its description of democratic erosion, it is far from clear that it would vindicate the theory developed here. While some of the drivers and mechanisms of this literature broadly support the dynamic of water and oil,⁴⁴ others do not.⁴⁵ More importantly, the timeline does not fit easily with the account developed here: much of the recent literature on democratic backsliding focuses on the period after 2000, a full two to three decades after the reversal of momentum identified in the previous section. The erosion of democracy that the extant literature describes (especially that in footnote 43) therefore succeeds at most partially in solving the puzzle outlined above.

A fuller resolution can be found, I believe, in what I call the “politics of single equilibrium.” Colloquially known as TINA (“there is no alternative”), this politics consists

of Democracy: Conceptual and Institutional Perspectives” was the title of a prominent conference at Yale University, held on 25th and 26th January 2018), even democracy’s end (Runciman, 2018) or death (Levitsky & Ziblatt, 2018), has become widespread. Occasioned in part by the 2016 US Presidential election, some scholars have gone as far as contemplating whether or not electoral democracy may soon give way to fascism or tyranny (Snyder, 2017, 2018; Stanley, 2018).

⁴⁴ Inequality, directly linked to the post-seventies ascendancy of capitalism (Piketty 2014), plays a central role in much of the literature on the establishment and survival of democracy (e.g. Acemoglu & Robinson, 2006; Boix, 2003). Equally, in more sociologically inclined recent accounts the effects of market-driven deindustrialization, (insulated against interference by majority rule through the de-politicization of monetary, financial, and trade policy) are prominent. Third, a dynamic of water and oil is directly described in accounts of deliberately pro-capitalist political projects, particularly in the US, that advance minority rule and aim to alter the political process in favour of capitalist interests (A. Berman, 2015; Highton, 2017; MacLean, 2017; J. Mayer, 2016; Phillips-Fein, 2009).

⁴⁵ Agency-based theories (e.g. Capoccia, 2005; Linz, 1978; Mainwaring & Perez-Linan, 2014), placing most of the explanatory burden on contingent decisions made by key political actors, are *prima facie* consistent with, but not obviously supportive of, the water and oil account.

of institutional and ideational strategies that influence the option set of political decision-makers to bring about a clear and unique optimal choice: private control of the division of labour by capital. In the language of the previous chapter, it consists in *producing* a heavenly coincidence of majority rule and capitalist principles of social regulation. In doing so, the politics of single equilibrium solve a general problem for advocates of capitalism who live in democratic capitalist polities: how to pass policies that do not attract majority support, i.e. how to move the polity in a direction that majorities disagree with.⁴⁶

Seen against the Schumpeterian definition, this politics hardly registers as an attack on democracy.⁴⁷ Where it succeeds, the electoral process need never be eliminated or even seriously curtailed: once the option set is suitably constrained, the now-empty husk of elections with a wide suffrage can be left to stand, for capitalists can be confident that elected politicians will do what the politics of single equilibrium renders it rational and reasonable for them to do. ‘Democracy’ is thus rendered “market-conforming” without the abolition or rigging of elections,⁴⁸ for the politics of single equilibrium aim to change not

⁴⁶ The political activities of Charles Koch are an exemplar of this. In the words of MacLean, Koch “had an unrealized dream of liberty, of a capitalism all but free of governmental interference [...]. The puzzle that preoccupied him was how to achieve this in a democracy where most people did not want what he did” (MacLean, 2017, p. xxiv-xxv). On Koch’s solution to the puzzle, see (besides MacLean, 2017), Mayer (2016).

⁴⁷ E.g. Iversen and Soskice (2019). Their definition is Schumpeterian: “we loosely operationalize functioning democracy as a situation of competitive parliamentarism with substantial franchise” (Iversen and Soskice, 2019, p. 58). Working with this definition, they find that “the advanced capitalist democratic state has paradoxically become strengthened through globalization,” and that “democracy and capitalism are in a symbiotic relationship” (Iversen and Soskice, 2019, p. 2, 5, 20, italics original).

⁴⁸ This goal, usually left unstated, was made explicit by Chancellor Merkel in a press conference in September 2011. Asked whether she was afraid that the effectiveness of an important tool for overcoming the Eurocrisis, the European Financial Stability Facility (EFSF), was being undermined by the insistence of national parliaments to have a say over bailout programmes, she responded as follows. “We live in a democracy, and

who governs, but what government is entitled and likely to do (Hayek, 1984, Chapter 15, esp. p. 287).

Held up against the definition of democracy argued for in the previous chapter, however, the politics of single equilibrium register as a clear attack on democracy. In taking feasible options off the table and in falsely denying the existence of multiple equilibria, it violates popular sovereignty. Insofar as real power is then exercised by those who limit the option set of elected (or otherwise selected) democratic representatives, not by those who make the choice within that set; and insofar as those who do the limiting—whether they be judges, lawyers, financiers, or others—constitute a clear minority of citizens, it violates the regulative ideal of equal political power.

Seen through this lens, a number of otherwise disparate features of the actual history of democracy and capitalism post-1970 come into sharp focus: the prevalence of commercial federalism⁴⁹ both in neoliberal thought and in political practice; the

we are happy about that. This kind of democracy is parliamentary. For that reason Parliament's budget right is central." Stuningly, however, her next sentence was: "We will find ways to design parliamentary co-determination in such a way that it is market-conforming, so that the right signals will follow on markets" (Presseamt der Bundesregierung, 2011, translation my own). The context of the press conference was the Berlin visit of the Portuguese Prime Minister and a discussion of Portugal's austerity programme.

⁴⁹ By commercial federalism I mean the deliberate construction of market orders that exceed the scope of existing democratic states. Insofar as markets always require political undergirding, this is necessarily a form of political federalism, but since the avowed goal is market creation (through the "integration" of multiple smaller markets) rather than, say, common defence, I term it commercial federalism. Prominent contemporary examples of this include the European Union, NAFTA (now USMCA), AFTA, SAFTA, MERCOSUR, the Eurasian Economic Union, and ECOWAS (as well as the other Regional Economic Communities of the African Economic Community). I use "commercial federation" both to refer to specific commercial federations, as with the examples given here, and for the phenomenon otherwise called "globalization," since, to a first approximation, globalization is but the sum of overlapping commercial federations that create and underpin a global financial- and trading order.

prominence of single equilibria in neoliberal thought; and the avowed goal of a “constitutional revolution” (Buchanan, 1975, esp. Chapter 10), via piecemeal jurisprudential action and, where possible, via direct constitution revisions.

Concerning the first of these, Slobodian (2018) has recently charted the centrality of commercial federalism to neoliberal thought and practice throughout the twentieth century. The summary conclusion he reaches is clear: “the neoliberal project focused on designing institutions” – in particular institutions of commercial federalism – “to inoculate capitalism against the threat of democracy [...] and to reorder the world after empire as a space of competing states in which borders fulfill a necessary function” (Slobodian, 2018, p. 2). Slobodian dates the emergence of this tradition – the globalist, or Geneva, school of neoliberalism – to the nineteen thirties (Slobodian, 2018, Chapters 2 and 3), but its origins arguably run deeper: as early as 1878, Lord Acton observed that “Of all checks on democracy, federalism has been the most efficacious and the most congenial [...] The federal system limits and restrains the sovereign power by dividing it and by assigning to Government only certain defined rights. It is the only method of curbing not only the majority but the power of the whole people” (Acton, 1907 [1878], p. 98).

Upon reflection, the affinity of neoliberalism – the political ideology of capitalism ascendant – to commercial federalism is unsurprising. “In a federation, certain economic powers, which are now generally wielded by the national states, could be exercised neither

by the federation nor by the individual states”⁵⁰ (Hayek, 1948a, p. 266). Hayek may have over-claimed when stating that “even such legislation as the restriction of child labor or of working hours becomes difficult to carry out for the individual state” (p. 260), but the mechanism through which commercial federalism contributes to a politics of single equilibrium is clear: “the greater mobility between the states make it necessary to avoid all sorts of taxation” as well as any other profit-reducing legislation, “which would drive capital or labor elsewhere” (p. 260). At the same time, the more heterodox set of preferences that obtain in a commercial federation, relative to a nation state, render it harder to gain majority agreement on patterned outcomes in the division of labour.⁵¹ In other words, by embedding democracies into a commercial federation, it is possible to “limit to a great extent the scope of economic policy of the individual states” (p. 258), without having to interfere with the ordinary democratic process internal to the federation’s member states.⁵² It is thus the first and single most important pillar of the politics of single equilibrium.

⁵⁰ Among the most important of these powers: “With a common monetary unit, the latitude given to the national central banks will be restricted at least as much as it was under a rigid gold standard— and possibly rather more” (Hayek, 1948, p. 259).

⁵¹ “In the national state current ideologies make it comparatively easy to persuade the rest of the community that it is in their interest to protect “their” iron industry or “their” wheat production or whatever it be.” In a commercial federation, however, “[w]ill the same motives operate in favor of other members of the Union? Is it likely that the French peasant will be willing to pay more for his fertilizer to help the British chemical industry? [...] It seems clear that, in a federation, the problem of agreeing [...] will raise problems different in kind from those that arise in a national state. [...] the diversity of conditions and the different stages of economic development reached by the various parts of the federation will raise serious obstacles to federal legislation” (Hayek, 1948, pp. 262-3).

⁵² In this context, it is unsurprising that the first iterations of the post-WWII dynamic of water and oil, in the nineteen fifties and sixties, took place over capital controls and financial regulation. Capital controls in particular are assertions of popular control over the division of labour that, by leaving product market and

Next, concerning the intellectual architecture of neoliberalism, given the alleged centrality of freedom to the neoliberal project, it is striking that “[t]he heart of this revival [...] is the claim that there is *no viable alternative* to a capital-friendly market system” (Grewal and Purdy, 2017, p. 78, italics added). Collective choice or political freedom is thus rendered empty and meaningless, for this paradigm avows that there is only one reasonable answer anyway when it comes to arranging our social order.

Single equilibrium claims abound in neoclassical economics and neoliberalism:⁵³ de-commodifying labour—e.g. through minimum wages, public unemployment insurance, collective bargaining, a universal basic income, or a jobs guarantee—is claimed to boost unemployment without increasing real wages over the medium run. Only a fully commodified labour market, Hayek and others argue, can produce the highest sustainable levels of employment and wages (Hayek, 1960, p. 270). Keynesian fiscal policy is argued to be futile at best, and likely counter-productive (Hayek, 2007 [1944], p. 214), and

labour market efficiency features in place, are unlikely to lead to very large productivity costs, at least in larger countries not overly reliant on foreign trade. But they are great barriers to investment strikes and to the power of capital more generally, and they provide countries considerable domestic autonomy vis-à-vis the world market. Accordingly, since the very beginning “American neoliberals took issue with the two reasons given at Bretton Woods for justifying capital controls. Unlike Keynes and White, they were not committed to the policy autonomy of the interventionist welfare state but instead applauded international financial markets because they would discipline government policy and prompt states to adopt more “sound” fiscal and monetary programs” (Helleiner, 1996, p. 116). Note also Hayek’s particularly virulent and hyperbolic attack on exchange controls: “Nothing would at first seem to affect private life less than a state control of the dealings in foreign exchange, and most people will regard its introduction with complete indifference. [...] It is, in fact, the complete delivery of the individual to the tyranny of the state, the final suppression of all means of escape—not merely for the rich but for everybody” (Hayek, 2007 [1944], p. 127, fn. 4; see also Friedman, 1960, p. 57).

⁵³ Not only in neoclassical economics and neoliberalism. On one interpretation thereof, István Hont’s history of political thought implies that there is only one social order that is appropriate to modernity: an open commercial state (Sagar, 2018, p. 485).

monetary policy cannot have real effects, other than leading to escalating inflation and hence a loss of prosperity (Lucas, 1976; Lucas & Sargent, 1981). Using taxes and public spending to achieve collectively determined ends greatly harms growth.⁵⁴ At the limit, it is argued that “a claim for equality of material position can be met *only* by a government with totalitarian powers,” (Hayek, 1984, p. 83, italics added) implying that divergence from the uniquely efficient equilibrium is so obviously unattractive to people at large that only massive coercion can achieve it.

In Hayek’s work the notion of single equilibrium runs so deep that it is unclear whether he was a thinker of individual liberty at all. The central concept in his later writings was not freedom, but the discipline of freedom (Hayek, 1981, pp. 163-5). According to him, the “extensive social division of labour” characteristic of modernity “has been made possible entirely by the use of those impersonal signals which emerge from the market process and tell people what to do in order to adapt their activities to events of which they have no direct knowledge” (Hayek, 1981, p. 162).⁵⁵ Because this is “an insight which most people still refuse to accept” (p. 162), market forces must be insulated from democratic control, so that the “discipline of freedom” (p. 163) can do its work: “Instead of the direct pursuit of felt needs or perceived objects, the obedience to learnt rules [in particular the rules of the market] has become necessary to restrain those natural instincts

⁵⁴ Neoliberals “believe that the result of this growth [in government share in GDP] has been a large reduction in aggregate output, quite possibly with a deterioration in the moral quality of society” (Stigler, 1979, p. 61).

⁵⁵ This is a long-running thread in his work, mentioned as early as 1944: “A complex civilization like ours is necessarily based on the individual’s adjusting himself to changes whose cause and nature he cannot understand” (Hayek, 2007 [1944], p. 211).

which do not fit into the order of the open society. It is this 'discipline' [...] against which man still revolts” (p. 160).⁵⁶

Note the curious inversion at work here: the Hayekian argument for private sovereignty over the division of labour, when reduced to its essence, is not that this boosts individual freedom but that it establishes a “discipline of freedom” that is beneficial for the whole because it forces individuals to obey price signals. “It was men’s *submission* to the impersonal forces of the market that [...] made possible the growth of a civilization [...]; it is by thus *submitting* that we are every day helping to build something that is greater than any of us” (Hayek, 2007 [1944], p. 212, italics added).⁵⁷ Whether or not this intellectual architecture was intended specifically to disguise and dissolve the tension between capitalism and democracy is unclear.⁵⁸ The effect of this intellectual architecture, to the extent that it is widely adopted, however, is to do precisely that.

Finally, if the goal is to limit the scope of popular sovereignty, then it stands to reason that a “constitutional revolution” is the holy grail of a politics of single equilibrium. The ultimate aim of such a revolution, in James Buchanan’s words, is the “removal of the sacrosanct status assigned to majority rule” (Buchanan, quoted in MacLean, 2017, p.

⁵⁶ The sentiment that prices should be free to move, people forced to adjust (though the ‘discipline of the market’), is reliably and repeatedly voiced by apologists of capitalism up to the present: “Rather than shield firms and jobs from change, the state should ensure markets are efficient” (“The resurgent left: Millennial socialism,” 2019); or, as the *Financial Times* reports, “The relaxation of labour laws [in Spain], making it easier to hire and fire, has been particularly attractive to buyout funds, adds Mr Zurita. “As an investor you prefer to invest where you have the ability to adjust to the market and labour is a key component”” (Espinoza, 2019).

⁵⁷ “What is privileged in the end is not the individual but the whole. [...] Individuals—and”, in a commercial federation “states—defer to the wisdom of the system” (Slobodian, 2018, pp. 233, 235).

⁵⁸ MacLean makes a strong case that this is indeed the case (MacLean, 2017, introduction).

184), i.e. the replacement of majority rule by minority rule, whether in the form of juristocracy (Hirschl, 2004), plutocracy (Formisano, 2015), or civil oligarchy (Winters, 2011).⁵⁹ By taking power out of the hands of future majorities, successful constitutional change can lead – ironically – to a durable shift in equilibrium.

This third element of a politics of single equilibrium – like its first, commercial federalism – also has a long history: concerning the American founders, for example, “Madison wished to erect a political system that would guarantee the liberties of certain minorities whose advantages of status, power, and wealth would, he thought, probably not be tolerated indefinitely by a constitutionally untrammelled majority. Hence majorities had to be constitutionally inhibited” (Dahl, 1956, p. 31).

The goal of a constitutional revolution has been advocated openly⁶⁰ but, outside of Chile, the path to outright constitutional revision along capitalist, minority-rule lines has not been successful. Frontal attempts to weaken majority rule over the division of labour,

⁵⁹ See also Gill (1998) and Nicol (2010) for a complementary account of capitalist constitutionalism after the nineteen seventies, focusing on international aspects and interpreting ‘constitution’ broadly. For a critical review of the related literature, see Hilbink (2008).

⁶⁰ James Buchanan called the final chapter of his *Limits of Liberty* “Beyond Pragmatism: Prospects for a Constitutional Revolution” (Buchanan, 1975, Chapter 10). Hayek, too, dedicated considerable time and effort to outlining a constitutional order that would durably restrict majority rule (Hayek, 1960; see also Hayek, 1979, Chapter 3 for a short and accessible summary). Among the recent manifestos, the tone is more nostalgic than revolutionary: titles like *Restoring the Lost Constitution* (Barnett, 2004), *Rehabilitating Lochner* (D. E. Bernstein, 2011), or *The Classical Liberal Constitution* (R. A. Epstein, 2014) disguise the fact that their quest is the permanent restriction of majority rule through jurisprudential entrenchment of private sovereignty over the division of labour.

like the introduction of a balanced budget amendment,⁶¹ have generally ended in failure.⁶² However, in the US considerable progress towards this end has been made through an alternative route: the gradual revision of the American constitution's meaning through court judgements and holdings.

Unlike with the intellectual architecture of single equilibrium, there is little doubt that this has been and continues to be an intentional and deliberate political project. Manifestos have been written in its support (e.g. Barnett, 2004; D. E. Bernstein, 2011; R. A. Epstein, 2014; D. N. Mayer, 2011), a number of well-funded institutions – most prominently the Federalist Society, the Law and Economics movement, the Center for Individual Rights, and the Institute for Justice, funded by, among others, the Koch Foundation and the Olin Foundation – explicitly pursue it (Hollis-Brusky, 2015; J. Mayer, 2016; Teles, 2008), and Buchanan himself, who initially advocated a big bang, came to see the benefit of focusing on “the boring fine print”, through which “transformations can be achieved by increments that few will notice” (MacLean, 2017, p. 159).

Among the indicators of its success are: the extensive use of First Amendment jurisprudence to limit legislation on advertisement, health and safety practices, and privacy (Sitaraman, 2017, pp. 266-8); *Citizens United*, whose impact was extended by *Arizona Free Enterprise Club's Freedom PAC v. Bennet* and *McCutcheon v. FEC* (Sitaraman, 2017, pp. 265-6); and the “loaded gun” of *National Federation of Independent Business v. Sebelius*,

⁶¹ Approved by the Gingrich House of Representatives in 1995, but unsuccessful in the Senate.

⁶² This is true for the US, but the same cannot be said of Europe. Germany, Austria, Switzerland, Slovenia, and Spain, among others, have amended their constitutions with various forms of a balanced budget mandate in recent years.

which, while upholding Obamacare under Congress's taxing power, went out of its way to find that Congress could not have enacted it under the commerce clause (Sitaraman, 2017, p. 262). As early as 1990, 40% of all sitting US federal judges had participated in summer programmes at the pro-capitalist George Mason School of Law (MacLean, 2017, p. 195).⁶³ Beneath the changes in Supreme Court jurisprudence, there is also an effort underway, less visible but equally far-reaching, to restrict majority rule over the division of labour via judgements in the lower courts (Corriher, 2012). Like commercial federalism and the intellectual architecture of single equilibrium, the slow but steady constitutional revolution since the nineteen seventies forms an integral part of the politics of single equilibrium.

The triumph of a politics of single equilibrium correlates with significant changes in the economic structure of advanced democracies. After peaking in the early nineteen nineties, government spending as percentage of GDP has fallen in 30 out of 39 advanced economies.⁶⁴ This fall is visible in traditionally social democratic countries such as Sweden or Belgium; in export-oriented open economies like Germany, Austria and the Netherlands; and in anglophone, liberal market economies like Canada or New Zealand.⁶⁵

⁶³ Now known as the Antonin Scalia Law School.

⁶⁴ Author's calculations, comparing peak general government expenditure between 1980 and 2007, in three-year moving average percentage of GDP (pre-2007 to exclude the cyclical peaks in the wake of 2008, moving average to smooth out single-year peaks) with the three-year average for 2016-8. Full results in Table 1 below, in the annex to this chapter. Source: World Economic Outlook database, April 2019 (International Monetary Fund, 2019).

⁶⁵ Countries in Eastern Europe – the Czech Republic, Slovakia, and Lithuania – also witnessed a rollback of the state, though in their cases the decline from peak government spending is more indicative of the transition from a control to a market economy, rather than of a rollback of the state within the confines of an already capitalist order.


Finally, the declines are sizeable: eighteen percentage points of GDP in Sweden, ten or more in New Zealand, the Czech Republic, Taiwan, Ireland, Canada, the Netherlands, Israel and Belgium, and five or more in Slovakia, Italy, Malta, Germany, Finland, Portugal, Denmark, and Austria.⁶⁶


Second, we may observe that many of the labour market protections of the post-war era have been dismantled,⁶⁷ and that trade unions, important both for their political and economic effects, have been systematically degraded, particularly in the US. Across OECD countries, union density—the percentage of workers who are members of a trade union—has halved from 35% in 1960 to seventeen per cent in 2013. In the US, this trend was particularly pronounced, with density falling from 31% to eleven per cent overall (OECD, 2016b), and from 32% to seven per cent in the private sector (Visser, 2016).

Third, the patrimonial middle class, too, has come under pressure. Its appropriation of a significant share of wealth signalled that mid-century democracy was indeed to the detriment of capitalists. In the US, where data is available from 1962

⁶⁶ Having said this, the pattern of a shrinking state is not universal: notable exceptions include France and Japan. Here the size of government has come down from the cyclical expansion associated with the 2008 crisis, but it is too early to tell whether the decline will continue, or whether overall public spending will stabilise at pre-2008 peak levels.

⁶⁷ In the US, the watershed moment was Bill Clinton’s “Ending Welfare as We Know It,” the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), in the UK it was, somewhat confusingly, the “New Deal” (Welfare Reform and Pensions Act 1999), while in Germany, it was the series of reform laws collectively known as Hartz I to IV (*Erstes, zweites, drittes, und viertes Gesetz für moderne Dienstleistungen am Arbeitsmarkt*, from 2002 and 2003). All three of these share an emphasis on ‘activating measures’ and ‘workfare,’ in particular the withdrawal of benefits whenever recipients fail to demonstrate active job search efforts. For the remarkable similarities between these recent dismantlings of social protection, especially the 1996 PRWORA, and the infamous 1834 New Poor Law in England—to which Polanyi dates the beginning of capitalism as a dominant social system—see Chapter 6 of Block and Somers (2014).

onwards, the wealth share of this group (the top half minus the top ten per cent) peaked in the mid-nineteen eighties at around 35% of all wealth. Since then, it has steadily declined to twenty-seven per cent in 2014:  . Contrast this with the evolution

of the top one per cent's wealth share over the same period, increasing from around twenty-eight per cent in the early 1960s to around 37% in 2014:  (World Inequality

Database, 2019b for data; Piketty, Saez, & Zucman, 2016, for method and sources).⁶⁸ The



trend in incomes is similar, though less pronounced: the middle class's share has declined from a relatively stable 50% of all taxable income, where it hovered from the beginning of data (again 1962) until the early eighties, to a much more volatile 41-6% in 2000-14:

 (World Inequality Database, 2019a).⁶⁹ In historical perspective the position

of the US patrimonial middle class is still strong.⁷⁰ But the direction of travel is clear, both

⁶⁸ The bottom 50% saw little change in their wealth share, for the simple reason that they had practically no wealth to begin with. However, what little change this group saw was negative, from a two per cent share of total net wealth in 1962, via a peak of 2.6% in the late nineteen eighties, to zero net wealth in 2014:



⁶⁹ During the same period, the top one per cent's share of national income doubled from around ten to twenty per cent:  . The biggest losers, income-wise, were the bottom 50%, who saw their share nearly halve, from eighteen per cent to ten per cent:  . (Piketty et al., 2016).

⁷⁰ Piketty and the World Wealth and Income Database do not present data for the wealth of the US middle 40% prior to 1962. We can extrapolate rough upper and lower bounds from other information in Piketty (2014): the *European* middle 40% owned around five per cent of total wealth in 1910 (Piketty, 2014, table 7.2). Given that European wealth ownership was more concentrated at the top end of the wealth distribution in 1910 (with the European top ten per cent owning 90% of all wealth, versus the American top ten per cent owning 'only' 80%, see figure 10.6.), this is a likely lower bound. As the upper bound, we can arithmetically take the remaining twenty per cent of wealth that were not held by the US top ten per cent in 1910. Hence the US middle class likely held between five and twenty per cent of total wealth in 1910. Compared to this, with ownership of twenty-seven per cent of total wealth, the US's middle class still held between seven and twenty-two more percentage points of GDP in 2014 than it did in 1910, despite its share of total wealth declining by around a quarter (35% to 27%) between the nineteen eighties and today.

for the middle class and for those below.⁷¹ This is in line with what the simile of water and oil leads the observer to expect.

Concluding this section, the extent to which the politics of single equilibrium are themselves a stable equilibrium is an open question. Once they are understood for what they are, it is difficult to resist the conclusion that they are an attack on democracy. When, for example, the German minister of finance states dryly “Elections cannot be allowed to change economic policy” (Varoufakis, 2017, p. 237), it becomes difficult to deny that democracy has been hollowed out. And indeed, the election of President Trump can be read, in part, as an attack on the politics of single equilibrium, albeit from a surprising angle. Whether its most important elements—commercial federalism, the intellectual architecture of single equilibria, and the slow-moving constitutional revolution—will survive this unexpected attack is unclear. The last seems to continue to thrive; the first seems stalled but not yet in roll-back mode; the middle component, however, has come under sustained pressure, in particular in the wake of the 2007-8 financial crisis.⁷²

Once we see the politics of single equilibrium for what they are, namely *politics*, the puzzle that opened this section—how come democracy has not been eroded more since the nineteen seventies, and how come majorities have not opted for one or the other of the multiple equilibria mentioned above—is no longer such a puzzle. The recent history of

⁷¹ A truly startling fact is the following: the real pre-tax income of the bottom 50 per cent has grown by only 1 per cent (total, not per year) between 1980 and 2014 (Piketty et al., 2018, p. 578, table II).

⁷² Having broached the question of whether the politics of single equilibrium are self-reversing, I will put it aside for now: it points towards pendulum arguments and the question of whether the ascendancy of capitalism eventually becomes self-reversing, which are extensively covered in Chapters 5 to 8 below.

democracy and capitalism is the politics of single equilibrium; and when seen against the fuller definition of democracy outlined in the previous chapter, as opposed to the Schumpeterian definition, this is clearly recognizable for what it is: a serious erosion of democracy.

E. Conclusion

Orthodoxy and neo-orthodoxy, critical theorists and neoliberals are correct to think that democratic capitalism is an unstable social order. Though they can coexist momentarily, capitalism and democracy are incompatible over time. As I argued in the previous chapter, their relationship is therefore best captured in the simile of water and oil.

In this excursion, I tackled one horn of the pendulum metaphor—the most compelling rival conception—namely the claim that an “excess of democracy” is self-reversing. I showed that, given an abundance of multiple equilibria in the coordination of an extended division of labour, this is not necessarily so. Majorities can exercise meaningful choices across a number of aspects of the division of labour without necessarily incurring large efficiency costs, even if efficiency is measured, controversially, against subjective utilitarianism.

Next, I identified two puzzles that emerge from holding up the theory developed here against the twentieth-century history of democracy and capitalism. In response to these puzzles I sketched two elements of a revisionist history of democracy and capitalism in the second half of the twentieth century: concerning the first, I suggested that a combination of a mistaken analysis of the seventies’ growth slowdown, the sudden and exogenously caused rise of energy prices (coupled with a contingently poor response to it),

and incipient international integration explain the otherwise puzzling reversal of the post-war trajectories of democracy and capitalism. Concerning the second, I pointed out that, once we replace the Schumpeterian definition of democracy by the account defended in the previous chapter, it becomes clear that democracy has been eroded in this period, and significantly so. In particular, democracy has been under sustained attack from what I call the politics of single equilibrium, involving commercial federalism, an associated intellectual architecture of single equilibrium, and a slow-moving, incremental constitutional revolution. All three components restrict majority rule, deliberately shrinking the set of options from among which majorities may make constitutionally legitimate choices. In doing so, the politics of single equilibrium rarely, if at all, impair the electoral circulation of office holders, but they do undermine the regulative ideal of equal political power.

The historical sketches developed here support the claim that there is a deep tension between democracy and capitalism. What they have also suggested—if not conclusively demonstrated—is that the way in which this tension is resolved is the outcome of a contingent and complex process, about which we can only speak in terms of probabilities. While there is, in general, an escalating path dependency in the direction of capitalism (see section I in Chapter 2 above, p. 126, as well as Chapter 4 below), history indicates that contingent events and processes—interpretations of growth spurts or slowdowns, energy price shocks, the unforeseen consequences of policy choices, war, technological development, or autonomous political shifts and coalitional realignments—can shift bargaining power one way or the other. Returning to previous authors who tackled these

issues, in light of the historical sketches developed here we can see that their main mistake was not that they identified a deep tension between democracy and capitalism. The mistake was rather to see the triumph of either side – democracy, for nineteenth century orthodoxy; socialism for neoliberals; capitalism, for twenty-first century neo-orthodoxy – as inevitable.

In the next chapter, this relationship between contingency and path dependency will be investigated further. By zooming in on a specific case study, that of French economic policy from 1981 to 1983, I demonstrate the dynamic of water and oil in action, show the importance of commercial federalism in restricting democracy, and identify specific agent-level considerations that have led historical actors to choose commercial federation over a commercially closed market democracy.

F. Annex

Table 1. The evolution of the state quota in OECD economies, 1980-2018

Country	Decline in state quota (percentage points)	Pre-2008 peak state quota, three-year trailing average (% of GDP) (year)	2016-8 average state quota (percentage points)
Sweden	-18	67 (1994)	49
New Zealand	-15	52 (1992)	37
Czech Republic	-13	53 (1995)	40
Taiwan*	-13	30 (1991)	18
Ireland	-12	41 (1995)	28
Canada	-12	52 (1993)	40
Netherlands	-11	54 (1984)	43
Israel	-11	49 (2002)	38
Belgium	-10	63 (1983)	53
Slovak Republic	-9	51 (1996)	42
Italy	-7	56 (1993)	49
Malta	-7	44 (2003)	38
Germany	-7	51 (1997)	44
Finland	-6	62 (1994)	56
Portugal	-6	53 (1986)	46
Denmark	-6	59 (1995)	53
Austria	-5	55 (1996)	50
Spain	-4	47 (1995)	42
Lithuania	-4	37 (2000)	33
United States**	-3	38 (1993)	35
Singapore	-2	19 (1998)	17
United Kingdom	-2	41 (1983)	39
Norway	-2	50 (1993)	49
Cyprus	-2	40 (2005)	38
Iceland	-1	45 (1994)	43
Estonia	-1	41 (1995)	39
Luxembourg	-1	44 (1998)	42
Switzerland	-1	34 (2004)	33

Latvia	-1	38 (1999)	37
Hong Kong SAR	-1	19 (2003)	18
Slovenia	0	42 (2006)	42
Macao SAR	0	18 (2003)	18
Japan	1	37 (2000)	38
Korea	1	20 (2007)	21
Australia	1	36 (2001)	37
France	2	55 (1995)	57
Greece	2	47 (2004)	49
San Marino	6	19 (2007)	25
Puerto Rico	N/A	#N/A	22

Source: author's calculations, based on (International Monetary Fund, 2019), General Government total expenditure, percent of GDP, 1980-2018.

- * The data for Taiwan has been verified against alternative sources. The Taiwanese state has indeed shrunk by nearly half, to a level considerably below the OECD average, between the early nineteen nineties and today.
- ** Supplementary source for US data: OECD (2017b), Total Expenditure of general government, percentage of GDP, 1980-2000

4. No Keynesianism in One Country

The Impact of Commercial Federation on the Dynamic of Water and Oil

A. Prelude

On Sunday, 10th May 1981, François Mitterrand was elected President of the French Republic. As the candidate of the *Parti Socialiste* (PS), he became the first left-wing leader of France since the fall of Guy Mollet in 1957, and the first Socialist to occupy the powerful Presidency of the Fifth Republic.

The next day, capital went on strike. Stocks on the Paris *Bourse* dropped by twenty per cent.¹ By the afternoon, trading had to be suspended—for the first time since World War I—because buyers could no longer be found for the rapidly accumulating sales orders (Duchaussoy, 2011, p. 154). The same day, the *Banque de France* raised interest rates by three and a half percentage points to dampen capital flight (INSEE, 1982, p. 7). Despite this hike, capital continued to leave France at an alarming rate.² Only after a further two-percentage point hike on 15th May, another four-percentage point hike on 22nd May—bringing the rate to an eye-watering twenty-two per cent—and the introduction of

¹ For comparison, “Black Tuesday” (29th October 1929), setting off the Great Depression, saw the Dow Jones Industrial Average lose twelve per cent. Though this was in the context of a thirteen per cent loss the day before, this indicates the severity of 11th May on the Paris Bourse (The Wall Street Journal, 2011).

² Between 11th and 21st May the *Banque de France* spent a third of its foreign currency reserves buying francs to keep the exchange rate from falling below its minimum level in the European Monetary System (Fulla, 2016, p. 393).

temporary capital controls (also on 22nd May) was the situation brought under control (INSEE, 1982, p. 7).

This immediate vote of no-investor-confidence notwithstanding, one month later the Socialists won a large parliamentary majority. With 285 out of 491 seats in the *Assemblée nationale*, a coalition with the French Communist Party,³ and the majestic powers of the French state under their control, Mitterrand and the new government moved ahead with implementing manifesto promises: besides generous increases in the minimum wage, pensions, and various social benefits, these involved the nationalisation of France's banks, its biggest industrial groups, and—on Marx's old battleground (Marx, 1992 [1867], Chapter 10)—a significant reduction of working time. In Mitterrand's own words, it “was an extraordinary moment. I could do anything [...] I am not saying I was tempted, but still, I sometimes thought of it [...] Robespierre ... Lenin ... Why not!” (Short, 2013, p. 373).

Within eighteen months, however, Mitterrand and his government performed a striking U-turn: instead of completing the avowed rupture with capitalism, by March 1983 the government had chosen to prioritise profits over wages, price stability over employment, and external balance over popular control of the economy. By the end of his fourteen years in power, the firms whose nationalisations inaugurated Mitterrand's reign

³ In addition to the *Parti Socialiste's* 285 seats, the *Parti Communiste Français* (PCF) won 44, bringing the presidential majority to 329, or 67% of all seats. The PCF received four ministries out of a total of twenty-six: transport, civil service administration, health, and employment (Winock, 2003, pp. 333, 561). In Mitterrand's own words, “tactically, [...] with four Communists in government [...] they find themselves associated with my economic policies and it's impossible for them to foment social troubles” (quoted in Short, 2013, pp. 323-4).

had been re-privatized, the French financial sector deregulated, and France committed to the European single market, encasing the free movement of capital, goods, and services in supra-national, quasi-constitutional cladding. After French voters had veered left just when Britain and the US had moved to the right, Mitterrand’s U-turn brought France “sharply back into line with European and international developments” (Judt, 2005, p. 554).

B. Introduction

The story of this turnaround holds a special place in the history of democracy and capitalism. Known as the *tournant de la rigueur* (the turn towards discipline) it was the last time that a party vowing to “break with capitalism” achieved power in the capitalist core, winning both executive and legislative power in free and fair elections. As such, it is an excellent case study to illustrate the theory of democracy and capitalism developed earlier in this dissertation.

Process-tracing government decision-making throughout the *tournant*, this chapter shows the dynamic of water and oil in action. Beyond illustrating the conflict between democracy and capitalism,⁴ the interpretation given here shows how and why democratic control over the division of labour is not easily sustainable under conditions of commercial federation.⁵ This underlines an important theme developed in the preceding chapters: the dynamic of water and oil unfolds with contingency— for commercial federation is not a fact

⁴ It bears pointing out that the conflict is not between *government* and capitalism, for it is precisely *through* the actions of the Mitterrand government that the *tournant* took place, that France was brought “sharply back into line with European and international developments.”

⁵ For the definition of commercial federation, see footnote 49 in Chapter 3 above (p. 171).

of nature – but capitalism ascendant is the more likely outcome in general, and by far so under conditions of commercial federalism.

The case of the early Mitterrand years is particularly apt to underline this claim. The policy priorities of the incoming government had been developed over the course of a decade in opposition. They were locked in through coalition dynamics – renegotiating any part of the programme risked triggering renegotiations of all parts of the programme – and expressly and repeatedly stressed “breaking with capitalism.”⁶ The presidential and legislative elections of 1981, fought and won on this programme, gave the Mitterrand government a strong mandate. The history of the Left in France spurred the new government to act quickly and boldly: all previous Left-wing French governments had had only months, not years, in office.⁷ And the tradition of a strong, interventionist state

⁶ Mitterrand stated, as early as 1971, that “He who does not believe in a rupture with [...] capitalism, cannot belong to the Parti Socialiste” (ORTF, 1971, own translation; unless indicated otherwise, translations from French are my own throughout this chapter). The PS’s policy programme for 1981, entitled *The Socialist Project for France in the 1980s*, contained equally strong language, e.g. “We wish to establish a method, as precise and concrete as possible, to move from one economic, social, cultural, and therefore political social order to a different one, from the capitalist system in France to socialist society” (Parti Socialiste, 1980, p. 10). Concerning the joint PS-PCF programme (*programme commun*), this was the cornerstone on which the PS-PCF alliance was built, as well as the fulcrum that balanced the four main factions within the PS. Renegotiating any individual element of this programme would have been difficult, as it would have risked re-opening conflicts both within the PS and between the PS and the PCF. As such, “the new administration was more committed than most to the implementation of its electoral platform” (P. A. Hall, 1985, p. 84). On the pre-history of Mitterrand’s programme in 1981, see Jalabert (2011).

⁷ All previous Left-wing governments in France up to this point, without exception, were short lived. The Left-wing governments of the twentieth century each lasted less than eighteen months, the Guy Mollet government under the Fourth Republic lasting fifteen months (February 1956 to May 1957) and the three Léon Blum governments lasting twelve, thirteen, and two months respectively (first Blum government, June 1936 to June 1937, second Blum government, March-April 1938, third Blum government December 1946 to January 1947). The *Cartels des gauches* lasted slightly longer (June 1924 to July 1926, though highly unstable after April 1925, and, in even greater instability, from June 1932 to February 1934), though in both cases the socialist party only provided support in parliament without joining the government. The revolutionary governments of the eighteenth and nineteenth centuries were equally short lived: the Paris

provided it with tools for economic intervention more powerful and more legitimate than in any other western democracy (P. A. Hall, 1986; Suleiman, 1974; Zysman, 1984). As Tony Judt put it, in 1981 “The socialists were in complete control of France” (Judt, 2005, p. 551), perfectly positioned to follow “their leader’s promises of radical transformation, his undertaking to sweep away not just the corruption and *ennui* of the Giscard years but also the very capitalist system itself” (p. 552).⁸

This unique constellation meant that, if any country was going to resist the neoliberal turn of the nineteen seventies and eighties, if any country was going to see democracy eclipse capitalism in the dynamic of water and oil, it would have been France in 1981. But as this study shows, while the socialists were in control of France, they governed a France embedded in an incipient European, North American, and to a certain extent global commercial federation. And just as France was embarking on a redistributive Keynesian stimulus and an assertion of popular sovereignty over the division of labour, its main trade partners—above all the US, UK, and Germany—embarked on monetary and fiscal tightening and the expansion of capitalist discretion over the division of labour.⁹ As

Commune from March to May 1871, and arguably the “reign of terror” in 1793-4. Mitterrand was well aware of this: in a cabinet meeting on 8th July 1981, he said “We will do what we promised in the campaign [...] But let us be careful: what isn’t done quickly, isn’t done at all” (Bianco, 2015, pp. 56-57).

⁸ Notably, this is not just how the new government understood itself, but also how it was understood by its Western allies and the French Right: “When they took part in international meetings, Socialist ministers were looked upon as if they had arrived from another planet, a red flag flying in their hands” (Panitch & Gindin, 2012, p. 197), and whereas half of France celebrated late into the night after Mitterrand’s election, “[t]he other half was panic-stricken.” In the words of Mitterrand’s widow, “[t]here was real terror” (Short, 2013, p. 312).

⁹ By the expansion of capitalist discretion over the division of labour I refer in particular to large-scale privatizations, the deregulation of energy, transport, finance and other previously regulated industries, and the deliberate weakening of trade union power.

this chapter shows, it was this divergence, transmitted via the deepening economic linkages between France and its trading partners, that ultimately brought the socialists' programme to its knees; not, for example, geopolitical pressure from France's allies (Moravcsik, 1998, pp. 259–274, esp. pp. 272–3),¹⁰ or domestic political opposition. In other words, the main claim defended in this chapter is that, *given* integration into a commercial federation – a crucial element of contingency, for such membership is not given by nature – the triumph of capitalism in the dynamic of water and oil is highly likely.

In making this argument, this chapter lends support to the work of Dani Rodrik and others, who argue that nation-state democracy and deep economic integration are mutually incompatible (Rodrik, 2011). At the same time, the interpretation developed here speaks against a long line of literature, including both the “Varieties of Capitalism” framework and the literature disputing race-to-the-bottom dynamics in globalization studies, that sees commercial federalism as consistent with domestic democracy (Beramendi, Häusermann, Kriesi, & Kitschelt, 2015; Carruthers & Lamoreaux, 2016; Iversen & Soskice, 2019). Speaking to this latter literature, while I do not deny the continued existence of national differences, i.e. of national varieties of capitalism, what this chapter shows is that differences in – loosely speaking – *levels*, both quantitative (e.g. income and wealth inequality, trade union density, or state expenditure as percentage of GDP) and qualitative (e.g. degree of trade union power, public control over investment, or extent to which labour markets are decommodified), is compatible with a shared *trend* of

¹⁰ This despite the fact that, after Helmut Kohl's election in October 1982, the US (Reagan), the UK (Thatcher) and Germany (Kohl) were all led by decidedly conservative politicians.

gradual erosion of democratic control over the division of labour (see also Streeck, 2010). Continued national differences, this chapter thus aims to show, do not constitute conclusive evidence against an unfolding of the dynamic of water and oil across the capitalist core.

The remainder of this chapter is structured as follows: it begins with an historical description of the *tournant de la rigueur* (section C). Sections D and E then give a causal interpretation of these events, showing how and why government decision-making was structurally determined, given the fact of France's integration into a wider European and, to some extent, global commercial federation. Before concluding, section F draws out the general lessons of this case, while section G considers a final but revealing caveat.

C. The *tournant de la rigueur*

I. *Triumph and persistence*

When Mitterrand won the presidency, it was a triumph. The French Left had not been in office since 1957, and it had never previously held the powerful presidency of the Fifth Republic. After a decade-long project of political reconstruction (Bergounioux & Grunberg, 2005; Short, 2013, pp. 263–268), suddenly, in the summer of 1981, the Socialists conquered the Republic. “The spontaneous celebrations that greeted the Socialists’ victory were unprecedented” (Judt, 2005, p. 551). According to legend, French pop star Barbara wrote *Regarde*, anthem to this new era, that very night (Scappaticci,

2016).¹¹ Tens, perhaps hundreds of thousands celebrated late into the night (Judt, 2005, p. 551; Short, 2013, p. 312).

Following victory in the parliamentary elections of June 1981, the government quickly moved to implement its election promises.¹² Its economic programme can be summarised under three main headings:¹³ a *redistributive Keynesian stimulus*, particularly in the form of job subsidies and government hiring, increases in the minimum wage,

¹¹ The opening lines are, approximately:

“Look here: something has changed / the air seems lighter / it’s indescribable”

“Look here: under this raptured sky / all is glowing in sunshine / it’s indescribable”

“A man / with a rose in his hand / has opened the way / to a new tomorrow”

“The children / light glowing in their eyes / follow two by two / their hearts filled with love”.

¹² Besides its economic components, elaborated in the main text, the Socialist programme consisted in liberalising public morality, revamping judicial institutions, decentralising the state, and boosting culture and the arts. Specific steps included the abolition of the death penalty (Law n° 81-908 of 9 October 1981), the abolition of the Court of State Security (*la Cour de sûreté de l’État*, Law n° 81-737 of 4 August 1981) and of the Permanent Tribunals of the Armed Forces (*les tribunaux permanents des forces armées*, military courts that had had exclusive jurisdiction over infractions committed by members of the armed forces within France in times of peace; Bourguinioux and Grunberg, 2005, p. 325), and steps towards the normalisation of homosexuality (e.g. via declassification of homosexuality as a mental illness, the dissolution of police units in the drug and prostitution brigade who exclusively targeted homosexual establishments, and changes in the housing code to end discrimination by sexuality) (Martel, 2001). Concerning foreign policy, it is worth noting that, despite his socialist economic policies, President Mitterrand was a foreign policy hawk and firmly supportive of President Reagan’s decision to confront rather than appease the Soviet Union in the wake of its invasion of Afghanistan. See, e.g., his decision to support the deployment of American Pershing II missiles in response to the Soviet deployment of SS-20 missiles in 1979-1983 (Bozo, 2001; Mélandri, 2001).

¹³ A complete list of economic reforms can be found in the calendar of economic measures (*chronologie économique*) published annually in Volume I of the *Rapports annuels sur les comptes de la nation*, INSEE, Serie C. Scans of the tables for 1981 to 1984 are available from the author upon request. Accessible summaries are provided (in English) by Peter Hall (1985), Machin and Wright (1985), and Daniel Singer (1988). For French language summaries of the overall economic programme, see Fonteneau and Muet (1985) and Bauchard (1986). Fonteneau and Gubian (1985) give a good description of the 1981-2 Keynesian stimulus in particular, comparing it with the Chirac government’s 1975-6 stimulus. Salais (2001), Van-Lemesle and Zancarini-Fournel (2001), and Margairaz (2001a) provide excellent archival studies of the Keynesian stimulus, the labour market reforms, and the nationalisations respectively.

pensions, and various other government benefits, and a major wave of investments in nationalised industries; a *re-shaping of the world of work*, through cutting the working week, the working year, and lifetime work time, and later on, through the so-called Auroux Laws that modernised the French labour code and introduced a degree of co-determination; and the *nationalisations* of the commanding heights of industry and finance, to the extent that they were not already nationalised.¹⁴

It was recognised at the time that the new government was pursuing an ambitious undertaking. Indicating the extent of government commitment to delivering on its programme, Mitterrand's initial reforms were implemented not just against an emerging anti-Keynesian zeitgeist and the views of traders and investors—amply reflected in the financial turbulences of his first weeks in office—but also against the advice of the government's own civil servants: The *Direction de la Prévision*¹⁵ warned Jacques Delors, Minister of Finance, on his first day in office that an expansionary budget policy would lead to a rise in the deficit and to exchange rate problems (Burlaud, 2011, p. 32). Because

¹⁴ Firms newly taken into 100% public ownership included: the Compagnie générale d'électricité (electronics and industrial goods), Saint-Gobain (glass), Pechiney Ugine Kuhlmann (chemicals), Rhône-Poulenc (textiles and chemicals), and Thomson-Brandt (consumer electronics), as well as 39 banks (for a list, see Article 12 of Law n° 82-155 of 11 February 1982) and the two investment banks Paribas and Suez (Law n° 82-155 of 11 February 1982). The French state also acquired control of Sacilor and Usinor, the two major French steel companies, through converting into equity the state loans extended in the preceding years (Hall, 1985, p. 89). The state also acquired 51% majority stakes in Dassault-Breguet and Matra (two major arms and aeronautics firms) (Hall, 1985, p. 89) and CII Honeywell Bull (computers), a 100% stake in the Compagnie générale de constructions téléphoniques, and a 40% stake in Roussel Uclaf (pharmaceuticals) (Margairaz 2001b: 359). After this wave of nationalizations, the state “owned 13 of the 20 largest firms in France [...]. State holdings accounted for 24 percent of the employees, 32 percent of the sales, 30 percent of the exports, and 60 percent of the annual investment in the industrial and energy sectors of the French economy” (P. A. Hall, 1986, p. 204).

¹⁵ The unit in the Ministry of Finance in charge of economic forecasting.

France was embedded in a fixed exchange rate regime, the European Monetary system (EMS; H. James, 2012, Chapter 5), the additional imports that a French stimulus would pull in would quickly drain France's gold and foreign currency reserves.¹⁶ This would force the government to respond, since reserves are finite, with all responses politically unattractive: devalue the franc, borrow foreign currency, institute anti-import measures (i.e. protectionism and/or capital controls), or clamp down on domestic demand.¹⁷

Delors himself warned President Mitterrand as early as 5th June 1981, less than a month into his first term, that, in light of depleting foreign exchange reserves, there should be an immediate devaluation and an austerity budget. If these actions were not taken, the government would face its 'Waterloo' over the external deficit.¹⁸

Confronted with this first wave of push-back and a deteriorating balance of payments, Mitterrand answered: "For now, I do politics. Austerity, we will see about that later" (Favier & Martin-Roland, 1990, p. 404). Just as the *Prévision* and Delors had predicted, however, the balance of payments deteriorated rapidly in response to the

¹⁶ The government was well aware of this issue, but parts of the government speculated that there would be a global recovery to balance its policies (in particular because they expected the Reagan administration to turn from tight monetary policy to an overall stimulus; see Margairaz, 2001b, p. 335). If a similar stimulus were undertaken among France's trade partners at the same time, exports (and hence foreign currency earnings) would rise to offset the increase in imports. Other parts of the government speculated that balance could be restored through "reconquering the domestic market:" proposition twenty of the *110 Propositions* (Parti Socialiste, 1981), Mitterrand's programme for the 1981 Presidential elections, was to reduce the proportion of international trade in GDP to twenty per cent or less over a decade, from around 45% in 1981 (World Bank Group, 2018, series NE.TRD.GNFS.ZS).

¹⁷ These warnings were prescient. This was precisely the situation that the government would repeatedly find itself in over the next two years.

¹⁸ Delors' actual comparison was with *Bérézina*, the worst of Napoleon's defeats on his retreat from Russia, synonymous with 'disaster' in French (Attali, 1993, p. 33).

Keynesian stimulus: France's current account went from a slight surplus¹⁹ to a deficit of twenty-six billion francs in 1981, around one per cent of GDP (P. A. Hall, 1986, p. 223). While the government negotiated a devaluation of the franc with Germany and the other EMS member states in order to stave off an immediate currency crisis, this devaluation was a minimalist response.²⁰ Against the explicit advice of the *Banque de France*, and despite a threat of resignation from Delors (Duchaussoy, 2011, pp. 98-9), it was not accompanied by a programme to reduce domestic demand or otherwise alter the domestic social order in pursuit of long term equilibrium in the balance of payments (Asselain, 2001, p. 401).

II. A tournant that dares not speak its name

As a result, this first devaluation only provided a temporary respite, and preparatory work on a second devaluation began a month later (Duchaussoy, 2011, p. 101). Unlike the devaluation of October 1981, that of June 1982²¹ – delayed until the last possible moment²² – was accompanied by a complementary programme. Although the government refused to acknowledge it, this programme constituted the first step in moving France from one social order to another: from full employment Keynesianism, if needs must be in one

¹⁹ The average surplus over the five years before 1981 was 3.5 billion francs, or around 0.1% of GDP (P. A. Hall, 1986, p. 223).

²⁰ On 4th October 1981 the French franc was devalued by 8.5%, the Italian lira and the Belgian franc by 3%, and the German Mark and the Dutch guilder were revalued by 5.5% (Duchaussoy, 2011, p. 97).

²¹ On 12th June 1981 the franc was devalued by 5.75% and the Deutschmark revalued by 4.25%, with no change for the other EMS currencies (Duchaussoy, 2011, p. 104).

²² Because of its reputation effects, Mitterrand refused to devalue before the G7 summit he was hosting at Versailles 4th to 6th June 1982 (Duchaussoy, 2011, pp. 95-6; Asselain, 2001, p. 412). By the time the devaluation went ahead on 12th June, the foreign exchange reserves of the Banque de France were down to only fifteen days of imports (Duchaussoy, 2011, p. 105), an extraordinarily thin reserve.

country, to “competitive disinflation” (Blanchard & Muet, 1993), in line with developments in the UK and US and the post-WWII West German order.²³

The most important measure of this programme was a five-month price- and wage-freeze (INSEE, 1983, p. 8). This measure was intended to slow inflation (thus boosting the competitiveness of French exports abroad), and, through asymmetric un-freezing (allowing prices to rise faster than wages), to boost profits at the expense of real wages. Higher profits and lower wages, in turn, would dampen consumption demand and incentivise new investments (Margairaz, 2001b, p. 337). Though the government had introduced a price freeze on a small number of products in October 1981 (INSEE, 1982, p. 10), a measure of this scope – particularly a salary freeze – had not been attempted in France since the late nineteen forties (Vernholes, 1983). Combined with the other measures of the programme, equally aimed at demand reduction and investment incentivising,²⁴ an economic paradigm shift was beginning to emerge: away from a wage- and consumption-led high demand strategy aimed at full employment, towards a profit- and investment-led strategy aimed at reducing inflation and eventually boosting exports (Blanchard and Muet, 1993).

²³ Germany was by then long committed to a price-stability-first, full-employment-second social order, which, according to some scholars, had already turned Germany into “the nightmare of the [Keynesian] world economy” (Höpner, 2019).

²⁴ Besides the price- and wage-freeze, the main items of the June 1982 package were an increase in social security contributions of one percentage point, reducing consumption demand by around ten billion francs (around 0.2-0.3% of GDP), and a ten per cent cut in the *taxe professionnelle* (a corporate tax on real estate and payroll), increasing profits and incentivising investment (Vernholes, 1983). Another notable element of the June 1982 plan was the commitment to limit the budget deficit for 1983 to three per cent of GDP (Burlaud, 2011, p. 65).

Though these measures may seem purely economic at first glance, they constituted no less than the first steps in a transition from one social order to another. A commitment to full employment—precisely what was implicitly abandoned in June 1982—had repercussions down into the finest capillaries of society. Consider Kalecki’s description of why businessmen and rentiers object to it: “under a regime of permanent full employment, ‘the sack’ would cease to play its role as a disciplinary measure. The social position of the boss would be undermined and the self-assurance and class consciousness of the working class would grow” (Kalecki, 1943, p. 326). Beyond affecting bargaining situations between workers and capitalists, full employment had indirect effects on power balances throughout society, for example between renters and landlords, women and men, and ethnic and religious majorities and minorities. It offered those who had nothing to sell but their own labour an exit option from many (though not all) undesirable professional situations, and in virtue of this provided (again often but not always) an exit from undesirable personal or social situations, too. It therefore caused a general equalizing tendency, operating through the decentralised negotiation and renegotiation of all kinds of social relationships.²⁵ The turn to a profit- and investment-led economic strategy, on the other hand, eliminated the commitment to full employment and—through making investment the pivot of macroeconomic adjustment—turned capitalists into the judges of economic policy. Returning to the theme of “who must adjust” (see Chapter 2, section H

²⁵ Full employment also has important effects on the politics of migration. Through increasing capitalists’ support for liberal migration policies—desired because this will increase the labour supply—it makes it more likely that a pro-migration coalition will prevail (Peters, 2015).

and footnote 86, p. 122 above), it rendered price stability and an ‘attractive investment climate’ the fixed stars of state decision-making, around which the lives of workers and citizens had henceforth to adapt—if needs must be, through sharp declines in wages and earnings, through sudden terminations of employment, or through having to uproot and move to where there is employment.

While its policy decisions pointed in this direction, in particular through the asymmetric unfreezing of prices and wages, the government refused publicly to acknowledge any change of objective, suggesting the unpopularity of this shift. Mitterrand, using a *Tour de France* metaphor, spoke of a change in tactics while continuing to pursue the same goal (Favier & Martin-Roland, 1990, pp. 422-3). The Prime Minister stated, as the devaluation and its accompanying policy programme were under preparation, “there is no new overall policy” (*Le Nouvel Observateur*, 25 May 1982, quoted in Burlaud, 2011, p. 65). A week after the devaluation had been implemented, he reaffirmed that “we are not changing our course, we are not changing policy, the stimulus, sharing out work, employment, those are our priorities.”²⁶ However, informed observers could see through this denial: by October 1982, *Le Monde* called out “a socialist government that does not dare to avow openly its change of course, that hesitates to put its cards on the table” (Marette, 1982).

²⁶ Pierre Mauroy, 19th June 1982, at the *Convention nationale extraordinaire* in Cachan, 19th to 20th June 1982. Full record (*Convention nationale extraordinaire de Cachan, 19 et 20 juin 1982, compte-rendu sténographique*) available on the website of the *Fondation Jean Jaurès*: <http://www.archives-socialistes.fr/app/photopro.sk/archives/detail?docid=80192>, with the Prime Minister’s remarks on pp. 48-53.

III. Doubling down on a new social order

Despite the devaluation and the accompanying measures, the external balance started to deteriorate again. Three months after the second devaluation, Mitterrand's counsellors started briefing him on the need to address, once more, the balance of payments deficit (Burlaud, 2011, pp. 73-4). By the end of the year it was clear that the second devaluation, despite its accompanying austerity programme, had not solved the problem: France continued to bleed gold and currency reserves.

This time, the government was divided about how to respond: on the one hand, Jacques Delors, Prime Minister Pierre Mauroy, and the *club des cinq* of economic advisors in the Élysée palace²⁷ argued for remaining within the EMS, doubling down on austerity, and negotiating a third devaluation inside the fixed exchange rate system. This would reduce inflation, bring France's economic policy in line with its European partners, and while it would harm growth and unemployment in the short run, it would keep France integrated in international trade flows and a deepening European division of labour, and hence boost prosperity in the long run, the argument went.

On the other hand, Jean-Pierre Chevènement (Minister of Industry, in charge of nationalised firms), Laurent Fabius (Minister for the Budget), Pierre Bérégovoy (Minister of Social Affairs, former Chief of Staff at the *Élysée*), and Jean Riboud (CEO of Schlumberger, a major industrial conglomerate) pronounced themselves in favour of leaving the EMS, devaluing outside the fixed exchange rate system – potentially leaving the

²⁷ Jacques Attali, François-Xavier Stasse, Elisabeth Guigou, Jean-Louis Bianco, and Christian Sautter (Cameron, 1996, p. 69).

franc to float freely—and instituting a certain degree of protectionism. Due to their tolerance for risk-taking and isolationism this group was known as “The Albanians” (Favier & Martin-Roland, 1990, p. 441). This strategy, it was argued, would allow France to “reconquer its domestic market,”²⁸ to run a laxer, more stimulating monetary policy in support of full employment, and to continue with the redistributive economic programme begun in 1981.

At the heart of this dispute lay the following economic mechanism, explored in detail in the next section: as long as France continued in a fixed exchange rate regime with free flows of goods and capital, deviating from German monetary policy was nearly impossible: if French real interest rates were lower than Germany’s, i.e. more demand-stimulating in pursuit of full employment, investors would move their funds into the higher-return jurisdiction, Germany. This would earn them a higher interest rate while the fixed exchange regime protected them against currency risk.²⁹ This in turn would drain France’s currency reserves, as investors move more and more funds from France to Germany, forcing a choice from an unattractive option set: devaluing the franc, borrowing

²⁸ Recall that the election programme of 1981, the *110 Propositions*, featured an explicit commitment to reduce the proportion of international trade to GDP to twenty per cent by 1990 (proposition twenty in the *110 Propositions*).

²⁹ Reinforcing this protection, the movement of large amounts of capital from France to Germany would, if continued indefinitely, eventually necessitate a devaluation of the franc: in this scenario the *Banque de France* has to spend its finite resources of dollars, Deutschmark and gold to purchase the francs being sold by French capitalist moving their funds outside France (if the *Banque* did not do this, the franc-dollar or franc-Deutschmark exchange rate would drop below its fixed floor). At the latest when reserves are nearly used up, the franc must be devalued. Were a devaluation to happen, this would further boost the franc-denominated returns of French speculators who moved their capital to Germany, as they would now receive more francs for each Deutschmark they repatriate.

foreign currency, instituting anti-import measures, or clamping down on domestic demand (through raising interest rates or through other means). The choice was therefore either to break out from the fixed (and convertible) currency regime, thereby winning a domestic margin of manoeuvre, or to restructure domestically – through the fundamental change in social order outlined above – so to make sustainable France’s position in the EMS.

After hesitating in early March, Mitterrand committed France to staying in the EMS. On 21st March 1983 a third and final devaluation took place,³⁰ together with a programme of domestic austerity and restructuring.³¹ This programme marked a definitive commitment to the road first taken in June 1982: its key provisions were to abandon the commitment to full employment (by prioritizing price stability), to clamp down on domestic demand, to reduce real wages and so inflation, and thereby to bring the balance of payments into a sustained equilibrium. A renewed vow to limit the government deficit to three per cent of GDP, in both 1983 and 1984 (Burlaud, 2011, p. 101), provided the quantified benchmark against which this new course could be assessed.

In the context of the three per cent target,³² it is worth pointing out that, at the time, the government deficit was not an immediately binding constraint: within certain limits,

³⁰ The French franc and the Italian lira were devalued by 2.5%, the Deutschmark revalued by 5.5%, the Dutch guilder by 3.5%, the Danish kronor by 2.5%, and the Luxemburgish franc by 1.5% (Duchaussoy, 2011, p. 108).

³¹ The text of the announcement is available at <http://discours.vie-publique.fr/notices/836002184.html> and <http://discours.vie-publique.fr/notices/836002183.html>

³² This episode, incidentally, is the origin of the three per cent deficit ceiling that later became constitutive of Eurozone economic governance (“L’incroyable histoire de la naissance des 3% de déficit,” 2012).

monetary finance (i.e. the central bank purchasing government bonds with newly minted money) was a regular feature of French public finance (Lemoine, 2016). Moreover, the level of French public debt at the time, between twenty and twenty-five per cent of GDP, was half or less that of comparable countries, so that further deficit spending did not seem particularly dangerous. And indeed, some of Mitterrand's most important economic advisers themselves did not clearly understand why limiting the deficit was important.³³

This confusion was understandable, for the binding constraint was *inflation*, not the level of public debt. While the central bank, endowed with unlimited power to create francs, could finance any amount of government spending, inflation would rise if total demand exceeded supply. The central bank's ability had the effect of rendering high debt levels irrelevant – as long as inflation was low and stable – but it equally had the effect of rendering *low* debt levels, like those of France in the early nineteen eighties, no longer automatically safe: with inflation relatively high, i.e. higher than that of its trade partners (see Figure 1, p. 215 below), the fact that French public debt was comparatively low was *prima facie* irrelevant. Demand had to be taken out of the system, through cuts in state spending, increases in taxation, or shifting borrowing from an inflationary to a non-inflationary source (i.e. from the *Banque de France* to households' or firms' savings).

³³ François-Xavier Stasse, member of the *club des cinq* and one of Mitterrand's two closest economic advisers, asked the following from civil servants in the Ministry of Finance: "I still don't understand how we can explain to the public that French public debt has reached a dangerous level even though it stands at half, even one third, of the level of comparable countries. Thank you for helping me get to grips with this" (Burlaud, 2011, p. 81). The answer is of course, as outlined in the main text above, that inflation, not the deficit or the debt level, was the binding constraint at the time, and that inflation needed to be reduced in order to maintain France's position in the fixed-currency regime of the EMS.

The specific measures of the March 1983 programme fell into three baskets: a reduction of 42 billion francs in government expenditure (around 1% of GDP); a twenty billion francs forced shift of private purchasing power from consumption into savings (circa 0.6% of GDP); and capital controls on (outbound) tourism, for foreign exchange savings equivalent to a 1% reduction in domestic purchasing power (P. A. Hall, 1985, p. 87).³⁴

This time the government did not disavow its actions. Although it took care to distinguish between ‘rigor’ (*rigueur*, a left-wing, hard but just version of economic retrenchment), and ‘austerity,’ ‘deflation,’ or ‘Barrism’³⁵ (a right-wing, unjust version), the government did not hide its turn towards prioritising the fight against inflation (Burlaud, 2011, p. 104). In his TV address two days after the devaluation, Mitterrand

³⁴ The individual measures were: (1) a seventeen billion francs reduction in direct government spending, through fifteen billion francs spending cuts for the central government, two billion francs spending cuts for local government. (2) A five billion francs tax increase on petrol. (3) A thirteen billion francs net improvement in the social security (health and unemployment insurance) system’s balance, to bring it into equilibrium to remove the need to inject tax money to balance it, through a one per cent surcharge on all taxable household income, four billion francs in savings on the spending side, and the introduction of a number of indirect taxes and charges (e.g. on alcohol and tobacco). (4) Seven billion francs of cost savings in the nationalised industries, again to prevent the state from having to inject tax funds, plus eight per cent price increases for heating gas, electricity, phone, and railway travel (all of which were nationalised industries at the time), to boost their revenues. (5) A shift of twenty billion francs of private purchasing power from consumption into savings, via a ten per cent (of one’s income and wealth tax bills) compulsory loan, excluding only households whose income tax bill was less than 5000 franc (700-800 dollars) per year, for a total of fourteen billion francs, and via making savings more attractive by raising the maximum amount that can be deposited in (high interest rate paying) savings accounts (*livret A de Caisse d’épargne* and *livret bleu*), and increasing both interest rate and volume limits on building society saving vehicles. (6) Capital controls on outbound tourism, restricting foreign currency to 2000 francs per adult and 1000 francs per child per year).

³⁵ Named after the previous Prime Minister Raymond Barre, who implemented an austerity programme from 1976 until 1980.

made explicit the abandonment of Keynesianism and the economic voluntarism that had characterised the early months of his administration, affirming that the government was now committed to “Fighting inflation, [which] means saving the currency and its purchasing power. That is why I will fight, and the government with me, with all our strength against this evil [inflation], and mobilize the country to this end.”³⁶

From Keynesianism in one country, France had turned towards competitive disinflation; from a social order in which capitalists, the price level and financial returns had to adjust around full employment, to a social order in which workers and wages had to adjust around price stability and ‘appropriate’ rates of return on capital.

The results of this turn were not long in waiting: by the time the *Parti Socialiste* lost the Parliamentary election of March 1986, giving way to a conservative majority and Prime Minister, the current account had moved from deficit to surplus,³⁷ inflation had fallen from thirteen per cent (1981) to three per cent (1986) (OECD, 2017b, CPI Inflation), and the franc had survived without another devaluation. Unemployment, however, had increased by half, from six per cent (1981) to nine per cent (1986) (OECD, 2016a), the capital share in GDP began a rapid rise, from fifteen per cent in 1982 to twenty-five per cent in 1988 (Piketty, 2014, Table S6.3, see also Figure 2 below), and the French stock market underwent an extended boom, rising by over 450% between 1983 and 1987.³⁸

³⁶ Speech by President Mitterrand to the French Nation, 23rd March 1983 (Mitterrand, 1983a)

³⁷ The current account stood at -0.8% of GDP in 1981, deteriorated to -2% in 1982, and then gradually recovered to a surplus of 0.3% in 1986 (Jordà et al., 2017).

³⁸ The CAC40, France’s equivalent to the Dow Jones Industrial Average, rose from an average of approximately 360 points in 1982 to a peak of more than 1620 points on 26th March 1987.

Qualitatively, “Many parts of the traditional working class suffered under rising levels of unemployment,” and the “tax increases imposed under various austerity programs [...] hit the middle class particularly hard” (P. A. Hall, 1986, p. 225).

IV. More than a shift in economic policy

As touched upon above, the shift from Keynesianism in one country – at the heart of which lay the political commitment to full employment – to competitive disinflation constituted more than a mere shift in economic policy. Instead, it represented a fundamental equilibrium shift, a transition from one social order to a qualitatively different one. Reflecting the depth of this shift, besides the change in macroeconomic policy (already entailing a number of social knock-on effects due to abandoning full employment) the management of the nationalised firms,³⁹ unemployment policy⁴⁰ and banking regulation⁴¹

³⁹ The priority ranking of the three main goals behind nationalisation (boosting employment, democratising corporate governance, and modernising industry to create profitable national champions) shifted decisively from the first two to the latter one between June 1981 and March 1983 (Margairaz, 2001a, p. 382). In July 1981, the Prime Minister stated that “the nationalised firms should constitute a site for democratic and social advance” (Margairaz, 2001a, p. 370). But by March 1983, when detailed plans were finally agreed between the nationalised firms and the Ministry of Industry, clear priority was given to modernisation over employment and democratisation (Margairaz, 2001a, pp. 370-1). Instead of being “the tip of the spear” for social reform, growth, and the reduction of unemployment, the nationalisations thus became the tip of the spear for “anti-inflation policy and, in particular, the de-indexing of wages” (Margairaz, 2001b, p. 382). In the end, “the nationalised firms were laboratories of *rigueur* more than laboratories of extending social democracy to the firm” (Margairaz, 2001a, p. 382).

⁴⁰ See Salais (2001, pp. 488-505). He describes the shifts as “from action against unemployment to action against the unemployed” (p. 488). In the course of this shift, “employment durably lost its status as a public good around which policy coordinates” (p. 504).

⁴¹ The period in question saw the beginning of a major wave of banking deregulation, aimed at deepening French financial markets so to enable a larger amount of non-inflationary borrowing by the French state. Lemoine (2016) offers an insightful account of this transformation.

were also transformed, in each case aligning policy with the pursuit of lower inflation, higher profits, and more investment.

Rhetorically, too, a paradigm shift was discernible. As late as June 1982, the Prime Minister had still claimed to refuse the “logic of deflationist policies,” precisely because these sacrificed employment on the altar of inflation.⁴² And yet, *Le Monde* observed that from March 1983 on “priority was given to the fight against inflation” (Vernholes, 1983; see also Asselain 2001, p. 405). Government discourse around taxes shifted, too. Jacques Delors announced that “there will be no new taxes” in 1983 and, using almost Hayekian language, highlighted that “a successful economic policy is based on continuity, predictability, and confidence” (“Pas d’impôts nouveaux cette année,” 1983). Implicitly echoing the Laffer curve – so central to President Reagan’s rhetoric – President Mitterrand stated “too much tax means no tax revenue. It strangles the economy and limits production” (Mitterrand, 1983b). Though it was politically explosive, the government even acknowledged its pursuit of lower real wages, albeit in a foreign, English-language publication: “We want to have wages rise more slowly than prices in order to curb consumer purchasing power and increase profitability” (Prime Minister Pierre Mauroy in *Business Week*, 10 January 1983, quoted in Hall, 1985, p. 88). A rhetorical embrace of exports and world trade, finally, displaced the previous commitment to a “reconquest of the internal market” and a general closure of the economy: whereas the 1981 programme had contained a commitment to reducing the trade share to twenty per cent or less of GDP,

⁴² “[T]he political logic of deflation consists precisely in reducing inflation through reducing employment, i.e. through boosting unemployment. It is this policy that we refuse” (Dubedout, 1982, p. 49).

in June 1983 Edith Cresson, Minister of Trade, made clear that “the government has no intention to resort to protectionist measures” (“Pas d’impôts nouveaux cette année,” 1983). The President himself answered in an interview three months later, “I am against protectionism” (Mitterrand, 1983b). His preparatory notes for this interview observed that “40% of our industrial production is exported. Do we want to risk 40% of our industrial employment?”⁴³

A similar shift, equally beyond what was strictly necessary to address the currency crises, was visible in government structure and administrative language: The “Ministry for National Solidarity” was neutered into the “Ministry for Social Affairs” in June 1982 (P. A. Hall, 1985, p. 86). The Ministry of Planning, set up in 1981, was abolished in March 1983 (P. A. Hall, 1985, p. 98). While the latter was partly a function of the fact that Mitterrand intensely disliked Michel Rocard, the incumbent Minister of Planning, the dissolution of the ministry reflected a deeper disappointment with the effectiveness of planning in general.⁴⁴

A final change, reflecting and reinforcing this overall paradigm shift, concerns the cadres of the *Parti Socialiste*. On the one hand, the relative influence of the different families of cadres shifted: in the first eighteen months of the Mitterrand government, important

⁴³ Preparatory notes for interview 15th September 1983, AG/5(4)/1/02464, French National Archives. Citations to archival sources refer to Series AG/5 (4), the *Archives de la Présidence de la République sous François Mitterrand*. This material is housed in the Pierrefit-sur-Seine location of the French *Archives Nationales*. Numbers (in the format AG/5(4)/[###]) refer to the specific box in which documents are located.

⁴⁴ The civil service unit responsible for planning, which pre-dated the ministry and survived after it, became deeply disillusioned, its head, Jean Le Garrec, saying: “Today, given that nothing is predictable any more, one wonders how to plan” (P. A. Hall, 1985, p. 98).

decisions were heavily influenced by the ministers themselves, by parliamentarians from the PS's group in the *Assemblée Nationale*, by the PS's internal organs, and, to a lesser extent, the trade unions (Margairaz, 2001b, p. 341). During and after the *tournant*, the influence of these groups weakened, and in their stead senior civil servants, political advisors, and the heads of the nationalised firms became more important (Margairaz, 2001b, p. 341).

Besides the shifting influence between different groups, there was also a change in the predominant socio-economic background within each group. The pool of PS politicians and experts became younger, more mathematically trained, less Keynesian, more Paris-centric, and more likely to come from a small number of French elite universities (Fulla, 2016, Chapter 9 and pp. 415-7; Burlaud, 2011, p. 93). The exemplar of this process was the replacement of Pierre Bérégovoy as Mitterrand's chief of staff (*Secrétaire Général* at the *Élysée*) by Jean-Louis Bianco in June 1982.⁴⁵

Summing up, elected to break with capitalism and starting off forcefully in that direction, President Mitterrand and the *Parti Socialiste* reversed course less than eighteen months after their first wave of reforms had passed. After three successive currency crises and devaluations, the French government had not only changed its macroeconomic policy framework, replacing full employment with price stability as the priority of priorities, but had transformed banking policy, the strategic direction of nationalised firms, and

⁴⁵ Bérégovoy was a trade unionist from working class roots, born in 1925 in Rouen (Normandy), who left school at sixteen to work in a factory and then for the railroads (Short 2013: 319). Bianco was a civil service mandarin (a *haute fonctionnaire*), born in 1943 in a Parisian suburb, educated at the *Institut d'études politiques de Paris* (SciencesPo) and the *Ecole Nationale d'Administration* (ENA), who spent ten years in the higher echelons of the French civil service before joining President Mitterrand as an economic advisor in May 1981 (Margairaz, 2001a, p. 367; Duchaussoy, 2011, pp. 193-4).

unemployment policy. Nor were government rhetoric, personnel, or administrative structure left untouched: here, too, a new spirit prevailed.

The results were clear: the current account moved from deficit to surplus, inflation fell from thirteen per cent (1981) to three per cent per year (1986). At the same time, unemployment increased from six per cent (1981) to nine per cent (1986), the capital share in GDP began a rapid rise, from fifteen per cent (1981) to twenty-five per cent of GDP (1988), and the French stock market underwent an extended boom, rising by over 450% between 1983 and 1987.

A stock market boom, a rising capital share, and an increase in unemployment; price stability over full employment, supply-side not demand-side, and export-led growth rather than a reconquest of the internal market: these were neither the outcomes nor the priorities whose anticipation had sent such shockwaves through the streets and financial markets of France in May 1981. As French pop star Barbara had sung at the height of the triumph (see footnote 11 above, p. 195), Mitterrand had indeed opened the path to a new tomorrow; but what began as a humanist dawn in a socialist France became a tomorrow that smiled upon bond holders and stock owners more than upon workers and the unemployed.

D. The causes of the *tournant*

Why, then, this turnaround? In this section, I trace out the causes of the *tournant*. I show that, under conditions of commercial federation, the Mitterrand government was always likely to fail in its attempt to assert majority control over the division of labour. With trade partners who embarked on monetary and fiscal tightening, privatizations, battles with their

trade unions, the deregulation of their financial sectors, and generally extended the discretion available to private owners and managers of capital, the option set was *always* going to narrow to a binary choice: either an exit from commercial federation, or the alignment of France's social order with that of its trade partners.

In March 1979, France had entered a fixed currency regime (the European Monetary System, EMS), tying the franc to a set of other European currencies, including the Deutschmark. This committed the *Banque de France* to step in as buyer of last resort whenever private traders were not willing to buy francs at the fixed exchange rate floor. This was mechanically required to prevent the franc's exchange rate from falling through the agreed floor.⁴⁶

To buy francs, the *Banque* had to pay either with its own gold or foreign currency reserves (dollars, pound sterling, Deutschmark, etc), or by borrowing gold or foreign currency and using those borrowed funds to pay. However, since gold and foreign currency reserves are finite, and since the same is true of lenders' patience, a persistent balance of payments deficit—more money flowing out than in—placed the central bank on course to run out of gold and foreign currency reserves.

⁴⁶ Symmetrically, if the franc threatened to rise above its agreed ceiling, the *Banque de France* was committed to sell francs in sufficient quantity to maintain the franc at or below its ceiling. However, and asymmetrically vis-à-vis its obligation to prevent the franc from falling through its floor, this commitment could always be upheld, subject to political will. Since the *Banque de France* has the legal right to mint new francs *ex nihilo*, it could always sell francs on the currency exchanges without running the risk of running out of francs to sell. The binding constraint in this case would have been inflation, pushed up as ever more francs are created and enter into circulation.

Crucially, given France’s openness to trade *and* the divergence between how France and its trade partners regulated their respective domestic divisions of labour, a persistent balance of payments deficit was structurally determined. While the Mitterrand government pursued full employment until the *tournant*, both the British and American governments had by 1981 turned to prioritizing price stability over low unemployment.⁴⁷ This had both a direct and an indirect effect on the balance of payments: directly, aiming at full employment through high aggregate demand meant that French consumers—in a context of safe employment, and backed by strong unions—had comparatively high purchasing power, part of which went on imports from France’s trading partners.⁴⁸ Given that the trading partners in question did *not* run an equally expansive macroeconomic policy, the reciprocal demand for French exports was lower—given less secure employment and weakened unions in the US and UK—tilting the structural balance of payments towards deficit.⁴⁹

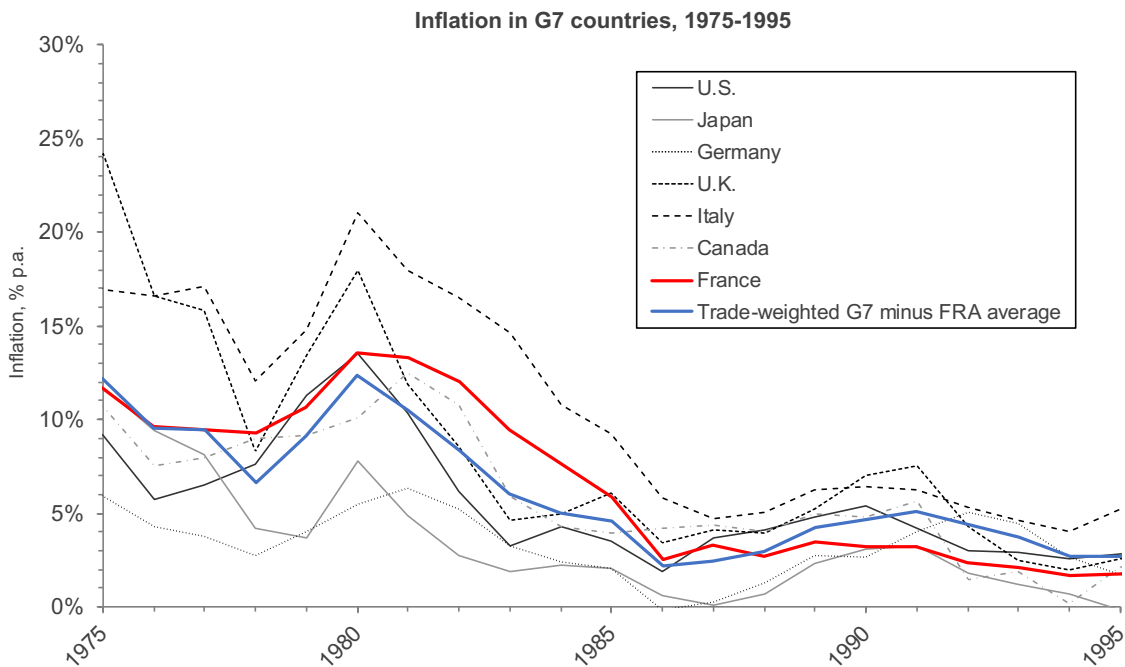
⁴⁷ In the American case with the Volcker shock of 1980, in the British case with Margaret Thatcher’s austerity budgets of 1980 and, especially, 1981.

⁴⁸ After the first wave of manifesto promises had been implemented, pushing the French economy closer to full employment and boosting the purchasing power of French workers, unemployed, pensioners, and others, “[i]mports of autos rose 40 percent, electrical appliances 27 percent and consumer goods 20 percent” (Hall, 1986, p. 198). In 1983, Mitterrand’s economic advisors estimated that “out of 100 francs of additional consumption, 44 francs are spent on imports” (Note by F.-X. Stasse and E. Guigou to President Mitterrand, 20th March 1983, AG/5(4)/4338).

⁴⁹ In a note to Pierre Bérégovoy from 2nd June 1981, Christian Sautter stated that “France made the choice to go for growth in order to reduce unemployment, while the other major Western countries fought against inflation and external imbalance; France made this choice while remaining open to international trade competition”, which constituted an “external trade and currency risk” because of a lack of reciprocal demand for French exports (CS/FD/1982/N° 192, in AG/5(4)/4324).

Indirectly, aiming at full employment implied a higher rate of inflation since French workers were in a stronger position to resist downwards pressure on wages than their British, American, and German colleagues. And indeed, France's inflation rate was consistently above that of its main trade partners (Figure 1). Given fixed exchange rates, a higher rate of inflation in France meant that French products became steadily more expensive abroad, while imports to France became steadily cheaper in real terms: “[B]y 1982 French prices were rising at twice the rate of competing German products” (P. A. Hall, 1986, p. 198). This further tilted the trade balance into deficit.

Figure 1. Inflation in France and other G7 countries, 1975-1995

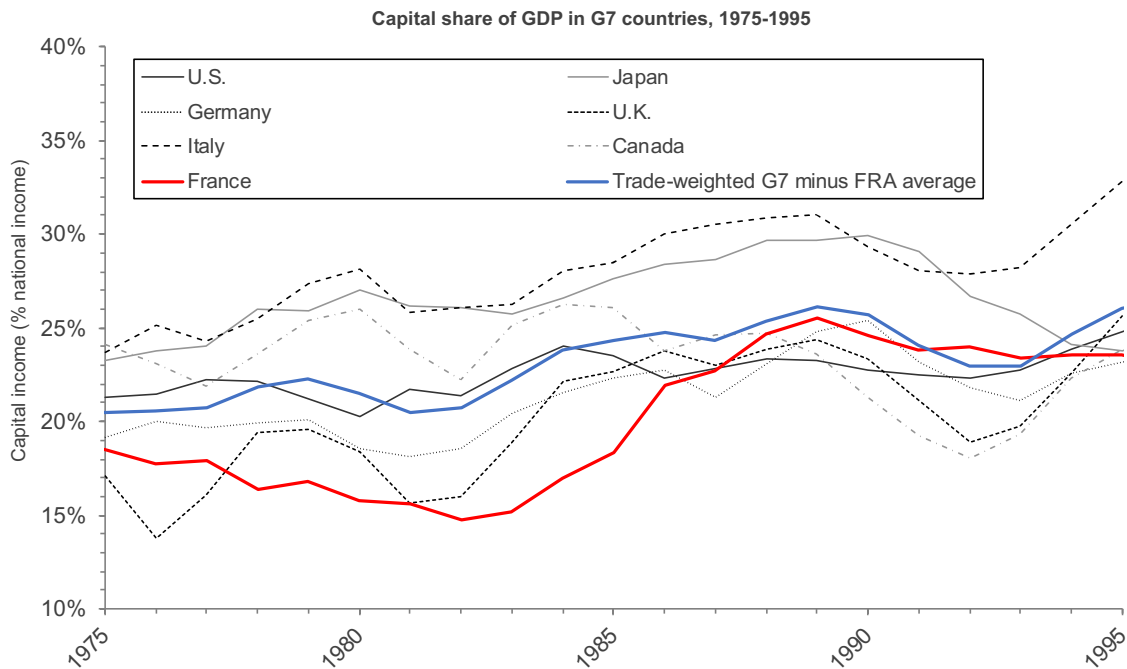


Source: author, based on OECD (2017, *Inflation, CPI*)

Beside the trade effects of full employment and higher inflation, there was also a capital flow effect of the divergence between France's and her trade partners' social orders.

The share of national income going to capital in France was lower, indeed considerably lower, than in any other G7 economy in the early nineteen eighties (Figure 2), despite a capital stock of comparable size.⁵⁰ Given that capital was reaping a smaller flow on the basis of a similar stock, this suggests that capital outflows out of France were not just a shock reaction to the new government, but a rational response to more profitable opportunities elsewhere. The government's initial policies reinforced this trend: there is little doubt about how investors felt about these policies.⁵¹ This created secular pressure for capital outflows, in this case from France to its main trading partners.

Figure 2. The capital share in France and other G7 countries, 1975-1995



⁵⁰ Total national capital in 1980 was approximately 370% of GDP in France, 420% in the US, 350% in Germany, and 400% in the UK (Piketty, 2014, Table S4.5).

⁵¹ *Le Monde* reported international investors describing the government's reforms as "poison introduced into the system" (Renard, 1982).

Source: author, based on Piketty (2014, figure 6.5.)

As long as profit rates were lower, inflation rates higher, and the French government more committed to full employment and public control over the division of labour, both capital flows and trade flows were systematically driven towards a deficit.

This deficit put the *Banque de France* on course to run out of reserves. Had it actually done so, France would have been unable to continue paying for its imports.⁵² While trade in goods would have been affected, the fastest and most drastic effects would have taken place in finance: had reserves run out, some (public or private) French borrowers would have found themselves unable to service their foreign currency loans, placing them into default. This would have triggered a cascade in which other international lenders would have decided to call in their dollar- (or Deutschmark, pound sterling, etc.) denominated loans to French borrowers. The likely result would have been a rapidly escalating scramble for foreign currency, as more and more French debtors jostle to obtain the dollars, Deutschmarks and pounds sterling needed to repay their loans.

The scramble for currency to repay foreign loans in turn would have intensified the de-coupling of the real economy from international markets. Since France imported the

⁵² Since there would still have been some export earnings (i.e. foreign currency) coming in, France could still have paid for a limited amount of imports. But since the balance of payments was in deficit at this point, the amount of foreign currency flowing in would not have sufficed to cover the entirety of desired imports. When this scenario came into visual range, as it did in the summer of 1982 and again in March 1983, it sent shockwaves through the government. For example, in March 1983, Michel Camdessus, the senior civil servant of the *Direction de Trésor*, wrote to Minister of Finance Jacques Delors that “the external situation is critical. Our foreign exchange reserves and our foreign debt leave not a trace of doubt in this regard. [...] The external deficit must urgently be corrected.” Tellingly, this note was stamped “secret” (Camdessus to Delors, 4th March 1983, 619-CD in AG/5(4)/4338).

vast majority of its oil and gas, and since those imports were denominated in dollars, a dollars shortage quickly would have translated into a petrol shortage. Further, manufacturing firms with international suppliers would have struggled to pay for their inputs, likely prompting some suppliers to suspend deliveries, forcing French producers to suspend production. And, second perhaps only to petrol shortages in their political potency, wholesalers and supermarkets would have become unable to pay for imports of international consumer goods, lead to visible gaps in supermarket shelves. In short, had the *Banque de France* run out of gold and foreign currency reserves, the country would have made a disorderly exit from international markets in finance, services and goods. In an internationally integrated economy,⁵³ the political consequences of this would have been lethal. Images of queues at petrol stations, empty super market shelves, closed down factories, hospitals short on medicine, and so on would have quickly toppled the government, likely delegitimizing the *Parti Socialiste* and the French Left for a generation or more.

Once this scenario entered into visual range,⁵⁴ avoiding it became the highest priority of government. And indeed, asked about his motivations for imposing austerity, Mitterrand answered that through doing so, “Instead of conquering power once or twice per half-century, driven by brief mood swings, the Left will appear as the permanent

⁵³ Recall that the trade exposure of the French economy – imports plus exports divided by GDP – was already at more than 40% in the early nineteen eighties (World Bank Group, 2018, NE.TRD.GNFS.ZS).

⁵⁴ As it forcefully did in June 1982 where the reserves of the Banque de France had shrunk to cover a mere fifteen days of imports, see footnote 22 above (p. 198), and again in March 1983, see footnote 52.

guarantor of good government” (“Interview de M. François Mitterrand, Président de la République, accordée au journal ‘Libération,’” 1984).⁵⁵

The fundamental cause of the *tournant* can hence be summarised as follows: a sustained balance of payments deficit, driven by a more labour-friendly social order in France relative to that of its trading partners, together with France’s embeddedness in a fixed exchange rate regime put the *Banque de France* on course to run out of foreign currency reserves. Had these reserves reached zero, a sudden and painful exit from international markets would have followed, and with it the downfall of the government. To avoid this, the government had to change course.

Note that this analysis of the French external deficit speaks against a rival, more conspiratorial account of the *tournant*. This rival account holds that the Mitterrand government was forced into its U-turn by a cabal of capitalists (Duchaussoy, 2011, p. 151). Now, it was indeed a capitalist conspiracy, centred on the governing board of the *Banque de France*—then still privately owned and governed—that brought down a French left-wing government in the nineteen twenties (Jeanneney, 1977 esp. Chapter 4 and pp. 58-78; Néré, 1985). But in the case of Mitterrand, evidence for such a conspiracy is weak: other than an attempt by Paribas CEO Pierre Moussa to remove assets from the (soon-to-be-nationalised) Paribas main holding company to its Belgian and Swiss subsidiaries (Duchaussoy, 2011, p. 163; see also Moussa, 1989), in order to evade their nationalisation, no evidence has surfaced of large French credit institutes turning against

⁵⁵ See also Duchaussoy (2011, pp. 156-8).

the government.⁵⁶ Nor is there evidence that the *Banque de France* aimed to topple the Mitterrand government, though it never disguised its hostility to the new government's policies when talking to its ministers or advisors (Duchaussoy, 2011, p. 158). Instead, the evidence points towards *capital as a class*, not a small cabal of leading capitalists, contributing⁵⁷ to the external deficit and hence forcing the Mitterrand government into the choice between exiting from commercial federation or adjusting its social order to that of its trade partners.

This decentralised kind of constraint was all the more binding on the government precisely because it was not centrally coordinated. For in this way there was no single 'headquarters' that could be pressurised, bargained with, or at the limit, coerced by government action. Instead, it was the decentralised decisions of many individual holders of capital (who decided—no doubt because of a mixture of economic and political motives—to move their capital, to the extent possible, abroad), as well as the purchasing decisions of millions of consumers (who decided—no doubt because of a mixture of price and other considerations—to purchase a relatively high proportion of imports) that created a structural deficit in the French balance of payments.

⁵⁶ Preventing this was the purpose of nationalising them in the first place (Attali, 1993, p. 168; Feiertag, 2001, p. 440).

⁵⁷ "Contributing" rather than "causing," because consumer decisions about what to purchase (in particular foreign goods versus domestically produced goods) were another significant contributor.

E. Running down the options

The above explains why the government had to do *something*. It does not explain why it responded with the particular measures that it did respond with; for in theory, a wide range of options is available for addressing a balance of payments deficit.

The main options for dealing with a balance of payments deficit that were on the table between May 1981 and March 1983 were the following: devaluations (either internal to the EMS or via floating the franc); tariffs, direct controls on imports (more or less overt), and/or capital controls, i.e. moving France towards autarchy; subsidising French firms to gain market share at home and abroad; or clamping down on domestic demand. These were not mutually exclusive, and they were often discussed in combination.⁵⁸ However, by March 1983, all avenues other than moving France towards autarchy and/or clamping down hard on domestic demand had been exhausted.

Devaluation without an accompanying austerity programme, like the October 1981 devaluation, had been tried but failed to correct the balance of payments.⁵⁹ On the

⁵⁸ E.g. in a note to President Mitterrand from 4th June 1982, the following measures were all proposed: tight management of public budgets (keeping the deficit to three per cent of GDP); more ambitious nuclear energy and energy efficiency policy (to reduce oil imports); more domestic industrial investments to boost competitiveness; lowering interest rates through instituting capital controls (differentiating between resident and international investors); ‘playing’ (*jouer*) with technical and sanitary norms so to discourage imports; and a ten per cent adjustment between the franc and the Deutschmark, ideally via a revaluation of the Deutschmark (since this did not entail the same franc-dollar drop as a devaluation of the franc, which immediately increased the oil imports bill, priced in dollars, by ten per cent). Summary note for President Mitterrand by F.-X. Stasse and J. Fournier, entitled “NOTE POUR M. LE PRESIDENT. Objet: Politique économique, sociale et monétaire.” Document number: JF/FXS/PC 254, in AG/5(4)/4324.

⁵⁹ Indeed, as early as February 1982 Christian Sautter wrote to the President that mere “Devaluation is ineffective because cost- [i.e. wage- and oil price-]driven inflation takes a long time to eradicate” (Note from C. Sautter to Mitterrand, 7th February 1982, CS/FD/1983/Numéro 26 in AG/5(4)/4338).

export side of the balance, the continued inflation differential with Germany quickly ate up any competitiveness gain (Asselain, 2001, p. 409). On the import side, the bill for oil imports increased rather than decreased as a result of devaluations against the dollar.⁶⁰ Nor was it likely that further such devaluations (without side programmes or a wider decoupling of France from its trade partners) would have worked. The diplomatic and reputation effects of devaluations, too, spoke against them.⁶¹ According to my archival research, ‘pure’ devaluations as a policy or strategy were no longer presented to the President after June 1982.

A similar pattern applied to a series of disguised protectionist measures. The government did not shy away from this option: A note to the President from June 1982 included a list of “diverse measures,” from “using technical and health and safety norms” to “reconquer the internal market” to creating a “pugnacious” unit in the Ministry of Industry, tasked with drawing up domestic regulations that could function as disguised protectionist measures.⁶² The same note also advised “discretely recommending to public bodies and state-owned firms to buy French.”⁶³ Examples of measures that were

⁶⁰ Oil was very price inelastic and bought in dollars. Devaluations against the dollar therefore significantly increased the (franc) oil bill, offsetting the gains from extra exports and reductions in other imports. This was recognized at the time: *Le Monde* wrote “devaluing a third time in eleven months: unthinkable for a host of obvious reasons, notably the accompanying revaluation of the dollar – and hence the price increase in raw materials” (Renard, 1982).

⁶¹ Margairaz (2001b, p. 334) describes devaluation negotiations in the EMS as “always harsh, even humiliating.” Asselain (2001, p. 395) says “devaluation is unfailingly experienced as a defeat, not to say a national humiliation.” *Le Monde* observed that “In addition, Germany will be intensely opposed to it [further devaluation]” (Renard, 1982).

⁶² JF/FXS/PC 254 in AG/5(4)/4324.

⁶³ In an earlier draft of this note, circulated amongst advisors only, this sentence read “discreetly demanding” or “discreetly requiring” (*exiger discrètement*) instead of discretely recommending (*recommander discrètement*).

implemented included the requirement that all customs documentation be submitted in French, or that all VCR recorders—a product that was almost exclusively imported from Japan—be cleared at a single customs office in Poitiers, a small town in Western France without port or major airport (Asselain, 2001, p. 414).

What was politically possible internal to the European Economic Community (EEC) and the General Agreement on Tariffs and Trade (GATT), however, turned out to be insufficient to redress the balance of payments. Stronger protectionist measures, such as a hard limit on the monetary value of all imports, were proposed by outside advisors—notably the prominent British economist Nicholas Kaldor—but excluded from serious consideration because they would have entailed an exit from the European Common Market. Responding to Kaldor’s proposal, Christian Sautter, economic advisor to President Mitterrand and member of the *club des cinq*, stated that it had the “rationality of madness.” It was logically sound, but only on the basis of “an absurd hypothesis: exit from the Common Market.”⁶⁴ For Mitterrand’s economic advisors, in other words, a departure from commercial federation was unthinkable. As with softer protectionist measures, the issue was not opposition to the instrument itself—after all, various forms of capital controls were implemented during this period, on the understanding that they were temporary tools

This indicates that at least some of Mitterrand’s advisors sought to push discrete protectionism to its political limits.

⁶⁴ Handwritten note by Christian Sautter, dated 29th December 1982, entitled “Personnel à Jean Louis Bianco et Jacques Attali,” in AG/5(4)/4324.

(Duchaussoy, 2011, Chapters 4 and 5) – but a deep reluctance to exit from commercial federation.⁶⁵

Given that, in a commercial federation, imports could not be reduced sufficiently via protectionism – the covert version was tried but insufficient, the overt version would have implied exit – and given that exports were not in the power of the French government to increase immediately,⁶⁶ restoring balance meant clamping down on domestic demand.⁶⁷

This meant that, when it came to formulating responses to the balance of payments crisis of spring 1983, only two approaches were seriously elaborated and presented to the President: a broadly liberal approach that prioritised France’s good standing as a member of a commercial federation, championed by Jacques Delors and Pierre Mauroy. This involved austerity and a devaluation *inside* the EMS. Second, a protectionist-sovereigntist approach, championed by Jean-Pierre Chevènement, Pierre Bérégovoy, and Jean Riboud, which involved austerity and a devaluation *outside* of the EMS.

⁶⁵ Jacques Attali wrote to the President saying “GATT and the EEC may oppose this [...]. The idea is explosive and must be handled with care. It should be developed with two people only and in secret. Laurent Fabius and Jacques Delors would be the best placed. Do you allow me to talk to them about it ?” (Note by Jacques Attali, 22nd December 1982, entitled “Note pour Monsieur le President. Objet: Un plan “Kaldor” pour le franc,” in AG/5(4)/4324). I have not been able to confirm whether or not the President permitted Attali to proceed.

⁶⁶ Investments in the recently nationalised industries, intended to boost competitiveness, exports, and hence positively to affect the balance of payments, were proceeding apace, but sizeable effects were not expected until 1984 at the earliest. “The effects of the 1981 and 1982 investments and R&D efforts will not make themselves felt in terms of competitiveness before 1984 at the earliest” (Note from Christian Sautter to Pierre Bérégovoy, 2nd June 1982, CS/FD/1982/N° 192, in AG/5(4)/432).

⁶⁷ “It is therefore inevitable to knock down domestic demand by a large measure” (Note from from Christian Sautter to President Mitterrand, CS/FD/1983/N° 67, dated 24th March 1983, in AG/5(4)/4338).

Once the choice was down to these two options,⁶⁸ Mitterrand’s economic advisors made a strong case for remaining integrated in Europe’s commercial federation: first, leaving the EMS was considered more expensive in the short run. Elisabeth Guigou and François-Xavier Stasse, Presidential economic advisors and members of the *club des cinq*, estimated that remaining in the EMS would require a reduction in domestic demand of 30 billion francs, while exiting would require a reduction of 50 billion.⁶⁹ Second, leaving the EMS was expected to lead to a “brutal fall” in the franc, making oil more expensive and hence, if anything, further *boosting* the balance of payment deficit in the short run.⁷⁰ Third, it was thought that exit would lead to significant inflationary pressures.⁷¹ With higher inflation, potential retaliation by trade partners, and a larger oil imports bill, finally, both advisors and principals feared that exit would lead to a humiliating IMF bailout down the road – involving painful conditionalities – with Britain’s 1976 bailout cited as a cautionary example.⁷²

⁶⁸ Of course, there was an implicit third option: letting the *Banque de France* run out of reserves. However, because the PS wanted to stay in power, option three was never presented to the President, at least not in writing.

⁶⁹ Note from F.-X. Stasse and E. Guigou to President Mitterrand from 8 March 1983 (FXS.EG.PC 494), entitled “Objet : mise en oeuvre économique d’une sortie du S.M.E.”

⁷⁰ In the spring of 1982, the assessment was that leaving the EMS would entail “a brutal fall in the franc – 10, 15, 20% ? [sic] vis-à-vis the other strong currencies, including the dollar (the currency in which we pay for 2/3rds of our imports).” F.-X. Stasse and C. Sautter, le 17 Mai 1982, entitled “Note pour Pierre Beregovoy. Objet: Conséquences d’une sortie du Franc du S.M.E.” in AG/5(4)/4324.

⁷¹ Guigou and Stasse estimated that floating the franc would boost inflation by around three percentage points (Burlaud, 2011, p. 82).

⁷² Prime Minister Mauroy later said that he wanted to avoid the fate of British Labour Prime Minister Harold Wilson, who had had to “submit to the tortures of the IMF in order to save sterling from shipwreck” (H. James, 1996, p. 425). This assessment appears to have been shared by all of Mitterrand’s major advisors. Attali: if we do not clamp down on domestic demand ourselves, “in two years at the latest, the IMF will

Nevertheless, the President hesitated. Indeed, on 14th March, the day after disappointing municipal elections, Mitterrand asked Pierre Mauroy to stay on as the head of government – on the basis of leaving the EMS. This would have implied a radically different economic strategy, involving capital controls, import reduction measures, and at least a temporary departure from deepening European commercial federalism. However, Mauroy refused to conduct this policy and offered his resignation instead. When Mitterrand offered the position to Jacques Delors the next day, on the same condition, Delors also refused. After another week of hesitation, consultation, and political manoeuvring, Mitterrand eventually opted to keep France in the EMS, together with the austerity measures required to make this a reality, and re-appointed Mauroy to implement this course.⁷³

It remains unclear whether during these “ten days of folly” (Attali, 2005, p. 141) Mitterrand genuinely intended to leave the EMS, or whether he was bluffing,⁷⁴ for example

impose even harsher austerity” (25th October 1982). Jean-Louis Bianco: “leaving the EMS leads us to the door of the IMF” (February 1983) (both quotes from Asselain, 2001, p. 417). Stasse, in December 1982, concluded that an exit from the EMS would be politically easier in the short run, but “it carries a major risk of ending up with an IMF mission to France before the next legislative elections” (quote from Burlaud, 2011, p. 78). In February 1983, Sautter wrote a memo to the President titled “Neither Thatcher, nor Wilson” (CS/FD/1983/Numéro 26 in AG/5(4)/4338). In general, summarising the various counsellors’ positions on this, Burlaud writes: “the frightening hypothesis of having to request IMF aid flows regularly from the counsellors’ pens, sometimes appearing as ultimate argument” (Burlaud, 2011, p. 79).

⁷³ This paragraph draws on Burlaud (2011, pp. 99-100) and Favier and Martin-Roland (1990, pp. 465-93). Attali (2005, p. 141), who witnessed these events first-hand, described them as “ten days of folly during which Mitterrand virtually changed his politics three times and his Prime Minister four times...and ended up not changing either the first or the second!”

⁷⁴ The precise timeline and sequence of these days is disputed. Favier and Martin-Roland argue that Mitterrand had made up his mind (to stay in the EMS) as early as the evening of 16th March (Favier & Martin-Roland, 1990, pp. 471-2). Attali and others claim, more convincingly in my view, that the President was genuinely undecided throughout most of the ten days (Attali, 2005, p. 141). The President’s papers on

in order to extract the best possible deal in the re-alignment negotiations with Germany (Burlaud, 2011, pp. 98-102).⁷⁵ If he genuinely intended to leave the EMS, France came within a whisker of departing from the most important European and global commercial federations, the EEC and GATT. In this case, the final outcome may have been contingent: had, for example, the supporters of leaving the EMS not been internally divided,⁷⁶ or had Mauroy and Delors been less steadfast in their refusals to form a government charged with EMS-exit, Mitterrand may have pushed through the decision to leave during the “ten days of folly.”

Nevertheless, given the precedent of the UK’s embarrassing IMF bailout, the experience of the Chirac stimulus from the mid-seventies, and the consistent advice from his economic counsellors that an exit from the EMS would be costlier than austerity within it, it seems that Mitterrand was, in the end, always more likely to opt for aligning France’s economic policy with the demands of currency and import/export markets rather than to extract France from the international division of labour. Not only did both Mauroy and

this are still under lock, as are those of his advisors’ papers that carry significant annotations by him. I was unable to obtain a derogation for them and could not reach a definitive answer to the question of whether Mitterrand was or was not bluffing.

⁷⁵ It is notable that the March 1983 devaluation was a diplomatic success for France, with the Deutschmark revaluing 5.5% against only a 2.5% devaluation of the franc. In the two previous devaluations, the majority of the realignments were achieved through devaluation of the franc (a cumulative 14.25 percentage points devaluation, versus only 9.75 percentage points of appreciation for the Deutschmark).

⁷⁶ Jean Ribaud, Mitterrand’s confidant and CEO of Schlumberger, saw a departure from the EMS as a *temporary* tool to reduce imports and make French exports competitive again, thereby maintaining its industrial base. Jean-Pierre Chevènement, the leader of the PS’s left-wing faction, saw it as a *permanent* move towards autarky, intended to reduce France’s dependence on imports and thereby rendering France economically more independent. Disagreement over the rationale for leaving the EMS weakened the appeal of this strategy.

Delors refuse to enact an EMS-exit, indicating that Mitterrand faced serious resistance from within his own government, but one of the two cases for leaving the EMS was in fact a case for *temporary* exit only: Jean Riboud's version of EMS-exit was not intended to preserve France's full employment social order, but to smooth its transition to deeper integration into the world economy on capital-friendly terms.⁷⁷ In this version, inflation would have had to be brought under control, just as in the EMS-remain scenario.⁷⁸ If French inflation had remained higher than its trade partners', and capital free to enter and leave France, a floating currency would have resulted in investment draining out of France.⁷⁹ Even a floating currency could not have, on its own, squared France's full employment social order with continued integration into a commercial federation, as long as important trade partners prioritised price stability over full employment. Given this, the question was: if EMS-exit would have involved abandoning full employment anyway, as a

⁷⁷ By leading to a drastic devaluation of the currency, this argument went, an EMS-exit would reduce imports and make French exports competitive, thereby maintaining its industrial base. Once that base had been suitably modernized, France could re-join the EMS and global trade more generally, but from a stronger position (Favier & Martin-Roland, 1990, pp. 441-2). The UK's performance of a broadly similar manoeuvre in September 1992 shows both the economic promises and the political perils of this strategy: after leaving the European Exchange Rate Mechanism (the ERM, a fixed currency regime similar to the EMS), the British economy performed well over the next five years (from the point of view of capital). This was conditional, however, on tight control of inflation. The Conservative Party, however, lost both its reputation for economic management and the next election over this manoeuvre.

⁷⁸ The UK, tellingly, immediately adopted inflation targeting upon leaving the ERM in September 1992 (Haldane, 2000). It also bears recalling that the Thatcher government had already broken British trade unions by then, so that the risk of devaluation sparking a cost-wage inflationary spiral was far lower than in France.

⁷⁹ High inflation and a floating exchange rate implies a continuous depreciation of the exchange rate, which means, for a foreign investor, the (dollar) value of French assets is continually falling, making investments in France inherently unattractive, while for French investors the (franc) value of foreign assets is continually appreciating, making investments abroad inherently attractive.

necessity for durable integration into global and European trade, why not avoid the one-off political and economic costs of leaving the EMS in the first place?⁸⁰

In terms of policy process, finally, it is worth pointing out that I have found no evidence that the option of leaving the EMS was ever developed into an implementable programme. No draft decrees or policy papers of what this option would entail in terms of legislation were found. This non-elaboration may have been politically motivated – none of the economic counsellors of the *club des cinq* supported this option – or it may have been caused by a lack of expertise,⁸¹ or it may be an artefact of an incomplete documentary record. In either case, it appears that, despite Mitterrand’s hesitation and vacillation during the “ten days of folly,” structural factors made it likely that he would ultimately opt to restructure France domestically, rather than extract the country from commercial federation and a deepening international division of labour. The short-run costs of exit, in terms of necessary austerity, were higher than for remain; the advocates of exit were split, with some aiming at autarchy, others merely at a different path towards the same paradigm shift; his closest economic advisors (the *club des cinq*), civil servants, Minister of Finance,

⁸⁰ In this context, it is worth pointing out that Mitterrand frequently justified his abandonment of the 1981 election programme by claiming that he prioritized European integration (e.g. Favier & Martin-Roland 1990, p. 369, 502). Given that the pre-Maastricht European Community was a smaller, more cohesive, and less obviously market-centric project than the post-1992 European Union, Mitterrand may have had realistic hopes for recycling a part of the abandoned domestic project at the European level. His choice may hence well have been a reasonable one at the time. The Maastricht Treaty, European Economic and Monetary Union on German terms, the fall of the Iron Curtain and the subsequent eastward enlargement of the EU, however, buried this hope.

⁸¹ As late as 1976, five years after the end of Bretton Woods and the floating of the franc against the dollar, a PS-friendly senior civil servant in the Ministry of Finance admitted that the ministry lacked the expertise to evaluate the consequences of moving to a floating currency (Fulla, 2016, p. 307).

and Prime Minister were all opposed to exit; and the precedents of the British IMF bailout of 1976 as well as Jacques Chirac's failed stimulus of 1975-6, both of which foundered on a deteriorating balance of payments, made vivid the potential downsides of leaving the EMS.

This concludes the causal interpretation of the *tournant*. I argued that it was caused by two mechanisms operating on different time scales and through different modalities: first, a structural balance of payments deficit. Slow-moving and itself caused by fundamental differences between France's social order and that of its trade partners, this deficit forced the government to change course, on pain of political suicide via financial chaos, petrol shortages, and empty supermarket shelves. Second, a winnowing process that saw politically less costly options (in particular hidden protectionism and devaluations without austerity) tried and gradually exhausted, until the final choice was narrowed to the two options on the table in March 1983: exit from commercial federation, or re-alignment of France's social order in line with that of its trade partners. Insofar as differences between France's social order and that of its trade partners created a structural balance of payments deficit; insofar as this deficit, if left uncorrected, would have spelled the end of Mitterrand's government; and insofar as correcting the deficit through exiting from commercial federation was both costlier and more uncertain than revising the domestic social order in a capital-friendly direction, the final outcome appears, to a significant extent, structurally determined.

What is remarkable, in retrospective, is perhaps not the fact that France remained in the EMS, but how close Mitterrand came to taking France out. This was driven, to be

sure, by the unusual conjunction of the election results of 1981, which gave the government a forceful mandate for “breaking with capitalism;” the particulars of socialist-communist (and PS-internal) coalition dynamics, which made it hard to re-negotiate *any* part of the government’s programme without re-negotiating *all* of it; and the unusually strong and interventionist French state, which made an exit from commercial federation in pursuit of popular sovereignty over the division of labour more feasible and credible than similar plans would have appeared in other advanced capitalist states. Despite the structural factors that militated in favour of remaining in the EMS (and hence subordinating French democracy to the demands of an autonomous market order), historical contingency came close to tilting the dynamic of water and oil the other way. Had the supporters of EMS-exit not been internally divided, for example, or had Mauroy and Delors been less steadfast in their refusals to form a government charged with EMS-exit, the outcome may well have been a different one. What the case demonstrates, then, is the extent to which the unfolding of the conflict between democracy and capitalism is both uneven and, despite this unevenness, contingent.

F. The *tournant* illustrates a more general pattern

This case study worked through a specific instance of the dynamic of water and oil, but its lessons apply more generally: a labour-friendly social order, underpinned by full-employment and high aggregate demand policies, will always tend to pull in imports while spurring capital to attempt to flee. If trade partners run more profit-conducive, low-demand economies, both capital and trade flows will then tend towards structural imbalance. Over time, this will lead the worker-friendly country into a choice situation,

with the following options on the table: (1) crashing out; this is the likely outcome in a fixed currency regime where the central bank runs out of foreign currency reserves and no preventive action is taken; (2) a controlled, government-led withdrawal from commercial federalism, e.g. if Mitterrand had opted to leave the EMS and institute protectionist measures on goods and capital flows; or (3) a private sector led withdrawal, for example through a “sudden stop,” where capital stampedes out, the exchange rate plummets, demand falls, and international debt becomes significantly more expensive to service^{82, 83}

The price that these three scenarios—crashing out, deliberately exiting, or tolerating a private-sector-led exit from the international division of labour—entail depends on the extent to which the economy in question was previously integrated in the international division of labour. For a semi-autarchic state, the price is low; for a highly integrated economy, it is likely to be prohibitive. However, note that even for a semi-autarchic state, the long-run costs depend on the *foregone gains* of membership in a commercial federation, and not only on the immediate losses from exit. Where the former are large, remaining commercially closed entails costs both in geopolitical competitiveness and in domestic legitimacy.

This results in an addition to the arguments made by Kalecki (1943) concerning the sustainability of full employment (and hence substantial bargaining power of labour)

⁸² This is the likely outcome in a floating currency regime without a government turn to protectionism. The most prominent example of this is the UK’s currency crisis and subsequent turn to the IMF in 1976 (Burk & Cairncross, 1992), but the history of Latin America provides a number of further examples of this scenario.

⁸³ These three options are essentially a parsing out of the ‘unholy’ or ‘impossible’ trinity of international economics. For a description of the trinity, see e.g. Obstfeld and Taylor (1998).

under capitalism. To the various forms of domestic political opposition,⁸⁴ which were temporarily overcome during the nineteen fifties, sixties, and seventies, and especially so in France in 1981, we have to add an international constraint: a country that runs a social order built around full employment will, by choice or by necessity, exit from what might be called the capitalist international of world markets. Unless protectionist measures are taken and foreign trade is subjected to political control—which in themselves constitute such an exit—a labour-friendly, capital-unfriendly social order will result in a balance of payments deficit (driven both by trade and capital flows), which eventually forces the choice between decoupling and domestic re-arrangement. This constraint is lifted only in the unlikely case of coordination on full employment between all trade partners in question. Where such coordination is not possible, the constraint applies with more or less severity.

G. A final but revealing caveat applies

Before concluding, a final caveat remains to be pointed out. While the *tournant* did represent a paradigm shift in the *Parti Socialiste's* economic philosophy and ultimately in

⁸⁴ Kalecki's argument was that, while economically viable, full employment policies were politically unviable under capitalist democracy due to businesses' and rentiers' opposition. In particular, business leaders and rentiers would fiercely oppose such policies because (1) "once the Government learns the trick of increasing employment by its own purchases, this powerful controlling device"—the dependence of high employment on buoyant private investment—"loses its effectiveness" (Kalecki, 1943, p. 325), (2) "the profitability of private invest might be impaired" (p. 325) where government investment competes with private investment, (3) where government spending finances mass consumption rather than investment, it undermines the capitalist ethos, since the "fundamentals of capitalist ethics requires that "You shall earn your bread in sweat"" (p. 326), and because (4) "under a regime of permanent full employment, "the sack" would cease to play its role as a disciplinary measure" (p. 326).

France's social order, it did not imply a complete abandonment of Socialist, egalitarian principles by the government.

Many of the policies adopted during the *tournant* protected the worst-off: the minimum wage, for example, was excepted from the June-October 1982 price- and salary freeze (INSEE, 1983, p. 8). When the government froze civil service incomes in March 1983, the freeze only applied to incomes above 250,000 francs, with incomes below that granted an increase of eight per cent, approximately in line with inflation (Cameron, 1987, p. 20). The compulsory loan of March 1983, too, was designed in a progressive fashion, sparing all those paying less than 5000 francs income tax per year (Burlaud, 2011, p. 101); and the 2000 francs limit on foreign exchange of March 1983, too, was an egalitarian choice: by targeting specifically those travelling abroad—an above-average income and class demographic—the government managed to avoid a one per cent reduction in real incomes (P. A. Hall, 1985, p. 87). This was intentional—reflected both in public statements⁸⁵ and internal notes.⁸⁶

Politically, these policies appear to have achieved their desired effect, at least in the short run.⁸⁷ However, regarding overall economic outcomes, it is instructive to take a closer

⁸⁵ Mitterrand's public speeches repeatedly stress that austerity has to go hand in hand with justice. E.g. "If I ask the nation today, as is necessary, to come together and accept the rigour of this collective effort, this will only be possible—remember that—if we are at the same time able to correct injustice, to demand more of those who have more and less of those who possess so little" (Mitterrand, 1982).

⁸⁶ The theme of 'our rigour is a rigour of the Left' is prominent in internal documents: multiple advisors (Jean Baptiste de Foucauld, François-Xavier Stasse, Christian Sautter) stressed that the government policy of *rigueur* is significantly different from right-wing austerity or Anglo-Saxon monetarism (Burlaud, 2011, pp. 105-6).

⁸⁷ Burlaud (2011, pp. 102-4) reproduces a note from a French Senator who reports back to Mitterrand from his weekend trip to the countryside: "The working-class base is personally little affected by the capital control

look at one of the internal documents drawing the distinction between “austerity” – right wing, regressive budget consolidation – and “rigour” – left wing, hard but socially just consolidation (Table 2).

measures [that limit the amount of foreign exchange that French citizens could obtain for tourism abroad].” He added, “Emotions are generally more subdued than one would suspect from reading the press. In reality, the discontent echoed in the press is largely that of journalists and higher professionals, for the following two reasons: they are all affected by the 1% tax surcharge and the mandatory 10%-of-income-tax-bill loan; and a very large number of them vacation abroad, and generally, of course, not in modest hotels or fourth-rate camping sites.” In the medium run, the political efficacy of these measures was more questionable. The parliamentary elections of 1986 saw the PS and PCF lose 54 and 9 seats respectively, while the *Front National* gained 35 and the mainstream right-wing opposition 139. Didier Eribon notably dates the rise of working-class support for the *Front National* to this period (Eribon, 2009).

Table 2. Internal comparison between “Thatcher” and the Mitterrand Government

THATCHER	NOUS [we]
Objectifs : baisse pvoir achat 4,5% / 2 ans (Belgique, All) [Goal: lower purchasing power by 4.5% over two years (Belgium, Germany)]	Maintien pvoir d'achat des pts revenus [maintain purchasing power of low incomes] Accords salariaux basés sur progression des salaires identique à l'objectif des prix (pas de rattrapage interne) [Salary negotiations based on wage increases in line with inflation target (no internal catch-up)]
Pas de limite au chômage [no limit to unemployment]	1 des 3 objectifs du Pdt (chiffres 82) [lowering unemployment one of the three goals of the President]
<u>Moyens</u> [tools] Pression sur les seuls salaires [pressure on wages alone]	Action sur les salaires et non salaires revenus travail et capital [action taken both on wages and non-wage incomes; both labour and capital]
Remise en cause des droits syndicaux et negoc collectives [questioning of union rights and collective bargaining]	Mise en œuvre des lois Auroux [implementation of the Auroux Laws] Concertation soc précédant débat parlementaire/ budget soc [discussions with unions and employers (the ‘social partners’) before parliamentary debate and social security budgets]
[baisse] avantages soc [cutting of social benefits]	
Economie budgétaire [budget cuts]	Maintien efforts correspondants et programmes [maintenance of corresponding spending and programmes]

Source: Burlaud (2011, p. 106). Based on handwritten note, no author given, likely Christian Sautter

As this document indicates, there were substantial differences between “Thatcher” and the French Socialists. But somewhat surprisingly—given the number of axes along which there were genuine policy differences—this difference was thinner in consequence than in intention: despite a number of measures aimed at shielding low incomes from austerity (hinted at in the top row of the table, and mentioned above), the shares of total

national income and total national wages going to the bottom half decreased, while that of the top decile increased.⁸⁸ Despite the goal of maintaining purchasing power and keeping salaries growing with prices (also top row), the wage share in GDP dropped by ten percentage points. Despite the goal of limiting unemployment (row two), it increased over the course of Mitterrand’s mandate, and in fact surpassed that of the UK in 1987. And despite the goal of applying austerity to both workers and capital, mirroring the decline of the labour share the GDP share of capital increased by ten percentage points (row three).

In other words, *despite* the significant amount of attention paid by the government, by both principals and advisors, to social justice, and despite considerable policy actions in that direction, reducing inequality proved to be incompatible with restoring external balance, boosting investment, and modernising the economy; i.e. with continued membership in a commercial federation. While the Mitterrand government managed, almost, to hold the line on inequality, allowing it to increase only slightly when it was increasing drastically in the US and UK, this forcefully shows the structural power of the mechanisms explored above, and the extent to which they constrain popular sovereignty over the division of labour. Speaking to the “Varieties of Capitalism” literature, this shows how a difference in “levels” – of inequality, commodification, and so on – can exist and persist between different states embedded in the same commercial federation, while the

⁸⁸ The total income of the top decile saw an increase from 30.7% in 1981 to 31.4% in 1986, wage income an increase from 26.0% to 26.4%. (Piketty, 2014, figure 8.1 and online appendix data). Both the bottom 50% and the middle 40% (top 50% minus top ten per cent) saw their shares stagnate, from 22.4% and 48.4% in 1981 to 21.9% and 47.4% respectively (*World Inequal. Database*, 2019).

same set of states, forced by the mechanisms outlined in this chapter, nevertheless move along a shared trajectory of change.⁸⁹

H. Conclusion

The French elections of 1981 were “a decisive act of political will” (P. A. Hall, 1986, p. 192). Presented with a candidate and a programme that vowed to break with capitalism, a majority of French citizens elected François Mitterrand as their President. A month later, this vote was confirmed by the election of a new parliament in which the *Parti Socialiste* won 58% of the seats, the *Parti Communiste Français* another nine per cent.

Between 1981 and 1983, however, Mitterrand and the French Left were foiled by an external economic constraint, experiencing the political parallel to a Kuhnian decisive experiment (Kuhn, 1962). After domestic obstacles were overcome, and a first step towards “overcoming, not reforming, capitalism” were taken, differential inflation and a deterioration in the balance of payments – after a stimulus that was by no means unusually large – quickly became the “priority of priorities:” existential problems that the government had to solve on pains of political perdition. Where the initial priority had been to boost growth and restore full employment, while at the same time “changing life” in a humanistic-socialist direction, political survival instincts quickly shifted the government’s

⁸⁹ Note that this argument, in virtue of the evidence on which it is based, applies only to countries of the capitalist core. It is unclear how, if at all, it applies to countries outside the core. Instead of moving along a shared trajectory, integration into the same commercial federation may, for peripheral countries, result in divergent change, for an overall pattern of combined but uneven development.

priorities toward reducing inflation, modernising the economy *with* business, not against it, and re-establishing external balance.

For all the leftward momentum that the government had coming in, its contact with the external constraint was resolved in a similar manner to how the right had resolved a corresponding episode in the mid-nineteen seventies.⁹⁰ And even though it came about as a response to the external constraint (and significant parts of the Left were well aware of the nature and functioning of the constraint),⁹¹ it prompted a wholesale economic paradigm shift: not just macroeconomic policy moved in a market-conforming and orthodox direction, but also financial regulation, labour market policy, wage and income policies, and the manner in which the recently nationalised firms were managed. The government's language, too, underwent a drastic change: "enterprise" was re-valorised, inflation was highlighted as a problem more urgent than unemployment, and talk about a "rupture with capitalism" was dropped.

To the question asked by Peter Hall: "can a change of party within the state itself alter the functioning of a capitalist economy?" (P. A. Hall, 1985, p. 81), the answer given

⁹⁰ In the mid-seventies, the French Right had had a comparable experience with the 1975 Chirac stimulus. That stimulus failed, also over the balance of payments, and resulted in Chirac being replaced by Barre in 1976, explicitly to perform a turn toward austerity similar to the one performed by Mitterrand and Mauroy in 1981-3 (Fonteneau & Gubian, 1985).

⁹¹ Pierre Mauroy in *L'express*, 8 April 1983: "Quite simply, a real left-wing policy can be applied in France only if the other European countries also follow policies of the left. [...]. If the French resign themselves to living with an inflation of 12%, then they should know that, because of our economic interdependence with Germany, we will be led into a situation of imbalance" (quoted in P. A. Hall, 1985, p. 87). The constraint was recognised in action as well as word: the details of the June 1982 austerity programme, drafted by Delors and Mauroy, were presented to the monetary committee of the EMS (i.e. to the finance ministers of its European partners) *before* they were presented to the rest of the French cabinet (Cameron, 1995, p. 132).

in this case study is hence: not unless it is willing to exit from, or able to change the terms of, the international division of labour. Not even the French Left in 1981, with its strong mandate, rigid coalition dynamics, and control of the powerful state apparatus of the Fifth Republic, could escape the constraints of commercial federalism. When integrated in an international division of labour that operates on capitalist terms, important policy changes are possible, and these changes have important effects on the day to day lives of citizens, as the final section of the chapter showed; but it becomes impossible to assert popular sovereignty over the division of labour while remaining a part of the international economy. Of course, commercial federalism itself is neither a fact of nature nor immovable once established – as World War I and the rise of anti-free-trade sentiment in the capitalist core today demonstrate – but for as long as it exists, it quietly drives a permanent capitalist revolution.

The next four chapters, part II of this dissertation, turn towards the medium- and long-run prospects of this permanent capitalist revolution. Against the pendulum metaphor, I argue that an ascendancy of capitalism is not necessarily self-reversing. Neither the gradual tendencies towards self-destruction discussed in Chapters 5-7, nor the possibility of revolution explored in Chapter 8, appear to necessitate a self-reversal. As a result, a renaissance of democracy cannot be predicted on the basis of an endogenous weakening of capitalism.

5. Against Self-Destruction

A Victory of Capitalism Over Democracy Is Not Necessarily Self-Reversing

A. Introduction

That capitalism will end is not controversial. As there was a time before, there will come a time after it. How, when, and why it will end – this is disputed, and rightly so.

This chapter and the following three assess a specific thesis on the how and why: what Albert Hirschman calls the “*self*-destruction thesis” (Hirschman, 1982, p. 1466, italics added). As the name advertises, this thesis holds that “capitalism as a socio-economic order carries within itself ‘the seed of its own destruction’” (Hirschman, 1982, p. 1467); that “there is inherent in the capitalist system a tendency toward self-destruction” (Schumpeter, 1942, p. 162); or, more graphically, that capitalism will end by “dying, as it were, from an overdose of itself” (Streeck, 2016, p. 65).

If this thesis were true, it would lend credence to the pendulum metaphor of the relationship between democracy and capitalism; for if capitalism, once risen to dominance, endogenously weakens itself, it would likely create space for a re-assertion of democracy.¹ If it is false, on the other hand, the simile of water and oil looks more plausible: if capitalism, once risen to dominance, does not tend to weaken itself, there is no reason to suspect that it will necessarily ‘re-mix’ with democracy.

¹ As mentioned above (footnote 111, p. 139), however, it is important to remember that a weakening of capitalism does not *necessitate* a renaissance of democracy. Rosa Luxemburg’s crossroad applies: barbarism may always follow.

The practical political consequences of the self-destruction thesis, too, have been (and continue to be) significant. Historically, it was this thesis that divided socialist revolutionaries like Luxemburg and Lenin or Engels and Marx from what we today would call social democrats, like Eduard Bernstein, Anthony Crosland or Gunnar Myrdal. A belief, or not, in the coming “catastrophe” (Bernstein) or “revolution” (Luxemburg, Lenin, Engels and Marx) was what, at heart, separated revolutionary from reformist movements.² A third reason to assess the self-destruction thesis is that, since the 2008 Financial Crisis, crisis theory has regained much of the credibility and prominence it had lost over the second half of the twentieth century. “There is a widespread sense today that capitalism is in critical condition, more so than at any time since the end of the Second World War” (Streeck, 2016, p. 47), and so “critical and indeed crisis-theoretical reflection on the prospects of capitalism and its society is again *en vogue*” (Streeck, 2016, p. 5, italics original).³ While not all crisis theory is committed to the self-destruction thesis – as I argue in the next chapter, repeated crises can contribute to the adaptability of capitalism – the

² Of course, the political question of the desirability of revolution is theoretically separable from the descriptive question of its likelihood. One can, in theory, maintain that capitalism’s (self-)destruction is unlikely but desirable, and hence advocate a revolutionary strategy even in the face of perceived low odds. Judging capitalism to be sustainable, or at least not self-destructive, need not, strictly speaking, entail a reformist stance. However, for those who believe in the Kantian “ought implies can” (and its inverse “cannot implies not ought to”), the normative-political question is not separable from the *possibility* of revolution. And because likelihood and possibility are not cleanly separable when it comes to large historical questions, the political attractiveness of revolution has always been linked to its perceived likelihood.

³ For recent instances of crisis-theoretical reflections on capitalism, see for example Wallerstein et al (2013), Streeck (2011, 2014b, 2014a, 2016), Fraser (2015), Calhoun, Toynbee, and Etzioni, each in Streeck et al. (2016), Hanappi (2018), or Fraser and Jaeggi (2018).

elective affinity between the two is strong, and with the resurgence of the former, the latter too has seen a renewal.

Given that the truth or falsity of the self-destruction thesis affects what metaphor best captures the relationship of capitalism and democracy; whether political practice should aim at revolution or not; and given that it engages with a recently reenergised debate, the next four chapters assess it in detail. The position defended is that the thesis is false. We do not know that capitalism is on a path to self-destruction.

B. Theories of capitalism: equilibrium, crisis, catastrophe, and death by a thousand cuts

Before moving on, it is useful to map out different versions of the self-destruction thesis. Like Marx⁴ and Schumpeter⁵ I view capitalism as a deeply dynamic system, “a permanent and continuous revolutionizing force” (Hobsbawm, 1994, p. 16). This renders it different from any preceding social order: it actively encourages change and innovation.⁶ From this

⁴ “The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society [...]. Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones” (Marx, 2000 [1848], p. 248).

⁵ “Capitalism [...] is by nature a form or method of economic change and not only never is but never can be stationary” (Schumpeter, 1942, p. 82).

⁶ Mokyr gives a powerful description of why a proclivity towards change is an historically unusual feature: “First, [in all social orders] there are the incumbents who fear a threat to the stream of rents generated by their physical capital, human capital, market power, or political influence. Innovation inevitably disrupt such rents. Second, there is the concern about broader repercussions: innovations have unintended ripple effects on a host of social and political variables that may generate additional costs and pain to people even if they themselves have no direct say over whether to adopt the innovation. And beyond that there is risk- and loss-aversion, the often well-founded fear that a new technique may have unanticipated and unknowable consequences. These three motives often merge and create powerful forces that use political power and persuasion to thwart innovations” (Mokyr, 2017, p. 1). The fact that capitalism not only tolerates but encourages innovation is therefore a distinctive and unusual feature.

follows, as has often been observed, a constant re-adjustment of relative prices, the destabilising of social roles, as well as spontaneous resistance against this process.⁷ It also follows that we can usefully group theories of capitalism according to their understanding of capitalism's dynamics.

Seen through this lens, the universe of theories of capitalism can be grouped into four partially nested sets: theories of equilibrium and theories of crisis, and within the latter, theories of catastrophe and theories of death by a thousand cuts.

The first maintain that “markets are fundamentally stable and will tend to move the economy toward equilibrium at the highest practicable rate of employment” (P. A. Hall, 1989, p. 6). The dynamic movement of capitalism is either seen to be stable, or—more credibly—as self-correcting. Canonical theorists in this tradition include Adam Smith (1976 [1776]), Jean-Baptiste Say (1855 [1803]), Friedrich von Hayek (1941), Milton Friedman (1962), and Alan Greenspan (2007). While these theories contain much that is valuable, particularly concerning the epistemological and efficiency properties of market systems (e.g. Arrow & Debreu, 1954; Hayek, 1945) as well as about the equilibrium tendencies of individual markets under particular circumstances, both the historical record⁸

⁷ See Karl Polanyi, *The Great Transformation*: “While laissez-faire economy [sic] was the product of deliberate State action, subsequent restrictions on laissez-faire started in a spontaneous way. Laissez-faire was planned; planning was not” (K. Polanyi, 1944, p. 145). “In human terms [a labour market] implied for the worker extreme instability of earnings, utter absence of professional standards, abject readiness to be shoved and pushed about indiscriminately, complete dependence on the whims of the market” (K. Polanyi, 1944, p. 185).

⁸ The most obvious historical grounds on which to reject equilibrium theories of capitalism are the long series of economic crises that riddle the history of capitalism (e.g. Kindleberger, 1978; Reinhart & Rogoff, 2009), of which the Great Depression after 1929 and the Financial Crisis of 2008 (together with the Great Recession that followed in its wake) are the most prominent examples. In addition, Robert Gordon makes a strong case that the United States would not have returned to trend growth in the absence of World War II

and the works of Marx (1992 [1867]), Keynes (1936) and Polanyi (1944), among others, suggest that a view of capitalism as self-correcting and equilibrium-seeking is at best profoundly incomplete.

This brings us to the second set: theories of crisis. While different crisis theories disagree about the mechanisms and consequences of crises, they agree that the dynamics of capitalism endogenously bring about recurrent crises – whether financial crises, crises of unemployment and overproduction, administrative and legitimation crises, or yet other forms of crisis – and that these crises are not self-correcting. The vast majority of theories of capitalism fall into this set.⁹

Given the volume and variety of crisis theories, it is useful to distinguish further. Crisis theories can be divided into those that merely theorise capitalism as a crisis-prone system, exhibiting a cyclical pattern of crisis and response (e.g. De Grauwe, 2017; Minsky, 1986), and those that argue that capitalism is not just crisis-prone but self-destructive, i.e. that capitalism follows a pathway that, however cyclical it may appear at times, ultimately

(Gordon, 2016, Chapter 16), while others show that cyclical deviations in general, whether busts (Blanchard et al., 2015) or booms (Girardi et al., 2018), have lasting effects of the level of output. The case against equilibrium theory thus rests on two strong foundations: crises occur endogenously (on this, and on financial crises especially, see Minsky 1977, 1986; Geanakoplos 2009; Shiller 2016, see also footnote 59, p. 283 below), and in the absence of policy interventions full self-correction does not happen.

⁹ A sample, in chronological order: Marx and Engels (1848) *Communist Manifesto*, Marx (1992 [1867]) *Capital Vol. 1*, Rosa Luxemburg (2003) *The Accumulation of Capital*, Lenin (1934) *Imperialism, the Highest Stage of Capitalism*, John Maynard Keynes (1936) *The General Theory of Employment, Interest, and Money*, Joseph Schumpeter (1942) *Capitalism, Socialism and Democracy*, Karl Polanyi (1944) *The Great Transformation*, Jürgen Habermas (1975) *Legitimation Crisis*, Hyman Minsky (1986) *Stabilising an Unstable Economy*, Giovanni Arrighi (2010) *The Long Twentieth Century*, Nancy Fraser (2013) *Fortunes of Feminism*, Wolfgang Streeck (2014a, 2016) *Buying Time and How will Capitalism End?*, and Fraser and Jaeggi (2018) *Capitalism*, to name but the most prominent.

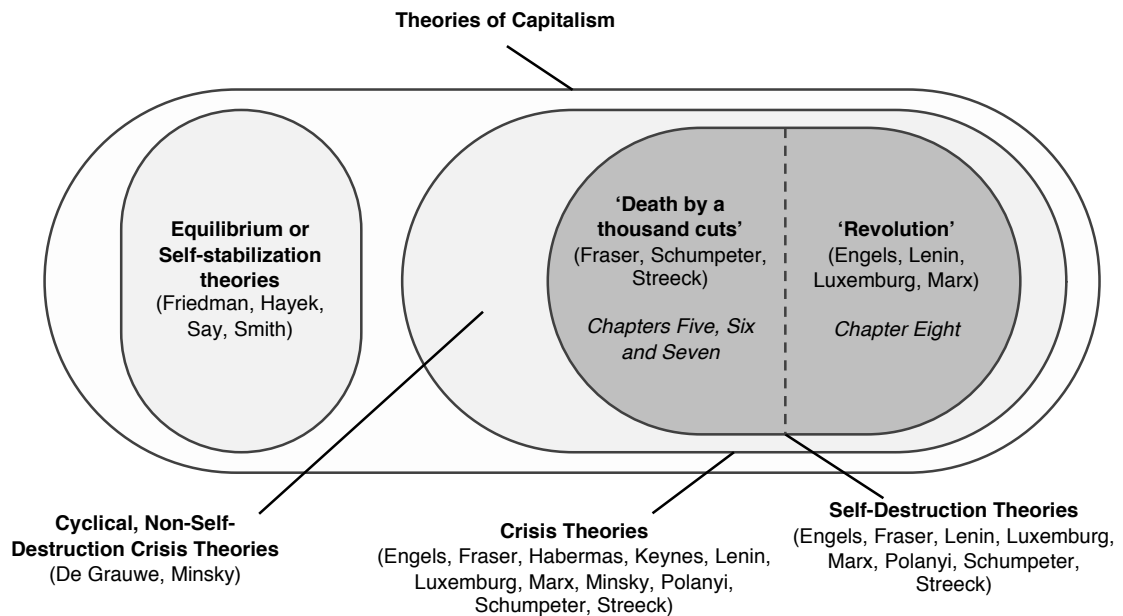
points beyond itself (e.g. Marx, Polanyi, Streeck). It is the latter that this chapter and the next three criticise, and the former that I ultimately endorse.

A final distinction applies between two sub-sets of self-destruction crisis theories: theories of catastrophe and theories of death by a thousand cuts. Both of these see capitalism as an inherently self-destructive system, a socio-economic order that carries within it the seeds of its own destruction; but where the former¹⁰ argue that capitalism is likely to end with a revolution, a catastrophe or a rupture, the latter¹¹ expect capitalism's self-destruction to be a gradual process of decay, a death by a thousand cuts. The next three chapters covers the latter, and in doing so prepare much of the ground for tackling the former, to which I turn in Chapter 8.

¹⁰ Theorists of rupture include Marx and Engels, Rosa Luxemburg, and Lenin.

¹¹ The strongest versions of death by a thousand cuts have been formulated by Joseph Schumpeter (1942) and recently by Wolfgang Streeck (2016).

Figure 3. Theories of capitalism



Source: author

C. Death by a thousand cuts: Streeck’s theory of capitalism’s self-destruction

To argue against the gradualist version, I critique the most sophisticated recent version of that thesis, put forward by Wolfgang Streeck (2011, 2014a, 2016). His theory provides a useful foil against which to argue the general case: instead of identifying a single decisive mechanism, his account is one of multi-morbidity,¹² where five¹³ to ten¹⁴ different

¹² “Moreover, rather than picking one of the various scenarios of the crisis and privilege it over the others, I suggest that they all, or most of them, may be aggregated into a diagnosis of *multi-morbidity* in which different disorders coexist and, more often than not, reinforce each other. [...]. The end of capitalism can then be imagined as a death from a thousand cuts, or from a multiplicity of infirmities each of which will be all the more untreatable as all will demand treatment at the same time” (Streeck, 2016, p. 13, italics original).

¹³ In Chapter 1, Streeck identifies “five systemic disorders of today’s advanced capitalism [...]. Stagnation, oligarchic redistribution, the plundering of the public domain, corruption, and global anarchy” (Streeck, 2016, p. 65).

¹⁴ In the introduction, Streeck identifies ten disorders: 1. Declining growth that intensifies distributional conflict. 2. Rising inequality. 3. Vanishing macroeconomic manageability. 4. The suspension of “post-war’s

developments collectively contribute to the gradual self-destruction of capitalism. In arguing against Streeck, I can therefore argue against most of the mechanisms put forward by other proponents of the gradual self-destruction thesis, such as Wallerstein (2013) or Collins (2013), as well as discussing some of the mechanisms and processes that will be reprised in the discussion of capitalism and revolutions.

The comprehensiveness of Streeck's theory makes it a challenge to keep discussion to an appropriate length and clarity. In order to address this, I distil two overarching claims, which I discuss in succession over this chapter and the following two. First is the claim that we are witnessing, and will continue to witness, a malfunction within capitalism's 'engine room:' growth, inequality, and debt are all moving in the wrong direction, Streeck claims. This affects, the first claim continues, both the *material functioning* of capitalism, as the three trends together deprive policy makers of the tools habitually used to address each of the trends individually, and undermines its *political legitimacy*, as promises of "steady growth, sound money, and a modicum of social equity" ring increasingly hollow (Streeck, 2016, p. 47). To evaluate this claim, I will first discuss the three trends (of growth, inequality, and debt) and their impact on the material functioning and political legitimacy of capitalism, one by one. This is the subject for the remainder of this chapter. In the following chapter, observing that Streeck argues their conjunction to be fatal for capitalism,

engine of social progress, democracy" (Streeck, 2016, p. 15). 5. The associated rise of oligarchic rule. 6. The inability to limit the commodification of labour, land, and money. 7. Corruption of all sorts, as a result of intensified, winner-takes-all competition. 8. The erosion of public infrastructure due to commodification and privatisation. 9. The failure of the US to build a stable global order after 1989. 10. As a result of the previous, and other, trends: widespread cynicism, so that support for capitalism rests on collective resignation, which Streeck sees as an unstable foundation.

and not the individual trends per se, I then discuss what “the sum of the malfunctions” may look like, and what the likely consequences thereof would be.

In the chapter that follows, I turn to the second overarching claim that I distil from Streeck’s theory. This claim concerns the relationship between the ‘engine room’ and the rest of society, and is advanced by both Streeck and Nancy Fraser (2015). Capitalism, in defeating the forces that seek to limit it, has won a Pyrrhic victory, both argue: deprived by this victory of countervailing influences, capitalism “is left to its own devices, which do not include self-restraint” (Streeck, 2016, p. 65). As a result, it will destroy the monetary system, the natural environment, and the political exoskeleton on whose functioning it depends, ruining its own substrate and so itself (Streeck, 2016, pp. 61–65).

I argue that, for both of the overarching claims, the premise is correct but the conclusion does not follow. Foreshadowing the final chapter of my argument against self-destruction, Chapter 8, I want to point out that the mechanisms that stand in the way of gradual self-destruction work unevenly and often slowly: while they invalidate any prediction of “a continuous process of gradual decay, protracted but apparently all the more inexorable” (Streeck, 2016, p. 50), they leave open the possibility of crises or critical junctures that could, given a particular alignment of circumstances, become revolutionary moments.¹⁵ The argument advanced in the next three chapters is hence not that the gradual

¹⁵ They also leave open the possibility of conflagration through policy error. To pick just one example, a financial sector consisting of profit-maximising, privately-owned, competing firms will periodically cause financial crises (see footnote 60, at p. 281 below). In any one of these crises, it is possible that central bankers and government officials fail to provide emergency liquidity to banks in danger of going under, even though it is well known that this is a recipe for disaster likely to worsen the crisis (M. Friedman & Schwartz, 1963). See for example the first-round failure by the United States Congress to pass bank rescue legislation in September 2008 (Tooze, 2018, Chapter 7, esp. pp. 182–4). However, this kind of contingent, even unlikely

trends discussed will never lead to the self-destruction of capitalism; but rather that, if they are to do so, it must be in combination with a revolutionary agent. This combination, however, I then argue in Chapter 8, is unlikely to materialise in the material and ideological circumstances of the twenty-first century.

D. Malfunctioning in the engine room?

Let us begin, then, with the critique of the gradual self-destruction thesis. The heart of Streeck's theory is what I call a "malfunctioning in the economic engine room" of capitalism. Streeck charges that capitalism will fail because falling growth, rising debt, and increasing inequality undermine both the *material functioning* of capitalism, as the three trends together deprive policy makers of the tools habitually used to address each of the trends individually;¹⁶ and because these trends undermine capitalism's *political legitimacy*, as promises of "steady growth, sound money, and a modicum of social equity" ring increasingly hollow.

I show that these three trends, while real, do not necessarily imply ever-worsening crises, nor an inexorable breakdown in capitalism's material functioning or legitimacy.

cause of rupture is very different from the "protracted but apparently all the more inexorable" gradual self-destruction process that Streeck argues for. In its contingency, it does not have the same implications for our intellectual agenda as an allegedly inexorable process of gradual decline and self-destruction, nor does it similarly affect which metaphor best captures the relationship between capitalism and democracy.

¹⁶ Where growth slacks off, for example, an increase in debt may be a (short term) solution. Conversely, to reduce debt (relative to GDP), a policy of boosting growth may be useful, which may also be a good option for either reducing or at least cushioning inequality. But where debt levels are already high, further debt becomes unavailable as an instrument for boosting growth. And where growth rates have permanently fallen for structural reasons, growth-policy will not be available as an instrument for making debt more manageable or inequality more bearable (see Streeck, 2016, pp. 47–48).

Of the three specific failings identified by Streeck, the *prima facie* most severe is the widespread decline in growth rates across advanced capitalist economies. The existence of this trend is beyond dispute (Gordon, 2018): in the United States, labour productivity growth, the only sustainable source of long term growth in per capita prosperity, has fallen from around three per cent per year (1950-1970) to one per cent (2006-16) (Gordon, 2018, p. 8, table 5).¹⁷ While predicting future economic growth is notoriously difficult, Gordon (2016) makes a compelling case that this trend is unlikely to reverse in the near future. Both the nature of technological change (Gordon, 2016, Chapter 17), and especially the “four headwinds” of demography, education, inequality, and government debt (Gordon, 2016, Chapter 18) make it unlikely that future growth will return to the customary three per cent of the Golden Age of post-War capitalism.

Streeck is right, then, in identifying a decline in growth as one of the central trends of contemporary capitalism. Nevertheless, falling economic growth does not directly threaten the functioning of the economic system. There is nothing inherently self-destructive about an economy that grows at one per cent per year per capita, rather than two or three. Any of these growth rates could continue in perpetuity.¹⁸ Indeed, from both

¹⁷ The trends for Western Europe (EU-15) and developed East Asia (Hong Kong, Singapore, South Korea, Taiwan and Japan) are even more striking. In Western Europe, labour productivity growth has fallen from around five per cent per year (1950-70) to one per cent; in developed East Asia, from seven to one per cent (Gordon, 2018, p. 8, table 5).

¹⁸ As explained further below, however, zero growth in the context of positive savings rates (i.e. continual capital accumulation) *does* lead to a problem for the operation of capitalism, forcing a choice between either the immiseration of the working class, or the euthanasia of the rentier. However, as long as growth remains positive (for a strong case that this will be so, see Mokyr, 2018) and the savings rate declines until it only covers depreciation, this choice can be avoided. See pp. 260-262 below.

an environmental and global justice perspective lower growth in advanced capitalist countries may well be a benign trend. Slowing growth in the advanced capitalist economies reduces overall emissions and resource usage growth, and hence creates more space for developing economies to grow within existing resource and emission constraints (Llavador, Roemer, & Silvestre, 2015).

Falling growth does, however, lead to two kinds of downstream problems: first, it increases the weight of the past: debt and inequality both become more serious problems in the context of lower than expected growth.¹⁹ Second, it increases distributional acrimony: “Low growth will refuse them [“capitalists and their retainers”] additional resources with which to settle distributional conflicts and pacify discontent” (Streeck, 2016, p. 67). It is to these two problems, inequality and debt, that we must therefore turn next.

E. Inequality is not an existential threat to capitalism

Capitalism tends to generate high levels of inequality. This tendency is congenital (Piketty, 2014). The extent to which it is an existential threat to capitalism, however, as opposed to a normative problem for those living under it, is questionable: economically, the consequences of rising inequality are negative (Cingano, 2014; Dabla-Norris, Kochhar, Suphaphiphat, Ricka, & Tsounta, 2015), but do not appear fatal on their own.²⁰ Indeed,

¹⁹ Debt, because it is easier to repay fixed obligations from a growing income stream. Inequality, because growth reduces the relative importance of (always more unequally distributed) wealth relative to (always more equally distributed, relative to wealth) income (Piketty, 2014, Chapter 11).

²⁰ Rising inequality shifts income from households with high marginal propensities to consume (MPC) to households with lower MPCs, thereby reducing aggregate demand and increasing the likelihood of financial

Citibank analysts, in two particularly revealing memoranda geared to identify how investors could profit from the “rise of the plutocracy,” assured their readers that “[s]o long as economies continue to grow, [...] there is little threat to Plutonomy in the U.S., U.K., etc” (Kapur, Macleod, & Singh, 2005, p. 25). Further, high inequality has been the historical norm, both for capitalism (Piketty, 2014, Chapters 7-10) and for its predecessors (Scheidel, 2017). As a broadly constant background factor, inequality, while weakening aggregate demand and amplifying capitalism’s tendency towards financial crises, is therefore an unlikely candidate, on its own, for economic self-destruction.

Moving from inequality’s effect on economic functioning to its effect on social legitimation, here the question as to whether rising inequality poses an existential threat is more open. On the one hand, since the social legitimation of markets rests on the concept of meritocracy²¹ and widespread prosperity²² more so than on an equality of outcomes, rising inequality is not obviously a threat to the central narratives in support of capitalism,

bubbles. Until new sources of aggregate demand are brought into play and financial regulation is updated to prevent and respond to financial crises, rising inequality thus weakens the economic engine of capitalism. Nevertheless, this weakening is likely to remain transitional, not secular: the shortfall in aggregate demand can be replaced from other sources—at the limit via helicopter money or monetarily financed fiscal deficits—while financial crises, as discussed below, appear to have a cyclical character without a secular trend towards ever greater severity.

²¹ E.g. “Our democratic societies rest on a meritocratic worldview, or at any rate a meritocratic hope, by which I mean a belief in a society in which inequality is based more on merit and effort than on kinship and rent” (Piketty, 2014, p. 422). See also Myrdal (1944, Chapter 1), giving a comprehensive account of the “American Creed,” centred on the belief that “all men are created equal,” and that this implies both liberty and equality of opportunity.

²² “There are no doubt some things available to the modern workman that Louis XIV himself would have been delighted to have yet was unable to have—modern dentistry for instance. [...]. On the whole, however, a budget on that level had little that really mattered to gain from capitalist achievement. [...]. Queen Elizabeth owned silk stockings. The capitalist achievement does not consist in providing more silk stockings for queens but in bringing them within the reach of factory girls” (Schumpeter, 1942, p. 67).

at least as long as meritocracy and widespread prosperity are preserved. On the other hand, rising inequality casts a shadow over both of these essential narratives of justification. Regarding the widespread-prosperity narrative, rising inequality arithmetically places a wedge between average economic growth and the income growth of those at the losing end of rising inequality. This directly undermines the widespread-prosperity narrative, especially where significant overall economic growth coexists with stagnation or even decline in living standards for the majority of the population.²³ Regarding the meritocracy narrative, while there is no necessary connection between inequality and meritocracy, it stands to reason that rising inequality may reduce intergenerational mobility, in particular by increasing both the incentives and the means for upper class households to preserve their rank into the next generation. In order to understanding inequality's likely effect on the future of capitalism, we must therefore come to a clearer assessment regarding its impact on social legitimation.²⁴

F. The basic operation of capitalism gives a minimum of credence to the meritocracy narrative

Before diving into the decisive mechanisms and attempting to extrapolate them forward, it is helpful to survey extant knowledge on links between inequality and meritocracy.

²³ Consider the American case: between 1980 and 2014, the income of the top one per cent of adults grew by 204% (pre-tax), or 194% (post-tax). The income of the bottom 50% grew by one per cent (pre-tax; this refers to the total growth over the period, not annual growth) or twenty-one per cent (post-tax). Rising inequality in market income thus meant that, while national income grew by over 60% (and top incomes doubled) between 1980 and 2014, the market income of half the population did not grow at all—for 34 years (Piketty et al., 2018, p. 578, table II).

²⁴ See also the discussion of the “Argument from prosperity” in section G of Chapter 2 above, pp. 109-117.

First, at the international level there is strong evidence of a negative correlation between intergenerational mobility and inequality: countries with high inequality have low mobility, and countries with low inequality have high mobility (Corak, 2013, fig. 1, 82). A similar correlation holds at the sub-national level: “areas [within the United States] with more inequality as measured by Gini coefficients have less mobility, consistent with the “Great Gatsby curve” documented across countries” (Chetty, Hendren, Kline, & Saez, 2014, p. 3). Given that parental income either allows or does not allow for private schooling, additional tutoring, enrichment activities, and so on; given that higher-income parents are more likely to be married, hence providing a family environment more likely to be beneficial to child development; and given that income/wealth and social capital and standing tend to correlate, giving the children of richer parents access to wider social networks and hence professional opportunities, this correlation between high inequality and low intergenerational mobility is likely to remain robust going forward. A rise in inequality may therefore undermine the social legitimation of capitalism by reducing intergenerational mobility, and hence the credibility of the meritocracy-based narrative in support of capitalism.

And yet, despite the significant increase in income and wealth inequality in the United States since the nineteen seventies, intergenerational mobility, as measured by the correlation between parents’ and children’s position in the income distribution, has remained stable (Chetty, Hendren, Kline, Saez, & Turner, 2014).²⁵ In other words, at the

²⁵ The *consequences* of America’s (stable, but relatively low) intergenerational mobility have increased, however. Because of rising inequality, “the consequences of the “birth lottery” – the parents to whom a child is born – are larger today than in the past. A useful visual analogy is to envision the income distribution as a

within-country level, the correlation between inequality and mobility has not held over time: rising inequality has not led to lower intergenerational mobility in the United States. Further, and somewhat curiously, at the level of subjective beliefs rather than material outcomes, it appears to be the case that higher inequality at the local level leads to stronger, not weaker, belief in the existence of meritocracy (Solt, Hu, Hudson, Song, & Yu, 2016).²⁶

In the American case, then, rises in inequality (on their own) have not (yet) undermined the central, meritocracy-based narrative in support of capitalism. Materially, the level of intergenerational mobility has not (yet) fallen since the nineteen seventies, although—due to higher inequality—the consequences of the birth lottery have become greater; and even if higher inequality were to undermine intergenerational mobility in the future, it is by no means obvious that it would also undermine the belief in the existence of meritocracy.

What about likely future scenarios though? It may well be the case, for example, that the recent increase in inequality in the US has been so sudden and stark, taking place over little more than a generation, that its full effect on intergenerational mobility has yet to strike. Here too, however, there are good reasons to believe that high or rising inequality

ladder, with each percentile representing a different rung. The rungs of the ladder have grown further apart (inequality has increased), but children's chances of climbing from lower to higher rungs have not changed (rank-based mobility has remained stable)" (Chetty, Hendren, Kline, Saez, et al., 2014, p. 1).

²⁶ Their measure for the belief in the existence of meritocracy is agreement with the proposition "Most people who want to get ahead can make it if they're willing to work hard." This is not a perfect proxy for meritocracy—it does not capture the idea that reward should be *proportional* to merit, not just that there should be *some* reward to merit, and it reduces merit to effort—but the result is nevertheless striking. The explanation they offer for this counter-intuitive result is a psychological mechanism known as the "just world hypothesis," the desire to believe that the world is just, that people in general get what they deserve (for the canonical statement of the "just world hypothesis" mechanism, see Lerner (1980)).

will not prove fatal to the continued existence of capitalism. In general, the extent to which meritocracy is undermined by inequality is limited by the following dynamic: under the pressure of competition, profit-maximizing firms are unwilling to pay high salaries or give important positions to, for example, unproductive children of oligarchs, as this represents an expense that encumbers them vis-à-vis competing firms. Small and young firms in particular, under the pressure of liquidity- and/or solvency-constraints, will prefer to hire workers on the basis of expected productivity only. They will also likely seek out productive workers who, because of class, ethnic, gender, religious, political or other prejudices, are deliberately overlooked by established firms, in order to gain a competitive advantage. In addition, there is “this fact so very much admired by the economic apologists, that a man without wealth but with energy, determination, ability and business acumen can transform himself into a capitalist,” through borrowing on capital markets. This mechanism, “much as it constantly drives an unwelcome series of new soldiers of fortune onto the field alongside and against the various individual capitalists already present, actually reinforces the rule of capital itself, widens its basis and enables it to recruit ever new forces from the lower strata of society” (Marx, 1991 [1894], p. 735). In this manner, capitalism, as long as it remains competitive,²⁷ places an upper limit on the extent to which inequality undercuts the opportunity for (a small number) of poor to become wealthy.

²⁷ Monopolisation undercuts especially the first mechanism: where firms have significant rents at their disposal, they are free to hire the lazy or unskilled children of the oligarchy without running the risk of losing market share to competitors. However, I have yet to be convinced that Schumpeter’s response to capitalism’s tendency towards monopoly is false: high monopoly profits provide an inherent incentive for entrepreneurs to invent new products or services to compete in precisely those sectors. “In capitalist reality as distinguished from its textbook picture, it is not that kind of competition that counts [competition between firms using similar technologies and offering similar products] but the competition from the new commodity, the new

The “erosion of meritocracy” pathway, while *prima facie* a credible way in which rising inequality undermines the social legitimacy of capitalism, thus looks likely to continue to lie dormant in the future.²⁸

G. The widespread-prosperity narrative may regain credibility if “Piketty’s Pause” ends

This brings us to the second pathway, which – in a nod to Marx – we may call the “absolute deprivation” or wedge pathway: rising inequality drives a wedge between overall growth and the income growth of those whose share of total income is falling. At the limit, the rise in inequality may balance out or even overpower overall growth, so that even while the economy is growing as a whole, the incomes of many may stagnate or even fall.²⁹ This

technology, the new source of supply, the new type of organization [...] – competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives” (Schumpeter, 1942, p. 84). Concerning the current examples usually mentioned in support of ‘ossification through monopoly’ – Google, Amazon, Facebook, and (to a lesser extent) Apple – network effects and their ability to spot future competitors early may push monopoly concentration higher in this cycle than in previous ones. Nevertheless, these too look vulnerable to Schumpeterian competition: Snap, Inc. has rejected multiple purchasing offers from Facebook, whose user engagement numbers have recently started dropping (Wortham, 2013). Google’s core business – advertisement revenue linked to its search function – is under threat from at least three sources: wide-spread adblockers, including those integrated by Apple into iOS, Amazon’s in-house search function, and the shift of advertisers to newsfeed advertisement, e.g. in Twitter, Facebook, or Instagram feeds. I have no doubt that, in the fullness of time, the gales of creative destruction will wear down even these titans – if they have not been felled by competition authorities before then.

²⁸ In this context it is worth pointing out that a widespread belief in meritocracy has traditionally reduced support for anti-market intervention (esp. tax-led redistribution and nationalisation) in the US. On at least one account, socialism never established itself as a major political force in the US because of a pervasive belief in meritocracy (Davis, 1986). For more recent evidence, see Manza and Brooks (2014, p. 1): “Greater belief in the American Dream is associated with significantly lower support for taxes and equality.”

²⁹ Real incomes have in fact fallen, notably both pre-tax and post-tax, for the bottom five per cent of Americans between 1980 and 2010 (Leonhardt & Quealy, 2014). See also footnote 23 above.

renders a second narrative in support of capitalism—that it leads to widely shared prosperity, even if that prosperity is not equally distributed—less and less credible.

The extent to which the widespread prosperity narrative is undermined depends on three factors: expected income growth, average income growth, and the increase in inequality. The combination of the latter two determines actual income growth for each group of the population, while the concordance (or not) between actual and expected growth determines disappointment or contentment.

What are the chances for significant further increases in inequality? To the extent that the rise in inequality since the nineteen seventies is a reversal of the ‘Great Compression’ from the nineteen teens to the nineteen forties (Scheidel, 2017), it looks like the majority of the rise in inequality may have played itself out. In the American case, the income (though not yet wealth) share of the top one per cent has nearly regained its previous peak of 1928/9 (Piketty, Saez, & Zucman, 2018).³⁰ In the European cases, the incomes and wealth shares of the top one per cent remain below their late nineteenth century, early twentieth century peaks, though the top ten per cent income shares have in some cases reached (Germany) or exceeded (UK) them (World Inequality Database, 2018a, 2018b). If the rise of inequality stops at its previous peaks, the wedge mechanism will soon have run its course, and future growth, even if lower across the board, may once again be more evenly distributed. In that case, the last fifty years may in retrospect become

³⁰ The income share of the top one per cent peaked at twenty-one per cent in 1928, the wealth share at 48% in 1929. In 2014, the most recent year for which reliable data is available, the top one per cent had an income share of twenty per cent and a wealth share of 39%.

known as “Piketty’s Pause,” in analogy to what economic historians today call “Engel’s Pause” (the stagnation of real wages in early nineteenth century Britain, Allen, 2009).

There are at least two factors, however, that may push inequality in the twenty-first century beyond its nineteenth- and twentieth century peaks: *capital accumulation* in the presence of slower growth, and *technological change*.

The first points at a tension that lies at the very heart of capitalism, and arguably corresponds to the dynamic that Marx sought to capture in “the tendency of the rate of profit to fall.” This tension is the following: capital’s share in national income is the total amount of capital (measured as per cent of GDP) times the (real) rate of return on capital.³¹ If the total amount of capital keeps growing – and *prima facie*, this is the natural tendency of a system geared towards capital accumulation – then either capital receives an ever-larger share of national income, or the rate of return on capital must fall.³² This is not a prediction; it is an accounting identity, as binding as a law of nature.

Neither outcome bodes well for capitalism’s future: the first implies precisely the kind of radical inequality or immiseration that may well lead to revolution, even without a sophisticated account of agency and the overcoming of collective action problems. The second directly implies a falling rate of profit, a “euthanasia of the rentier” (Keynes, 1936, p. 375; see also Chapter 24, section II). Besides going against the interests of capitalists,

³¹ Formally, $\alpha = \beta \times r$, where α is the capital share of national income, β is the size of national wealth (measured as per cent of GDP), and r is the real rate of return on capital (Piketty, 2014, p. 52).

³² Given the accounting identity of footnote 31 above, if β rises, i.e. the pile of capital (relative to GDP) grows taller, then either r must fall – tending to the euthanasia of the rentier –, or α must rise – tending to the immiseration of all non-capitalists –, or some combination of the two must occur.

this outcome would gradually shut down the economic engine of capitalism: without profit, profit-seeking entrepreneurs will see little incentive to invest. As capital keeps growing, it therefore forces a thorny choice: either unbearable inequality, with predictable political consequences, or the gradual eradication of profit, i.e. the destruction of capital by capital. Although Streeck does not explicitly identify this particular tendency, this is precisely the kind of gradual dynamic that, if steadily proceeding, can reasonably be expected to lead to the self-destruction of capitalism.

Recall that this tension is predicated on the size of capital relative to GDP. The thorny choice just described must only be faced if the pile of capital keeps growing taller. Where the amount of capital relative to GDP remains constant (say at 600% of GDP) a stable capital-labour split (say 30-70) could coexist with a stable rate of return (say five per cent), and the thorny choice can be avoided. Given a constant capital-to-GDP ratio, neither workers' immiseration nor the euthanasia of the rentier need come to pass.

What, then, drives the size of capital relative to GDP? The answer is: the relationship between the average savings rate (the higher savings, the higher the total amount of capital) and the total growth rate. Over the long run, the size of capital relative to GDP approaches the former divided by the latter.³³ A savings rate of ten per cent and a growth rate of two per cent, for example, imply total capital in the amount of 500% of GDP (Piketty, 2014, pp. 166–170).

³³ Formally, $\beta = s / g$, where s is the savings rate (net of depreciation) and g is the total growth rate, i.e. the sum of demographic growth and growth in per capita income (Piketty, 2014, p. 166).

This brings us face to face with the important truth contained in the assertion that capitalism requires eternal growth: where the growth rate tends towards zero, even a small but positive savings rate implies a permanently growing pile of capital, reaching towards infinity. This forces the thorny choice described above and renders the end of capitalism a question of when, not if. In other words, *where growth durably falls to zero, while (net) savings rates stay positive, capitalism is on a path to self-destruction.*

Once again, however, empirically speaking this possibility seems remote: even the most pessimistic forecasts of growth, those given by Robert Gordon, give a per capita growth rate of close to one per cent (Gordon, 2016, pp. 635–637), precluding a spiralling towards an infinitely large amount of capital relative to GDP. At the same time, the savings rate has fallen across the advanced capitalist countries, so that even as the denominator (growth) has fallen, the numerator has fallen as well, offsetting the resultant rise in the capital-to-GDP ratio.³⁴ And indeed, in his projections of the size of total capital, Piketty gives only a limited increase, from around 450% of GDP today to around 650% by 2100 (Piketty, 2014, p. 196, figure 5.8.). While this will put further pressure on either the labour share of total income or on the rate of return to capital (or both), it will not take us into unknown waters: capital in late nineteenth-, early twentieth century Britain, France, and Germany hovered around 650-700% of GDP (Piketty, 2014, p. 147, figure 4.5.),

³⁴ Savings rates across advanced industrial countries have fallen from ten to fifteen per cent in 1870 to five to ten per cent between the two World Wars; they jumped up again during post-WWII reconstruction, to ten to twenty per cent, but then came down again in a steady decline to between zero and ten per cent by 2010 (Piketty & Zucman, 2014, online chartbook, chart A97).

without thereby eradicating profit or precluding real income growth for the mass of the population.³⁵

While growing capital accumulation may hence further increase inequality in the twenty-first century, in particular due to lower growth rates leading to a larger amount of total capital relative to GDP, it seems unlikely that the increase in inequality will be so extreme as to be existentially threatening to capitalism.³⁶

If growing capital accumulation is unlikely to either sabotage the economic operation of capitalism or bring inequality to such an extreme as to make revolution predictable even in the absence of agent analysis, what about *technological change*? This topic has occupied much recent attention, in particular with regards to automation and artificial intelligence (Acemoglu & Restrepo, 2017; Autor, 2014, 2015; Brynjolfsson & McAfee, 2014; e.g. Collins, 2013; Cowen, 2013; Ford, 2015; Mason, 2015). Pointing towards the growing importance of machines and automation (both in manufacturing proper and in cognitive work), many of these authors observe for the recent past, and predict into the future, a polarisation of labour markets: Cowen expects a “hyper-meritocracy” to emerge,

³⁵ There is a lively debate around the evolution of real wages in nineteenth century Britain, in particular between Gregory Clark (2007) and Robert Allen (2007, 2009). However, even the pessimistic view advanced by Allen acknowledges that, after the middle of the nineteenth century, real wages started rising (Allen, 2009, p. 419, figure 1). On the measurement of wages prior to the mid-nineteenth century, see also Hatcher and Stephenson (2018).

³⁶ Indeed, Piketty himself is agnostic about the extent to which wealth inequality in the twenty-first century will reach or exceed that of the late nineteenth-, early twentieth century: “If theoretical simulations are to be believed, the concentration of wealth, even if taxes on capital are abolished, would not necessarily return to the extreme level of 1900-1910” (Piketty 2014, p. 375).

in which the wages of many will stagnate³⁷ or even fall,³⁸ while those at the top continue to rise.³⁹ Acemoglu and Restrepo find “large and robust negative effects of robots on employment and wages” (Acemoglu & Restrepo, 2017, p. 36).

Collins, Brynjolfsson and McAfee, and Ford advance an even more ambitious argument: the kind of technological progress that we are seeing today (again focusing on the growing importance of automation) will, in their eyes, soon lead to a social and economic transformation comparable to that of the industrial revolution. Just as Cowen, they “wish that progress in digital technologies were a rising tide that lifted all boats equally in all areas, but it’s not” (Brynjolfsson & McAfee, 2014, p. 166). As a result, Collins and Ford both expect that technological change will lead to the end of capitalism, because it will lead to very high unemployment (of the order of 50%) not just among unskilled workers, but among the educated middle classes that hitherto were the bulwark and foundation of capitalism’s social and economic order.

The underlying economic mechanisms on which these authors focus are two marginality conditions: first, in many areas of information technology, the marginal cost of production is extremely close to zero (see especially Mason, 2015). This greatly reduces the need for production workers, and greatly increases the economic returns to those few

³⁷ Indeed, “About three-quarters of the jobs created in the United States since the recession pay \$13.52 an hour or less” (Cowen, 2013, p. 1).

³⁸ “Median income in 2011 was more than 8 percent lower than in 2007 and indeed median household income peaked in 1999” (Cowen, 2013, p. 38).

³⁹ Again, this tails with recent experience: “the top 1% captured 95% of the income gains in the first three years of the recovery [2009-2012]” (Saez, 2013, p. 1). Having said this, median household income has started to recover since a nadir in 2012.

who own the rights to the reproducible product (assuming that network externalities, patent rights, or other obstacles to competition prevent an erosion of profits). To take the example of photography, while Kodak at its peak employed around 150,000 people, Instagram employed fifteen people when it was bought out for around one billion dollars (or around \$66 million per Instagram employee) by Facebook in 2012 (itself only employing around 5,000 workers at the time). Producing and delivering photo film takes many hands; producing and delivering code does not (Brynjolfsson & McAfee, 2014, pp. 126–127).

The second marginality condition is the alleged emergence of a class of zero (or very low) marginal product workers. These are workers whose skill profile is such that they struggle to make a positive contribution to production even at very low wage rates. This phenomenon is well-known from individual industries,⁴⁰ but historical evidence suggests that workers displaced in one industry usually find gainful employment in another (Autor, 2015); and if not the same workers, then the next generation of workers. However, the profile of this wave of technological advance, Collins and Ford assert,⁴¹ creates the possibility of human workers being eclipsed in many, perhaps most, tasks by machines.

⁴⁰ For example, no firm today would hire a human “computer” (i.e. a person who manually carries out calculations), even at a purely nominal wage of \$0.01 per hour.

⁴¹ Especially due to the automation of non-routine cognitive tasks, and the solution, through machine learning on big data sets, of Polanyi’s Paradox (“knowing more than we can tell,” or our ability to perform tasks that we cannot describe verbally; M. Polanyi, 1967).

I am not convinced by these accounts. The early estimates of the effects of automation at the heart of these accounts appear to overshoot by a factor of three to five,⁴² and the alleged automation of upper-middle class employment has yet to show in either the data or the forecasts.⁴³

More fundamentally, concerning the (*prima facie*) zero marginal cost of reproducing information, in the presence of competition this fact is only relevant in the short run. Consider a company like Facebook: its social network and the associated services (Facebook messenger, the ability to post and share photos and links, etc.) are highly automated, so that, at first glance, it looks like the company's cost structure is dominated by the zero marginal cost of reproducing information. This implies that the considerable revenues that Facebook brings in are shared only among a small number of workers and shareholders, hence leading to higher inequality.

However, Facebook's product is not the social network and its associated services, re-produced at close to zero marginal cost, but rather the *attention of its users*, which it

⁴² An often-cited study identifies around half of all current jobs in the US as being at risk of automation (Frey & Osborne, 2017). However, more recent work studying the risk of automation at the level individual tasks rather than the level of occupations, identifies only nine (Arntz, Gregory, & Zierahn, 2016) to fourteen per cent (Nedelkoska & Quintini, 2018) of jobs in advanced capitalist countries as being at risk of automation. Evidence at the sectoral level seems to bear out the lower estimates.

⁴³ “[D]espite recurrent arguments that automation may start to adversely affect selected highly skilled occupations, this prediction is not supported by [...] this study. If anything, Artificial Intelligence puts more low-skilled jobs at risk than previous waves of technological progress, whereby technology replaced primarily middle-skilled jobs creating labour market polarisation—i.e. a rise in the employment share of low-skilled and high-skilled jobs and a decline in the share of middle-skilled ones. Indeed, with the exception of some relatively low-skilled jobs—notably, personal care workers—the findings in this study suggest a rather monotonic decrease in the risk of automation as a function of educational attainment and skill levels” (Nedelkoska & Quintini, 2018, p. 8).

cultivates, packages, and re-sells to advertisers. Users and the various services used to attract them are *inputs*, not outputs. They are used to produce the product that Facebook actually sells, attention.⁴⁴ In other words, Facebook is an “attention merchant” (Wu, 2016).

Seen through this lens, it is clear that the marginal cost of producing Facebook’s product is not zero, at least over any appreciable period of time: because of a mixture of technological innovation, manifold options for distraction, shifting tastes, and the general human desire for distinction, there is a natural tendency for attention to wander. To reliably produce it requires constant investment in a small army of software designers, marketing professionals, ethnographic researchers, the acquisition of rival firms and products, and many other activities, in order to retain what is inherently fickle. The marginal cost of producing Facebook’s product is not the near-zero cost of providing existing services, but the high and rising cost of constantly capturing and re-capturing the attention of its users, through the addition of new services or the purchase of rival attention-attractors.⁴⁵

Similar mechanisms are at play all across the technological frontier: whenever the cost of one input drops (close) to zero—as with electrical lighting (W. D. Nordhaus,

⁴⁴ As Facebook’s annual report states with disarming honesty, “[w]e generate substantially all of our revenue from selling advertising” (Facebook, 2017, p. 5). Google operates on the same model. Its search, mapping, email, and other services are inputs that Google uses to attract users’ attention, which it can then sell on to advertisers.

⁴⁵ This is reflected in Facebook’s headcount. From approximately 5,000 workers in 2012, Facebook has grown to 25,000 workers at the end of 2017 (Facebook, 2018, p. 2), and 36,000 at the end of 2018 (Facebook, 2019, p. 23), for a compound annual growth rate of close to 40%. If Facebook continues adding workers at this rate, it will become the second-largest employer in the US in less than a decade, ahead of firms like McDonald’s, IBM, and UPS, and second only to Wal-Mart.

1996), computing power (W. D. Nordhaus, 2007), and currently the collecting, processing and analysis of large data sets – eventually another input becomes a new binding constraint, driving up marginal costs again. The case of Facebook is instructive because it shows how, even where the direct costs of procuring one’s inputs are zero (Facebook, after all, does not pay its users in money for their attention), the *indirect* costs are not (in the last instance because competitors will seek to procure the same input, eventually bidding up its price). What authors like Mason identify as an allegedly permanent feature of capitalism in the twenty-first century, i.e. the zero marginal cost of an important input, is hence only a transitional feature.

Concerning the second marginality condition, that of zero marginal product workers, here too the claim looks likely to hold only in the short run. In a society that is characterised by high inequality and high productivity, there is one sector that predictably can absorb any number of displaced workers: the personal service sector.

Even if automated assistants eventually become the functional equivalent of personal servants, delivering the same level of convenience, this is unlikely to displace demand for human services and servants. The hiring of a large service staff has historically been as much about conspicuous consumption (driven by the desire for distinction and status) and the pursuit and signalling of social status, as it has been about reducing the burdens of daily life.

This status-driven motivation for hiring human services insulates the service and servants sector from the threat of technological unemployment: it is *especially* when fully automated personal assistants are cheaply available that human servants provide status.

The social status that results from command over other people turns the “consumption” of personal services and the maintenance of a service staff into a positional good (Hirsch, 1976), so that there is no limit on the number that can in theory be absorbed in the service/servants sector, even—or rather especially—in the context of technologically feasible complete automation. It remains an open question whether this sector would take the historical form of servants, or whether it would grow through further expansion in services like Seamless or Uber. Due to different demand structures (at the high-income end, the desire for status and distinction may produce demand specifically for servant-style service; at the lower end of high incomes, the desire for maximum service at minimum cost may produce demand for app-optimised “shared services”), it is likely to be a mixture. However, little rides on this distinction: the apps in question merely serve to coordinate a corps of servants who, instead of serving the bourgeoisie household by household, would then serve it as a class.⁴⁶

Harari is right when he observes that “artificial intelligence is different from the old machines. In the past, machines competed with humans mainly in manual skills. Now they

⁴⁶ Two further points are of note here: the British sociologist Michael Young noticed this possibility as early as 1958, in his ground-breaking, satirical account of what a perfect meritocracy would look like (a term that he coined with this book) (Young, 1958). Second, the *actual* extent to which the service/servants sector will absorb the technologically unemployed will depend on political choices, in particular on the amount of economic and physical coercion against the unemployed and indigent. The miserliness of public assistance (economic coercion) and the intensity of policing against non-wage sustenance economies (physical coercion) will drive the reservation wage, and the lower this wage, the larger the share of top income households able to afford servants (the existence of other employment opportunities will of course also influence this, but the point of this thought experiment is to assume that the majority of those opportunities have vanished in a cloud of automation). In principle, in a high productivity economy, the reservation wage can always be pressed low enough to ensure “full employment” (in a low productivity economy, the market clearing wage may be below subsistence; in a high productivity economy, this wage may of course be below *social* subsistence, which is why coercion is required to bring it about), given enough political cruelty.

are beginning to compete with us in cognitive skills.” But he is wrong to add that “we don’t know of any third kind of skill – beyond the manual and the cognitive – in which humans will always have an edge” (Harari, 2018, p. 66). We *do* have a third kind of skill – using “skill” in a loose sense – in which humans will always have an edge: namely bestowing recognition on each other. Hegel noted long ago (Hegel, 2017 [1807], pp. 111–119) that the desire for recognition, which only other humans can satisfy, is a deep driver of human behaviour, and that it can only be provided by someone who the recognised recognises as, in some sense, her equal.

It is unclear what levels of inequality would be the result of a scenario in which mass unemployment is prevented by the return of a significant domestic service and servants sector. However, I concur with Schumpeter, who points out that the gravest ill that can befall a group is “to lose not only its income but [...] *what is infinitely more important, its function*” (Schumpeter, 1942, p. 134, italics added). My judgement is therefore that the revolutionary potential in a “return of the servants” scenario is considerably less than that in the scenario envisaged by Collins and Ford. While technological change may or may not lead to unprecedented levels of inequality, it looks unlikely to produce an automatic breakdown in social order as predicted by Collins and Ford. In the absence of leadership, organisation, and ideology – to be considered in Chapter 8 – technologically-driven inequality, too, does not entail the inexorable self-destruction of capitalism.

Summing up then, inequality, despite its significance as an important normative wrong (see Chapter 9, sections E and F, pp. 434–455 below), is unlikely to be the end of capitalism. Economically, a rise in inequality has clear negative effects, in particular on

aggregate demand and financial stability, but does not fundamentally impair the operation of a market economy. Socially, a rise in inequality to the levels of the late nineteenth-, early twentieth century looks unlike to fatally undermine capitalism's legitimacy: hitherto, intergenerational mobility has remained stable in the US, so that the meritocracy narrative has retained sufficient credibility; and the fact that capitalism inherently provides opportunities for (a small number of) talented and lucky individuals to rise to the top makes it likely for the narrative to survive into the future, even in the face of further rises in inequality.

Concerning the widespread-prosperity narrative, as long as the rise in inequality stops at nineteenth- or early twentieth century levels – already reached in the US, and by certain measures in some European countries – most incomes should start rising again in the near future, potentially turning the last fifty years, in retrospective, into “Piketty’s Pause.” The prosperity narrative, while strained, would then regain its credibility. And lastly, neither unlimited capital accumulation nor technological change, two developments often mentioned in connection with inequality, look likely to produce the end of capitalism. The first, which would force a thorny choice between unbearable inequality on the one hand or self-destructive eradication of profit on the other, is counteracted by falling saving rates and continued, if lower, economic growth. Though clouded by significant uncertainty, the best estimate sees the size of capital rising to around 700% of GDP in advanced capitalist countries; at the high end, but within the range, of historical experience. The inequality effects of technological change remain extremely difficult to predict. However, unlike what authors like Collins or Ford argue, it looks unlikely that the current

wave of automation will produce either endemic unemployment or a breakdown in the functioning of markets: in the context of widespread automation and high inequality, a growing service and servants sector, demand for which is driven by the hitherto inexhaustible human desire for status and recognition, looks able to absorb any number of workers. Neither capital accumulation nor automation, then, look like they will inexorably cause capitalism to self-destruct.

H. Rising public debt does not necessitate self-destruction

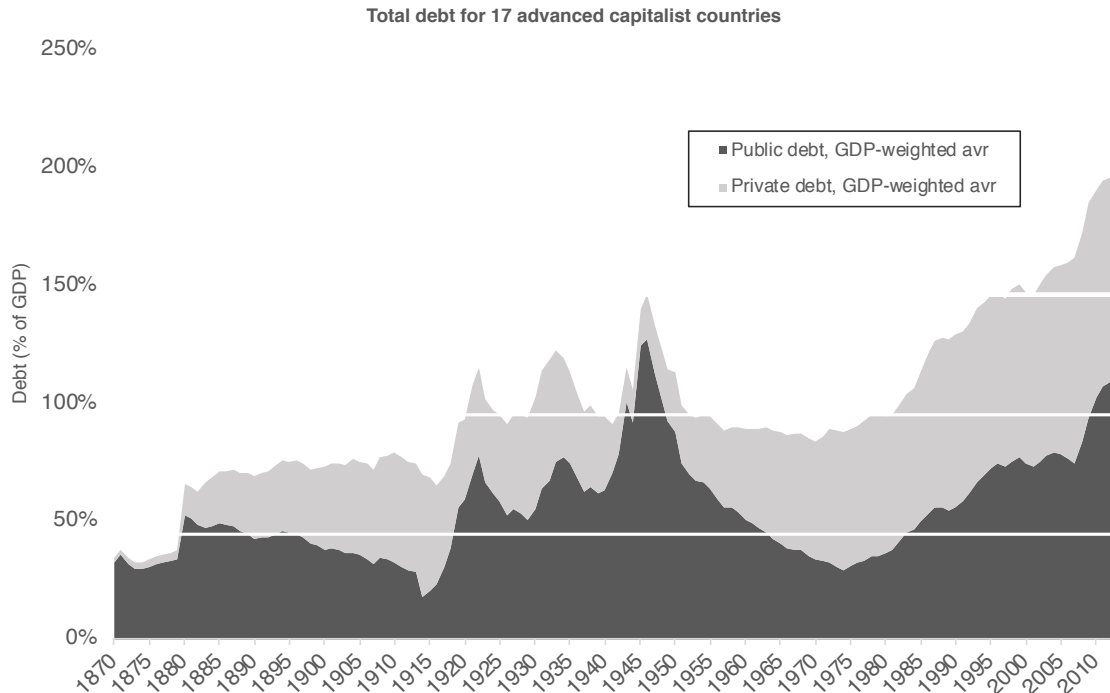
Besides falling growth and rising inequality, however, Streeck has identified a third malfunction in capitalism's engine room: debt.

Here, Streeck again points out a striking trend: over the long run, society-wide debt-to-income ratios have risen all across the capitalist core: public and private debt levels, taken together, have more than doubled in advanced economies over the last century, from around 70% of GDP at the turn of the twentieth century to close to 200% of GDP by 2010 (Jordà, Schularick, & Taylor, 2016a, p. 50, 2017).⁴⁷ Besides the long run nature of this trend—striking in its own right—it is notable that the majority of this rise is concentrated in the decades after 1970, during a period without generalised warfare between great powers. Unlike previous peaks in society-wide debt levels, like that of the late nineteenth and early twenties, or that of the nineteen forties, the current level is therefore not

⁴⁷ The seventeen countries included in this data set are: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, and the USA. For private debt, this data includes lending by banks only, and as such in fact underestimates total private debt (through the exclusion of private bonds and other forms of debt not carried on banks' balance sheets).

primarily driven by the exigencies of war (see Figure 4 below). Moreover, repaying these debts will be harder than in the past, as expected growth has declined from two to three per cent per year to around one per cent.

Figure 4. Debt to GDP ratio in seventeen advanced capitalist countries



Source: author, based on Jordà, Schularick, and Taylor (2017)

There are a number of ways in which rising debt-to-income ratios may translate into self-destruction: first, as Streeck stresses, high levels of *public* debt encumber the state (Streeck, 2016, pp. 136–137).⁴⁸ If an ever-growing proportion of public budgets is allocated to debt service and repayment, the budget available for other objects of public spending is

⁴⁸ High levels of public debt also shift the constituency to which the state and the government of the day are responsible, from voters to bond owners (Streeck, 2016, pp. 134–140). The extent to which this is a problem for the sustainability of capitalism, as opposed to a normative problem of democracy-weakening, will be discussed in Chapter 7 below.

reduced.⁴⁹ To the extent that public spending in areas like education, health, childcare, infrastructure, the courts, the armed forces, and general public administration is a precondition for the continued existence of capitalism, this may threaten the reproduction of capitalist societies. Significantly, it may also undermine the state's ability to respond to economic crises.

In addition to the “encumbering the state” effect, a scenario in which public debt continues building up also has the potential to end with a rapid spiral into state bankruptcy. The result would be default or hyperinflation, triggering precisely the kind of crisis that a debt-encumbered state would then be unable to manage.⁵⁰ The consequences of such a

⁴⁹ Streeck describes this as the transformation from “tax state” to “debt state” to “austerity state” (Streeck, 2014a, 2016, Chapter 4). Note that this transformation was driven less by the costs of the welfare state or by pre-election spending cycles, and more by tax cutting from conservative governments and the costs of socialising private sector losses during and after financial crises. “Empirical investigations, though, tend to suggest that it is, in fact, conservative governments which lower taxes in order to accommodate their voters and therefore tend to run higher deficits, whereas left-wing parties prefer to raise taxes as a means of income redistribution, thus keeping government debt low” (Holtfrerich et al., 2016, p. 30); and: the “fiscal costs of financial crises are large and have become a key health risk for public finances” (Schularick, 2014, p. 193).

⁵⁰ The mechanism for this is as follows: losing confidence in repayment, some bond holders start selling, thereby driving up interest rates. This increases the cost of rolling over existing debts (new debts will carry higher interest rates than the old debts they replace), which in turn worsens the budget balance. This leads to further bond sales, as additional investors now fear that they will not be repaid, and further increases in the interest rate, which in turn further worsens the budget, and so on (how this leads to default is obvious; the path to hyperinflation is described in footnote 57 below). *When* this will happen is uncertain, because the sustainability of public debt is inherently characterised by multiple equilibria or self-fulfilling prophecies. The confidence—or not—of investors influences the interest rate that a state pays on its debt. With large outstanding debts, the shift in budgetary position implied by a shift in interest rates can be significant, and can by itself render a sustainable debt unsustainable, or vice versa. Italy's budget deficit, for example, with a debt-to-GDP ratio of approximately 130%, increases or decreases (once all debt is rolled over) by 1.3% of GDP for every percentage point change in interest. A move from one to four per cent interest, easily within the historical range, could turn a three per cent deficit into a seven per cent deficit, further decreasing faith in repayment and thereby setting off a spiral of increasing interest rates and further worsening deficits, with no obvious endpoint other than state bankruptcy. A swing in the other direction, from four per cent interest to one per cent interest, could render the same three per cent deficit into a one per cent surplus, which—given that it is in surplus—would then justify continued low interest rates.

scenario are difficult to foresee, but in the context of an already weakened state, social revolution may well ensue.⁵¹

If we simply extrapolate the past rise of public debt, then, we are indeed confronted with a gradual trend that points towards an eventual self-destructive conflagration. Through the state encumbering mechanism, it gradually erodes the state's capacity to ensure the social reproduction of capitalism and to respond effectively to crises; and through the state bankruptcy mechanism it eventually triggers a crisis severe enough to bring down the then-weakened, brittle state.

Nevertheless, when taking a wider historical perspective, neither of these two mechanisms looks likely to bring capitalism down in the advanced states today: debt spirals, while existentially threatening, look unlikely; and state encumbering, while likely and indeed currently ongoing, does not appear existentially threatening.

Concerning the first, the “historical record since 1870 generally suggests prudent fiscal behavior by democratic governments in the Western world. [...] countries have

⁵¹ A slide towards state bankruptcy and/or hyperinflation has often been the precursor for revolution, for example in the case of the French Revolution (Spang, 2015), or the fall of the Kuomintang regime in China (Boecking, 2011). It is worth distinguishing between two different versions of this scenario: if a downward spiral towards state bankruptcy takes place in a periphery country, the disruption of the monetary order can be contained through ‘dollarization’, i.e. replacing the domestic currency with a trusted currency of the capitalist core, usually the US Dollar. In this case, state bankruptcy will have significant distributional consequences, and will almost certainly go hand in hand with a deep political crisis, but the fundamentals of the economic and political order may survive. This scenario took place most recently in Zimbabwe in 2008-2009. If a similar spiral takes place in the United States on the other hand, it is not obvious what alternative currency the economy could transition to. Euro, Yen, Renminbi and Pound Sterling would all be candidates, as would bitcoin or other unconventional forms of currency. The result would be hyperinflation and monetary splintering, as different parts of the economy transition to different replacement currencies, leading to a profound disruption of the division of labour (analogous to the breakdown of the COMECON economies after 1990), and almost certainly a political revolution.

generally responded to high public debt levels by increasing primary surpluses” (Schularick, 2014, p. 193). Although debt levels have indeed risen to levels never reached before during peacetime, a first wave of retrenchment took place well before the 2008 financial crisis, succeeding in stabilising public debt levels at around 70% of GDP.⁵² And although debt levels increased in the wake of the 2008 crisis, retrenchment is visible again today: EU28 public debt has peaked in 2014 at 87% of GDP and declined since then, with latest data indicating a debt level of 80% in 2018 (Eurostat 2019). Though the future of American public debt remains uncertain, in Japan, too, the debt-to-GDP ratio has stabilised at just below 240% of GDP. Taking a closer look at Japanese and American public debt, finally, we may observe that the amount of debt owed to the public, i.e. excluding debt owed by the government to other arms of the state, is considerably lower than the headline figure, due to large-scale purchases by the Federal Reserve⁵³ and the Bank of Japan,⁵⁴ respectively.

Simply extrapolating the past rise of public debt into the future therefore seems unwarranted, both because past rises have hitherto led to expenditure cuts and revenue increases (indeed, this is precisely the transformation from tax state to debt state to

⁵² Indeed, with Japan taken out of the sample, GDP-weighted average public debt in the remaining sixteen advanced capitalist economies fell from 67% to 60% between 1996 and 2007 (author’s calculations, based on Jordà et al., 2017).

⁵³ The Federal Reserve acquired approximately \$2.3 trillion in federal debt between 2009 and 2015, around ten per cent of GDP and of total outstanding debt (U.S. Department of the Treasury, 2018).

⁵⁴ The Bank of Japan purchased approximately 420 trillion Yen in Japanese government debt since 2012, equivalent to approximately 75% of GDP or thirty per cent of outstanding debt. This increased its holdings from ten to 40% of all outstanding Japanese government debt (Bank of Japan, 2018; “The Bank of Japan sticks to its guns,” 2017).

austerity state that Streeck diagnoses; see footnote 49), and because a new wave of consolidation and austerity is already underway (in the European case, this is visible in headline numbers; in the Japanese case, this is visible once properly public debt is distinguished from the total amount of government ‘book debt’).

The “public finance” contradiction between democracy and capitalism, so forcefully argued for by the public choice literature from the nineteen seventies on (Buchanan & Wagner, 1977), therefore appears less threatening than a first glance at the data suggests. And while the retrenchment required to stabilise and eventually reduce debt-to-GDP ratios is painful and often distributionally regressive, it does not appear to threaten either the basic functioning of the state or the basic mechanisms of social reproduction.⁵⁵

Moreover, even if debt levels *were* on a secular upwards trend, it is not obvious that there exists a clear threshold beyond which public debt necessarily becomes unsustainable. Empirically, this is suggested by the case of Japan: Japan’s public debt stands at around 240% of GDP (International Monetary Fund, 2018b), more than twice the level of any other advanced capitalist country. Nevertheless, Japan’s government spends less on interest payments (around 2% of GDP) than Italy (4.2%), the US (3.6%), Canada (3%), Spain (2.8%) or the UK (2.5%) (International Monetary Fund, 2018a). In other words, Japan’s debt, despite its high level, continues to look sustainable (Greenan & Weinstein, 2017). This is due to two reasons: Japan’s central bank has purchased around 75% of GDP in

⁵⁵ For a clear example of this, see Mehrrens (2014), a detailed and illuminating description of the process and the (distributional and political) consequences of structural consolidation in the case of Sweden. The retrenchment was large, with government expenditure as per cent of GDP dropping from 67% in 1994 to just below 50% in 2016-8, but Sweden continues to function as an advanced capitalist state.

government bonds over the last five years (see footnote 54 above). This reduced both interest rates and the volume of debt on which the government needs to pay (net) interest,⁵⁶ greatly reducing the encumbering effect described above and underpinning investors' confidence in the government's ability to repay. Second, the Japanese government has raised taxes and slowed the growth of spending, particularly on pensions, reducing its deficit to approximately three per cent of GDP. This has sustained investor confidence that debts will neither be defaulted on nor inflated away, hence keeping interest rates low even at comparatively high levels of debt to GDP (Greenan & Weinstein, 2017).

Conceptually, too, the upper limit (if any) of public debt is not clear: given a central bank willing or legally required to buy government bonds in unlimited quantity (creating new money to do so), the government can always issue additional debt in its own currency. If private holders of government bonds, for whatever reason, seek to sell their bonds—normally driving up interest rates, and hence the cost of carrying whatever debt the government has—the central bank can step in as buyer of last resort, keeping government interest rates at whatever level is desired. The binding constraint is inflation (see also p. 204 above): where government spending financed *ex nihilo* leads to an excess of aggregate demand over aggregate supply, inflation will rise, and unless checked (e.g. via reduced public spending, increased taxes, or tighter monetary policy) will eventually trigger a state

⁵⁶ The government of Japan pays gross interest on bonds owned by the Bank of Japan. However, these payments are returned to the government via the dividend that the Bank of Japan (BoJ) pays to the government every year, so that net interest on BoJ-owned bonds is practically zero.

bankruptcy spiral, destroying the currency in question.⁵⁷ However, where there is slack in an economy, whether due to a temporary economic crisis or due to a permanent shortfall of demand relative to available capacity,⁵⁸ monetarily financed government spending need not lead to inflation, as long as it is kept to the approximate magnitude of the slack. For as long as the shortfall in demand persists, government debt can thus increase every year with no obviously deleterious effects, as has been the case with Japan (see also Blanchard, 2019).⁵⁹ While Streeck is hence right to point out that “OECD capitalism has been kept going by liberal injections of fiat money”, he seems unduly pessimistic when he claims “that it [expansionary monetary policy] cannot continue forever” (Streeck, 2016, p. 50).

⁵⁷ It is a truth universally acknowledged that inflation results when too much purchasing power chases too few goods. When governments issue large amounts of debt and use this to buy goods and services, then (unless taxation is used to withdraw a roughly equal amount of purchasing power, or the mobilization of previously unused productive forces—e.g. unemployed workers—or productivity growth makes these additional goods and services available) inflation results. This can lead to a vicious cycle: if investors fear that the value of the relevant currency will fall, they will sell the currency and buy into other assets (e.g. stocks, real estate, gold, foreign currency, or, in more extreme scenarios, food or cigarettes). This further devalues the currency, both against other currencies and against inflation-protected assets. At this point, government’s ability to command real resources rapidly deteriorates: the currency that it can issue in unlimited quantity no longer commands much purchasing power. At the limit, hyperinflation ensues and the government’s own currency no longer has any purchasing power. At this point the economy switches to another currency (in a process usually called ‘dollarization’, as the US dollar is often the currency then used), as happened in Zimbabwe in 2008-9 (Sikwila, 2013). In that case, the government can only command real resources through direct coercion, or through acquiring the new currency, which it cannot print itself.

⁵⁸ See the literature around secular stagnation, both from the nineteen thirties (in particular A. H. Hansen, 1938, 1939), and more recently (Ball, Delong, & Summers, 2014; Summers, 2013, 2015; Teulings & Baldwin, 2014).

⁵⁹ Year-on-year increases in perpetuity may even be compatible with debt levels that are stable in the long run, if permanent annual deficits are combined with occasional debt write-offs. The central bank could, for example, write off every year any government debt older than 50 years. For proposals along these lines, focused in particular on writing off student debt, see Alpert and Hockett (2017) or Alpert, Hockett, and Roubini (2011).

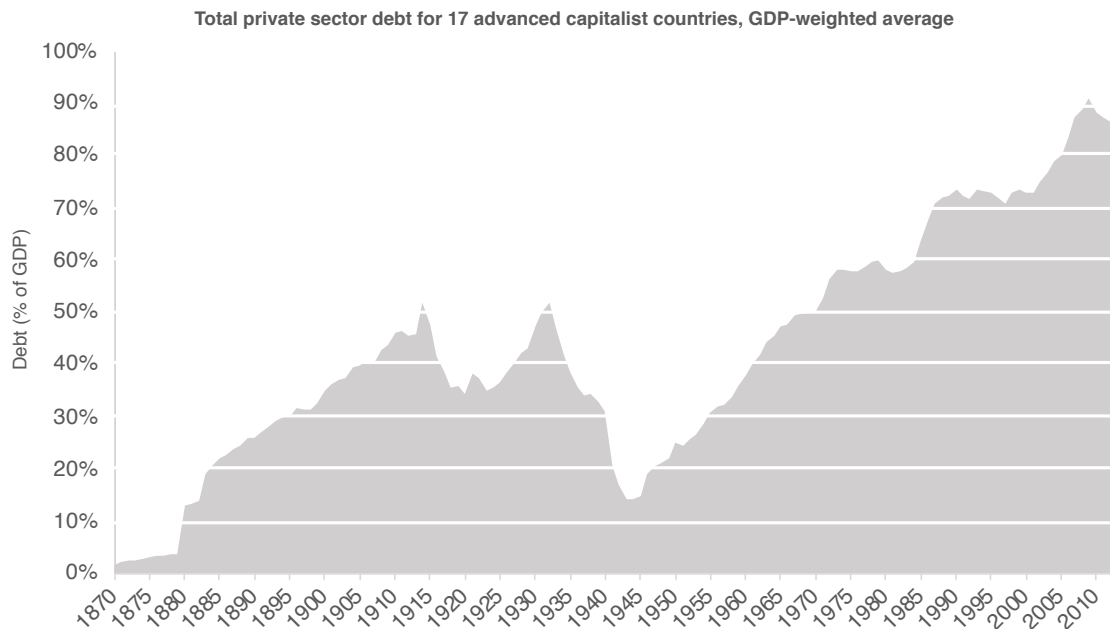
As long as expansionary monetary policy is calibrated to inject only as much new demand as there is spare capacity, it *can* continue forever.

Upon closer consideration, then, the historical increase in public debt since the nineteen seventies does not appear to indicate a necessary tendency towards self-destruction. On the one hand, it remains unclear whether public debt levels in advanced economies *are* on a permanently escalating trajectory—hitherto, debt build-ups have always eventually resulted in (painful) retrenchments and primary surpluses or moderate inflation and financial repression (Schularick, 2014). On the other hand, in the context of economies with permanent demand shortfalls—like the high-inequality economies of the early twenty-first century—it is not obvious that even permanently rising public debt constitutes a problem in the first place, as long as the deficits in question are kept to the size of the demand shortfall, and as long as the addition of new debt ceases when the demand shortfall ends.

I. Nor does private debt necessarily spark self-destruction

Turning from public to private debt, here too a first glance at the data indicates a secular rise in debt-to-GDP ratios (Figure 5).

Figure 5. Private sector debt to GDP ratio in seventeen advanced capitalist states



Source: author, based on Jordà, Schularick, and Taylor 2017 “Macroeconomic History and the new Business Cycle Facts”

Prima facie, this creates a dynamic of ever more serious crises, pointing towards eventual self-destruction via an economic conflagration: profit-seeking banks, if left alone, periodically self-generate financial crises (Geanakoplos, 2009; Gorton & Ordoñez, 2014; Kindleberger, 1978; Minsky, 1977; A. Turner, 2015).⁶⁰ The higher the build-up in debt,

⁶⁰ The mechanism is as follows: in the wake of a recent crisis, banks initially prefer to issue, and borrowers mainly demand, loans that can be fully repaid when due (what Minsky calls “hedge finance,” Minsky 1986: 208). But in the context of financial stability, increasing leverage is a reliable way to increase banks’ return on equity (Minsky, 1986, pp. 210–211). This increase in leverage, driven by the ever-present necessity to maximise profits, pushes up the price of the assets whose purchase is being funded by the additional lending, which in turn increases the amount of collateral against which lending can be done (e.g. real estate pre-2008, or stocks and bonds post-2008). In the expectation that prices will continue increasing and that collateral will (at least) retain its value, borrowers and lenders gradually become less risk-averse: as the economy recovers and asset prices begin to rise, banks will offer, and borrowers demand, loans where borrowers can only afford to pay *interest*, but not principal (what Minsky calls “speculative finance”, Minsky, 1986, p. 208). This shift from ‘hedge’ to ‘speculative’ finance is supported by banks, whose business and profits it grows, by existing asset owners, whose property values it drives up, and by poorer borrowers, who can now

the more severe the financial crisis that follows (Jordà, Schularick, & Taylor, 2015; Jordà et al., 2016b; Taylor, 2015). A secular increase in overall private sector leverage, particularly in leverage *relative to income* (rather than assets),⁶¹ is therefore indicative of a tendency towards more severe crises.

Description at the level of aggregates may even understate the severity of the problem. Taking a closer look, the particular kind of debt that has driven the post-seventies rise in private sector leverage, namely mortgages (Jordà et al., 2016b), is especially

participate in rising asset prices. As the boom continues, banks may even offer, and borrowers demand, loans where borrowers cannot afford to pay interest (let alone principal), in the hope that interest payments can be met (via re-financing) from rising asset prices (what Minsky calls “Ponzi finance” Minsky, 1986, pp. 208–209). In addition, as rising demand for loans drives up interest rates, more and more speculative borrowers will unintentionally become (as they refinance their loans at higher rates) Ponzi borrowers, as after refinancing they can no longer afford their interest payments. Over time, the balance between hedge, speculative, and Ponzi borrowers will therefore shift away from the former and towards the latter. Eventually, the rise in asset prices slows down: an increasing number of borrowers sell their assets to exit while prices are still high, increasing supply; banks, becoming more cautious as they observe the shift from hedge to speculative and Ponzi financing, tighten lending criteria, reducing demand. As the pace of asset price appreciation slows down, both mechanisms strengthen (even more asset holders will seek to sell in time, and banks will become even more cautious about lending), and boom turns to bust. Once asset prices fall in earnest, the economy is saddled with a large number of ‘underwater’ firms and households (whose debts exceed their assets), who will reduce spending in order to repay their debts. Via the Keynesian paradox of thrift (Keynes, 1936, p. 84), the economy enters a recession. In the absence of debt contracts (and assuming away any rigidities in prices and wages), prices and wages would fall until full employment is reached again. However, given the hangover of loans contracted during the boom, falling prices and wages exacerbate the paradox of thrift, as firms and households have to dedicate a growing proportion of their falling nominal incomes in order to repay their (nominally fixed) debts, further cutting consumption and investment. In the absence of an external stimulus (either in the form of fiscal stimulus to boost investment and consumption, or in the form of writing off enough debts to get consumption and investment going again, and then socialising the losses of the banking sector that this entails), there is no obvious circuit breaker that permits exit from a prolonged debt-overhang depression.

⁶¹ Leverage relative to income is a better measure of financial fragility than leverage relative to asset values. Because asset values are to a significant extent endogenous to the amount of leverage, superficially safe debt-to-asset leverage ratios can obscure what is in reality a highly fragile financial structure, with many firms and households operating on what Minsky calls a “speculative” or “Ponzi” financial structure (see Minsky, 1986, pp. 206–208, for the distinction between “hedge”, “speculative”, and “Ponzi” financial structures).

destabilising. The high responsiveness of land prices and the low responsiveness of nominal GDP to the amount of mortgage lending allow large debt overhangs to emerge without stimulating much in the way of additional economic activity to repay them after the bust (Jordà et al., 2016b; Mian & Sufi, 2014; A. Turner, 2015, Chapter 4 and 5).⁶² And while this pattern of lending, particularly in the US, was influenced by political choices and national path dependency (e.g. Prasad, 2012), both the near-universal nature of the pattern (Jordà et al., 2016b, fig. 3) and the nature of real estate itself (A. Turner, 2015, pp. 67–70) suggest that something more fundamental than national policy changes and path dependency was responsible for the “great mortgaging” (Jordà et al., 2016b). As Ricardo (2015 [1817]) and Hirsch (1976) have pointed out, there is a tendency in capitalism for overall productivity growth to drive up the price of those goods, like land, that are in inherently scarce supply:⁶³ thus an increase in mortgage lending in particular, not just a periodical increase in leverage in general, may be a structural feature of capitalism. Hence not only the rise of leverage but also its (mortgage-heavy, hence particularly dangerous) composition may have been driven by deep, structural features of capitalism.

⁶² Land prices are responsive to lending because the supply of land is close to perfectly inelastic, so that the price increase from extra demand is hardly, if at all, cushioned by calling forth additional supply. This allows real estate booms to continue for a long time, as each unit of additional lending justifies itself via the rising prices that it itself contributes to. As only a limited amount of additional economic activity is induced by real estate lending and purchasing (mainly via wealth effects, as house owners feel richer and hence consume more), little additional income is generated that can contribute towards paying back the debts created in the upswing. Real estate booms, reaching higher peaks and generating less nominal GDP growth than other asset booms, therefore cause particularly deep crises when they turn to busts.

⁶³ In this context, note that the vast majority of house price increases across the advanced world is driven by *land value* increases, and not by increases in the value of the structures built (Knoll, Schularick, & Steger, 2017, p. 332).

However, just as with public debt, upon closer consideration it is not clear that we can simply extrapolate this trend into the future. As already discussed above, “[v]irtually the entire increase in the bank lending to GDP ratios in [...] advanced economies has been driven by the rapid rise in mortgage lending relative to output since the 1970s” (Jordà et al., 2016b, p. 115). As such it was part of a policy regime best described as “privatised Keynesianism” (Crouch, 2009), or, more precisely, “mortgage Keynesianism” (Prasad, 2012; see also Rajan, 2010): private (mortgage) credit expansion as a way of assuring sufficient aggregate demand. In other words, the additional lending was required on the *demand* side of the economy and as part of a particular growth model (Baccaro and Pontusson 2016). But there is no inherent need to generate this additional demand through credit creation. Downwards redistribution, currency devaluation, or outright money creation (‘helicopter money’) can all be used to generate additional demand, the last being capable of closing demand gaps of *any* size (Buiter, 2014). In a fiat currency world, “[i]f the problem we face is inadequate nominal demand, the magazine is never empty” (A. Turner, 2015, p. 12).

There is therefore no inherent, unavoidable need for private leverage to increase permanently. The politics of alternative demand-growth models are of course complicated, and there may be good reasons in any one country at any one moment why some, or even all of them, may not be politically viable. As a matter of principle, however, there is nothing in a capitalist political economy that condemns it to generate additional demand only through rising private sector debt. An end to rising leverage, as long as it occurs in a gradual fashion and is cushioned by demand growth from other sources, thus need not imply a

permanent state of insufficient aggregate demand, let alone a systemic or existentially threatening crisis of capitalism.

Moreover, even though financial crises are self-generated in a private, for-profit financial sector, and even though their severity correlates with the amount of leverage that preceded the crisis, it is not clear that future financial crises, when they occur, will be as destabilising and existentially threatening for the future of capitalism as the 1929 crash and the ensuing Great Depression. As Schularick and Taylor summarise, “[t]he bottom line is that the lessons of the Great Depression, once learned, were put into practice. After 1945, financial crises were fought with more aggressive monetary policy responses, banking systems imploded neither so frequently nor as dramatically, and deflation was avoided;” all this despite the “much larger financial systems we have today” (on this, see also Krugman, 2018; Schularick & Taylor, 2012, p. 1032). Of course, the lessons of history tend to fade. Future financial historians will no doubt find moments, for example, in which the rescue of the US banking system in 2008 hung by a thread, and where a comparatively minor event could have derailed or at least materially altered the course of the crisis response in the fall of 2008.⁶⁴ However, the goal in this chapter is not to argue that capitalism will never end, but that it will not end from an “inexorable tendency towards self-destruction”. As pointed out in footnote 15 (p. 249 above), this is perfectly compatible with it being undone by policy error.

⁶⁴ See e.g. Tooze (2018, Chapter 7).

Like the increase in public sector debt, it is therefore less than clear whether the increase in private sector debt will continue indefinitely, and whether, even if it does, it will be existentially threatening. While Streeck is right to identify rising debt levels as one of the most striking trends within capitalism, especially over the last fifty years, there appears to be no inherent need for debt levels to continue rising indefinitely; nor can we identify a clear threshold at which debt becomes existentially threatening; nor is it clear that future financial crises will result in another Great Depression, given that we have learned from the past. I therefore conclude that this trend, too, does not support a diagnosis of inevitable self-destruction.

J. Conclusion

This chapter began my argument against the self-destruction thesis. After making a number of initial distinctions, I argued that the three economic malfunctions Streeck diagnoses in the engine room of capitalism—falling growth, increasing inequality, and rising debt—do not necessarily lead to gradual self-destruction: despite their reality and despite their mutually reinforcing nature, none of them necessarily causes—individually—a fatal economic implosion, or a terminal loss of capitalism’s legitimacy.

Concerning inequality, while it has risen sharply since the nineteen seventies, it looks unlikely to lead to economic self-destruction: its aggregate demand effects can be cushioned through expansive monetary policy, and at the limit through monetarily financed fiscal deficits or helicopter money. Further, neither of the two systemic threats that are often mentioned in connection with inequality—continual capital accumulation and technological change—looks inevitably existentially threatening. Due to falling savings

rates and continued, if lower, economic growth, the size of capital relative to GDP looks unlikely to increase indefinitely, so that the “thorny choice” between proletarian immiseration and the euthanasia of the rentier—which would be forced by a continually growing capital stock—can be avoided. Progressive automation in turn, while potentially pushing inequality beyond its previous peaks of the late nineteenth and early twentieth century, looks unlikely to cause endemic unemployment. The service sector can expand indefinitely, at the limit via a return of domestic servants.

Concerning debt, while there has been a long-term rise in both public and private debt levels, it is less than clear whether this will continue indefinitely. Regarding public debt, retrenchment and deleverage seems the most likely scenario. Moreover, in the context of structurally insufficient aggregate demand (also known as demand-side secular stagnation), it remains unclear where, if at all, the threshold of existentially threatening debt lies. Concerning private sector debt, here too it is unclear whether the historical rise in leverage ratios will continue into the future. And, finally, even if it does, the lessons of the Great Depression were learned and absorbed by financial civil servants and politicians the world over, so that even financial crises of the magnitude of 2008 are unlikely to lead to the kind of system-threatening conflagration triggered by the banking crisis of 1929.

Taken individually, then, none of the three economic malfunctions Streeck diagnoses—falling growth, increasing inequality, and rising debt—necessitate capitalism’s gradual self-destruction.

However, while illuminating, this discussion is not conclusive. Streeck’s case for the self-destructive nature of capitalism rests on its multi-morbidity, i.e. the combination of

the ills that I have discussed in isolation here. It is to such a combination that the next chapter turns.

6. More Than Buying Time

Even a Conjunction of the Three Trends Need Not Destroy Capitalism

A. Introduction

In the previous chapter, I argued that, taken individually, neither falling growth, nor increasing inequality, nor rising debt inexorably lead to an economic or social breakdown of capitalism. However, in doing so I treated separately the various trends that Streeck considers in combination. Since his account is based on their interaction and mutual reinforcement (Streeck, 2016, p. 13), this is not altogether satisfying. In this chapter, I give a more comprehensive answer to Streeck's first claim.¹ In particular, instead of distinguishing precisely between the various economic mechanisms in play and analysing them one by one, I now turn to analysing the scenario of a large and persistent shortfall, vis-à-vis expectations, in the economic performance of capitalism. As a likely result of the sum of the malfunctions discussed in in the previous chapter, this seems to me a faithful interpretation of his "multi-morbidity" account. The question then becomes: does such a large and persistent shortfall inevitably and fatally erode capitalism's political legitimacy? Does such a scenario inexorably entail capitalism's self-destruction?

¹ This is the claim that the material functioning of capitalism will gradually break down, due to growth, inequality, and debt moving in the wrong direction. These trends undermine capitalism's *political legitimacy*, as promises of "steady growth, sound money, and a modicum of social equity" ring increasingly hollow (Streeck, 2016, p. 47), leading to capitalism's inexorable end.

Streeck argues that it does (Streeck, 2016, p. 15). I argue that it does not. In particular, I claim that capitalist societies can absorb even widespread and persistent declines in prosperity—whether from permanently fallen growth rates, from secular increases in inequality, or from long and painful periods of deleveraging following financial crises in the context of high debt levels (or indeed from yet another source)—without suffering the kind of permanent disaffection and delegitimation that ultimately brought down, for example, the state socialist countries. In particular, I will argue in this chapter, due to the separation of polity and economy constitutive of capitalism (Block & Somers, 2014; Meiksins Wood, 1981), political actors (under capitalism) can shift popular expectations about what is economically possible, more so than under any social order that lacks this separation. This makes even large and persistent shortfalls in economic performance a largely temporary destabilising factor. While Streeck-like scenarios unsettle capitalist social orders, they do not create a linear dynamic pointing towards the end of capitalism. Even the sum of the malfunctions, I conclude, does not inevitably cause the self-destruction of capitalism. It may well entail only temporary crises of adjustment.

To argue for this conclusion, this chapter turns to the nineteen seventies. Because the seventies saw multiple severe and overlapping crises, at the heart of which lay a large and persistent decline in economic growth, we can learn about the resilience or brittleness of “multi-morbid” capitalism by studying this decade. Focusing on the seventies is appropriate, too, because Streeck’s account of capitalism’s self-destructive tendencies itself begins here:² in his interpretation, the nineteen seventies mark the beginning of a politics

² “In my own recent work [...] I have argued that OECD capitalism has been on a crisis trajectory since the

of “buying time” across the capitalist core (Streeck 2014). The various solutions adopted to tackle the crises of the seventies (tolerating high inflation, running up public sector deficits, permitting private sector financialization), he argues, were only ever time-limited stopgaps. Interpreted as “a politics of buying time,” the seventies thus appear as the beginning of the (future) end of capitalism.

In contrast, this chapter argues the nineteen seventies saw *more than buying time*. Once the state socialist bloc is brought into the picture, it becomes clear that for the democratic capitalist states of the West³ the decade *also* constituted a turn towards a politics of breaking promises.⁴ This was possible, I argue, because in the West (but not in the East) the claim “There is no alternative” (TINA) to austerity and deindustrialization could be rendered credible to a sufficient number of veto players. In virtue of the economy-polity distinction, Western elites had a discursive object—the market economy—to which they could point in justification as promises were broken and levels of prosperity turned out lower than expected. In virtue of central planning, Eastern bloc elites did not have such a

1970s” (Streeck, 2016, p. 15).

³ In this chapter, I use “West” to refer to the G7 countries (USA, Japan, West Germany, France, the UK, Italy, and Canada) plus the smaller democratic capitalist states of Scandinavia, Western Europe, plus Australia, and New Zealand. By “the East” or the state socialist countries, I refer to the COMECON seven, i.e. the USSR, Poland, Romania, East Germany, Czechoslovakia, Hungary, and Bulgaria.

⁴ “The politics of breaking promises” is taken from Bartel’s groundbreaking study of the long end of the Cold War, whose gist is as follows: having grown accustomed to per capita growth rates of three to four per cent per year, major social actors in both East and West—governments, political parties, trade unions, employers, and so on—competed and made agreements with each other on the assumption that similar growth rates would continue. Bartel summarises this as the “politics of making promises.” When growth rates dropped, these agreements became untenable: given lower growth, there simply was not enough to give every party what they had been promised in the past. With a plethora of agreements made on the assumption of three to four per cent growth in perpetuity, a “politics of breaking promises” became unavoidable, and the question became who could implement it most successfully.

discursive object, and their attempts at public and private persuasion failed. As a result, whereas the former survived the large and persistent drop in growth of the nineteen seventies, the latter, though with a decade's delay, did not.

The remainder of this chapter is structured as follows. I begin by outlining the decade's crisis-ridden nature, before demonstrating that in response the West did more than buy time, while the East, by and large, did not. Next, I advance the main argument of this chapter: it was the polity-economy separation, constitutive of capitalism, that enabled the democratic capitalist states of the West to turn towards breaking promises, and to do so without fatally undermining regime legitimacy. This is followed by a comparative case study of Britain's and Poland's attempts at dealing with large and persistent shortfalls in prosperity during the nineteen seventies. This case study offers evidence of the mechanism described in the previous section and further illustrates its operation. Bolstering my case, I then rule out four competing explanations for British and Western success, Polish and Eastern failure: neither a uniquely successful return to post-War growth rates; nor uniquely visionary or courageous leadership; nor the immediate acquiescence by electorates, trade unions, or other veto players; nor superior economic or political expertise can explain why democratic capitalist regimes, but not state socialist ones, managed to survive the seventies' large and persistent shortfall in economic performance. I finish the chapter by considering two circumstances under which the expectation-shifting mechanism might not operate, concluding that one looks unlikely to materialize, while the other one looks improbable today, but not impossible in the future.

I conclude that, more than buying time, when faced with the nineteen seventies' large and persistent decline in growth the democratic capitalist states of the West managed to break promises without breaking their regimes. This was possible because they achieved an expectation reset: lower growth and higher insecurity became accepted, by enough of the population and by elites from across the political spectrum, as "The New Realism" (Judt, 2005, Chapter 17). The expectation reset was in turn enabled by the polity-economy distinction constitutive of capitalism. Although there are circumstances where the mechanism behind this expectation reset may not operate, discussed below, this case study shows that even the sum of the economic malfunctions discussed in the previous chapter, need not lead to the self-destruction of capitalism. Instead, it may lead to the acceptance of lower prosperity, to a grim surrender to a narrower horizon.

B. The nineteen seventies were a period of crisis that the West, but not the East, survived

The nineteen seventies were a decade of crises, with both East and West seeing a significant shortfall of prosperity relative to expectations. At the heart of this lay the end of Fordism and a secular decline in productivity growth: the paradigm of industrial mass production, in the West coupled with mass consumption and everywhere fueled by cheap energy, had reached its limits (Aglietta, 1979). Growth rates dropped by more than half, in both West and East.⁵ Productivity growth fared even worse.⁶

⁵ While from 1951 to 1973, per capita GDP grew at 3.7% p.a. in the West, 4.0% in Eastern Europe and 3.6% in the Soviet Union, from 1974 to 1982 growth slowed to barely more than 1% across the board (International Monetary Fund, 1990, p. 65, table 18).

⁶ In the Soviet Union, after averaging 0.5% p.a. between 1951 and 1973, it fell to *negative* 1.4% between 1974 and 1984 (International Monetary Fund, 1990, p. 66, table 20). In the West, the level was higher,

Surrounding and amplifying this economic slowdown were three interlinked developments: rising unemployment and increasing inflation (“stagflation”) (Eichengreen, 2007, Chapter 9 and 10; Judt, 2005, Chapter 14); an energy crisis resulting from rapidly growing demand, inadequate supply, and the growing strength of oil exporting country governments (Dietrich, 2017; M. Jacobs, 2016; Yergin, 2009); and a legitimization crisis as reflected, among other things, in vibrant student and political activism, the largest strike waves since the end of WWII, and widespread political terrorism (Glyn, 2006; Habermas, 1975; Judt, 2005, pp. 467–477). Whether from a social-, a legitimacy-, or macroeconomic perspective, the nineteen seventies constituted a period of severe crisis, making it a good case study to evaluate the effects on capitalism of what Streeck calls “multi-morbidity.”

In Streeck’s interpretation, the response of elites in advanced capitalist countries to this slowdown in growth was “buying time” (Streeck, 2014a). Rather than openly break the promises made during the Golden Age of post-War capitalism, governments searched for “politically expedient solutions to distributional conflicts between capital and labor” (Streeck, 2016, p. 16), and found these first in inflation, then in public debt, and then in private debt (Streeck, 2011, 2014a). These were effective, but each only for a certain time (Streeck, 2011, pp. 12, 14, and 18). In Streeck’s interpretation, the West’s response to the crises of the nineteen seventies was a series of stop-gaps. Insofar as these measures were

but the drop equally severe: from an average of 3.4% p.a. in the first period, productivity growth dropped to an average of 1.3% in the second (see also Gordon, 2016; International Monetary Fund, 1990, p. 66, table 20).

inherently time-limited, they could delay, but not prevent, the eventual self-destruction of capitalism.⁷

However, while Streeck, Krippner, and others have a point in identifying inflation, public debt, and then financialization and private debt as time-limited attempts to defuse distributional conflict, a more complete account of the period, especially in a Cold War comparative perspective, must also stress the following: the West did *more* than just buy time. Against much domestic resistance, governing elites *also* implemented a politics of breaking promises: beginning in the late nineteen seventies, governments in the West imposed significant and, from the perspective of 1970, unexpected hardship on large parts of their populations. This was done across a number of policy areas: incomes policies and deliberately low public sector wage settlements put downwards pressure on wage growth (P. A. Hall, 1986, Chapter 9). The deliberate defeat of high-profile strikes, particularly in the US and the UK, and the weaker enforcement of collective bargaining rights eroded trade union strength and further dampened wage growth (Glyn, 2006, Chapter 5). Governments shrunk legacy industries, whether via privatization (UK), state-led dismantlement (France), or via permitting and encouraging private-sector led retrenchment (US, Germany) (Judt, 2005, Chapter 16 and 17). Of political significance, the fallout of this imposition of hardship tended to be both temporally and locally

⁷ Broadly similar readings are shared by other scholars: Greta Krippner, for example, states that “[i]n the financialization of the U.S. economy, policymakers *avoided the difficult choices* that Bell suggested would increasingly embroil the state [...] critically, the turn to finance did not play this role by virtue of unleashing a new era of economic growth—long the American remedy for distributional conflict. Rather, [...] the policy regime associated with financialization *suspended rather than eliminated scarcity*” (Krippner, 2011, pp. 138–139, italics added).

concentrated, so that indicators such as national unemployment or poverty rates understated the impact these policies had on particular places and milieus (Packer, 2013; Rae, 2003; Vance, 2016).⁸

Additionally, macroeconomic policy, in particular via monetary tightening, turned from supporting full employment towards prioritizing price stability (Glyn, 2006, pp. 25–32, also Chapter 4 above for the French case), with predictable results: unemployment in Western Europe shot up from one to two per cent in the nineteen sixties to four per cent in the seventies, to nine per cent even in the late nineteen-eighties boom years (Hobsbawm, 1994, p. 406). In the United States, it increased from a post-War average of five per cent (1948-1970) to six per cent in the nineteen seventies and a peak of more than ten per cent from summer 1982 to fall 1983 (Data from U.S. Bureau of Labor Statistics, 2018a). Later on, extending the politics of breaking promises forward, during the nineteen nineties the conditionality of social transfer payments was reinforced, and significant, even existential risks in areas such as health, housing, and education were shifted back onto individuals (Hacker, 2006; Mehrtens, 2014). The resulting hardship was visible in rising unemployment, weaker wages and stronger profits, more volatile and regionally desolate

⁸ In Glasgow, for example, the rate of manufacturing job loss held steady at around two per cent per year from 1961 to 1978, before accelerating to more than nine per cent, or around 20,000 jobs per year, from 1978 to 1981 (Lever, 1991, p. 989). In New Haven, CT, the loss rate of manufacturing jobs rose from close to zero between 1947 and 1954 to around three to four per cent per year from 1954 to 1967, before shooting up to more than ten per cent from 1967 to 1972, eviscerating over 40% of the city's manufacturing base in five years (author's calculations, based on Rae, 2002, p. 362, table 11.1). In Turin, the introduction of industrial robots by Fiat during the nineteen seventies led to the loss of 65,000 jobs, or around 40% of Fiat's workforce, in just three years (Judt, 2005, p. 459); and in and around Gary, Indiana, steel mill employment dropped from 70,000 jobs in 1979, to 40,000 in 1985, to 36,000 in 1990, even as actual steel production reached an all-time high in 1990 (Catlin, 1993, pp. 90–91).

life worlds, the distribution of continued, if lower, growth,⁹ and most recently in declining life expectancy (Case & Deaton, 2017). The continued existence, even growth, of the welfare state, together with the turn towards consumption-sustaining financialization, were important elements in sustaining popular legitimacy, as Streeck, Krippner, or Leffler point out (Krippner, 2011; Leffler, 2012; Streeck, 2014a). Nevertheless, taken together and particularly as seen through the eyes of the median household, the Western responses to the crises of the nineteen seventies involved more than just buying time. Held up against the Beveridge Report (Beveridge, 1945) or FDR's "second Bill of Rights" and their promises of "The right to a useful and remunerative job [...] The right to earn enough to provide adequate food and clothing and recreation [...] [and] The right of every family to a decent home," (Roosevelt, 1944) there can be no doubt that, as Bartel (n.d.) argues, they constituted a politics of breaking promises.

This fact is thrown into sharp relief when compared with the experience of the state socialist countries during the same period. When faced with their own economic crises, the state socialist countries failed to do more than buy time. Poland offers the clearest example of what was a general pattern: after growing at 3.5% per capita per year from 1951 to 1973, the Polish economy experienced a sharp slowdown, shrinking at a rate of 0.4% p.a.

⁹ Whereas US productivity grew by 86% between 1980 and 2011, real hourly wages rose by only seven per cent over the entire period (Kochan, 2013, p. 294). Indeed, depending on the measure of inflation used, median lifetime incomes in fact either stagnated or *fell* by around ten per cent between cohorts that entered the labor market in the late nineteen sixties and cohorts that entered in the mid-eighties (Güvenen, Kaplan, Song, & Weidner, 2017, p. 18). Whereas the American economy as a whole grew by more than 60% between 1980 and 2014, market incomes for the bottom 50% of the American population grew a paltry 1%—over the entire period, not per year (Piketty et al., 2018, p. 578, table II).

from 1973 to 1982 (International Monetary Fund, 1990, p. 65, table 18). Agricultural productivity suffered in particular, as government policy starved the relatively efficient private farming sector of investment, while concentrating funds on comparatively inefficient state-owned agricultural collectives.¹⁰ When, in order to prevent shortages, the government attempted to curb food (and especially meat) consumption, raising food prices by thirty to forty per cent in December 1970, “[t]he result was an earthquake of working-class protest which toppled Gomulka and shook the regime” (Garton Ash, 2002, p. 13). The protests were suppressed, with dozens of deaths and over a thousand injured, but the lesson was clear: social peace and political stability depended on the government not violating the material expectations of Polish workers. To prevent the unchanged low prices from resulting in empty supermarket shelves, Poland turned towards debt-financed food imports (Tiraspolksy, 1980) – a politics of buying time.

A second attempt at imposing hardship fared no better. In June 1976, again under the pressure of economic necessity, the government once more attempted to raise food prices (Garton Ash, 2002, p. 19). A new wave of protests broke out. In Radom, an important centre of the Polish defence and metal industry, workers “marched to the Party headquarters and, receiving no satisfaction, set fire to it” (Garton Ash, 2002, p. 19). Rather than repressing the workers, this time the price increases were revoked the evening of the day they were originally announced (Garton Ash, 2002, p. 19). Food imports, and

¹⁰ Lest it be thought that democratic capitalist regimes are immune from ideology-driven inefficient economic policy, it bears pointing out that financialization, in addition to its redistributive effects, appears to have been a net drain on overall prosperity in the West (Shaxson, 2018).

the borrowing required to pay for them, continued apace (Kotkin, 2010). By the mid-nineteen seventies, Poland had thus become “a state with monopoly control over everything—economy, education, the media, cultural institutions, unions, police, the military, entertainment—which could not raise the price of sausage without risking mass social protests” (Kotkin, 2010, p. 85). Where economic performance dropped below expectations, the state, incapable of persuading its population of the necessity of hardship, and either not willing or not capable of imposing it by force, was forced into buying time.

A similar combination of economic problems and fears of unrest forced most of Eastern Europe and the Soviet Union—Romania being the sole exception—into a politics of buying time. Unable either to raise economic performance and so meet popular expectations,¹¹ or to bring these expectations in line with the disappointing reality of state socialist economic performance, Eastern governments resorted to borrowing hard currency from the West to pay for consumer imports. This “kiss of debt,” in Kotkin’s (2010) felicitous phrase, marked the beginning of the end for the state socialist countries (Bartel, n.d.; De Groot, 2018).

Why, then, did the West, but not the East, do more than just buy time? Why, despite the apparent strengths that Western observers attributed to the state socialist

¹¹ On the reasons why the state socialist countries proved unable to raise economic performance, see Rutland (1985), Winiński (1988), and Kornai (1992).

countries,¹² and despite their skeptical views on the governability of their own societies,¹³ was the West able to disappoint entrenched expectations, imposing deindustrialization and hardship on its industrial regions, while the East failed to do so, even at the cost of subsidizing inefficient factories and plants and paying for consumer imports, most often from borrowed funds? Was the West's ability a contingent feature of the social, political and economic context of the nineteen seventies, or was it grounded in a deeper, more permanent feature of capitalist states?

C. Enabling TINA: the epistemological importance of the polity-economy distinction

I argue that the West's ability to turn towards a politics of breaking promises was the result of a bitter, and in its individual elements contingent, process of expectation shifting. The distinction between polity and economy that is constitutive of capitalism (Block & Somers, 2014; Meiksins Wood, 1981) allowed *beliefs of necessity*, regarding deindustrialization and austerity, to become widespread in the West in a manner that, despite repeated attempts

¹²To contemporary observers, due to their direct, political control over prices and production decisions the East appeared better placed to deal with the stagflationary environment of the nineteen seventies. Alec Nove, the leading British expert on the Soviet economy, wrote in 1977: "in the last few years the Western industrialized economies have been shaken by inflation and recession. The Soviet-type economies have appeared to be relatively stable in an increasingly unstable world" (Nove, 1977, p. 8).

¹³ To contemporary observers, democratic capitalism appeared caught in a vice in the seventies: the demands of electorates and unions appeared to put pressure on democratic governments to facilitate wage rises, while capitalism implied that firms could raise prices at will. Governments were hence thought powerless in the face of inflation, unable to adjudicate the distributional conflict that inevitably resulted from expectations of three to four per cent growth running into a reality of one to two per cent growth. West of the Iron Curtain, "malaise" was in the air (Maier, 2010), the Trilateral Commission published a report entitled "The Crisis of Democracy: On the Governability of Democracies" (Crozier et al., 1975), and Time Magazine ran a cover with the headline "Can Capitalism Survive?" ("Can Capitalism Survive?," 1975). See also Chapter 1, Section G above (pp. 52-59).

to disseminate similar beliefs, was not possible the East. It created a publicly perceived object—the market economy—to which elites could point in their attempts to shift expectations around what was materially possible and what was not. As a result of this process of expectation shifting, Western regime elites could eventually turn towards (and win elections with) a style of politics best summarized in Margaret Thatcher’s words, “There is no alternative,” or what I have called a politics of single equilibrium (Chapter 3, section D, p. 168).

In particular, when political reforms were initiated in the West—for example the direct control of refining and fuel distribution, the decision to let the dollar float, a bout of Keynesian stimulus or austerity—subsequent movements in economic variables could be read as signals of whether the reforms in question were succeeding or failing. The signals generated were noisy and imperfect, to be sure. But precisely because the economy was considered *not* to be under the comprehensive control of the government, these signals were independent of the credibility of the government of the day and hence publicly credible; for it is a foundational assumption of the ideology of capitalism that “the economic is nonpolitical” (Fraser, 2015, p. 163).

This allowed for a trial-and-error feedback loop—in effect, if not in intention—where economic policies were implemented, changes in economic variables were publicly perceived, and the reform in question then either deemed a success—in which case the perception of crisis subsided—or a failure—in which case the particular policy was discredited, but rhetorical ammunition was produced for persuading veto players to accept a different policy in the next iteration.

In this manner each attempt to *maintain* the network of agreements that had built up during the Golden Age—assuring steady wage growth and low unemployment, at least for male breadwinners—provided, as an unintentional but nonetheless reliable side-effect, future support for *dismantling* it. More specifically, where attempts at Keynesian stimulus, direct wage controls, sector-level command-and-control measures, or financial repression resulted in inflation and queues; where attempts to double down on these policies appeared to worsen these problems; and where broadly similar patterns were observed not just at home but in other G7 economies, political space was opened up to attempt new policies, even where these were known to involve the breaking of (explicit or implicit) agreements and promises.

D. A comparative case study in creating beliefs of necessity (1/2): The United Kingdom

This description is given at a high level of abstraction. Both to detail the workings of the mechanism just described and—through process-tracing—to offer evidence of its operation, I show how beliefs of necessity were and were not created in Poland and the UK during the nineteen seventies.

Beginning with the United Kingdom, the seventies were a difficult period, constituting a good example of what Streeck calls “multi-morbidity,” i.e. the conjunction of various economic and social problems and crises. Caught between the end of Fordism, powerful trade unions, and the oil shock of 1973, successive governments failed to control inflation or to return the country to the growth rates enjoyed by France, Germany or Italy (see also Hay, 2010, pp. 448–451; Judt, 2005, pp. 538–539). Britain was widely considered to be the “sick man of Europe” (Pollard, 1982). “Ruminations on the nation’s

failure were so widespread that it engendered a phenomenon of “declinism” (Raymond, 2016, p. 5; Tomlinson, 2013).

Yet, when John Hoskyns, advisor to Margaret Thatcher, presented the *Stepping Stones* report that would become the blueprint for Thatcherism, it received a lukewarm welcome among the Tory leadership in late 1977 and 1978 (Bartel, n.d., Chapter 4). Indeed, ever since winning the Conservative Party leadership in 1975, Margaret Thatcher had attempted to push the party to adopt a monetarist, neoliberal economic policy: her project was to extend private sovereignty over the division of labour and to end the politically-willed, but economically costly, support that previous Conservative and Labour governments had given to ailing industries (Thatcher, 1995, Chapter 9 and 11, particularly p. 397). Until 1978, however, the results of her efforts at persuasion were decidedly mixed. “In truth,” Thatcher said about the July 1978 draft manifesto, “I was disagreeably reminded of what little real progress in analysis or policy we had made in Opposition over the last three years” (Thatcher, 1995, p. 410).

The reasons for this were straightforward: proposing the kinds of policies proposed by Thatcher, Hoskyns, and the *Stepping Stones* report – weakening trade unions, privatizing industry, using tight monetary policy to force unemployment up and thus inflation down, and thereby organize a decentralized, market-led, and ruthless form of deindustrialization – was thought to be politically suicidal (Thatcher, 1995, p. 421). Hence “most of the party leadership relied on the tried and true method for dealing with uncomfortable topics: simply not talking about it” (Bartel, n.d., Chapter 4). The suspicion, well-founded in light of Heath’s election loss of 1974, that a direct confrontation with

trade unions would result in electoral defeat meant that party elites, both in the Tory and in the Labour Party, had little appetite for staging such a confrontation in the first place. In case of the Conservative Party, this was despite the fact that Margaret Thatcher – the party leader herself – had been advocating such policies energetically for more than three years.

This political calculus changed during the winter of 1978-79. Towards the end of 1978, James Callaghan's IMF-sponsored incomes policy, intended to bring down inflation by imposing a ceiling on wage increases, broke down under the pressure of unmet expectations.¹⁴ Between November 1978 and February 1979, four waves of labour disputes rocked British society. As lorry drivers (including oil tankers), railroad workers, nurses, waste collectors, and grave diggers went on strike at various points throughout the winter, "British society virtually ceased to function in the months surrounding the turn from 1978 to 1979" (Bartel, n.d., Chapter 4). The political consequences were pivotal: whereas in November 1978, the Labour government was polling just one percentage point behind the opposition, by February 1979 the polling gap had widened to nineteen per cent (Rodgers, 2005, p. 171).

Labelled "the Winter of Discontent," it was widely perceived as a sign that the post-War settlement had broken down beyond repair (Hay, 2010, p. 448). Independently of whether this perception was an accurate assessment of the events – and there are reasons

¹⁴ With inflation running at around nine per cent, the Callaghan government asked unions to bargain for no more than five per cent wage increases, i.e. to accept a four per cent real wage cut. Given that real wages had already declined by thirteen per cent between 1975 and 1978 – the largest reduction in purchasing power since 1931-32 – rank-and-file members were unwilling to accept this guideline (even as their leadership showed a willingness to bargain on this basis) (Hay, 2010, p. 450).

to doubt that it was (Hay 2010, 456–64; see also sections B and C of Chapter 3 above) – this was the dominant interpretation at the time (Hay, 2010, pp. 464–466). As a result, the same party elites who had earlier resisted Thatcher’s efforts at persuasion were now open to being swayed, because they in turn had come to believe that a majority of the electorate – in virtue of having perceived the same signal – could be convinced of a Thatcherite platform. “Between the summer of 1978 and the dissolution of Parliament in March 1979 outside events, above all that winter’s strikes, allowed me [Margaret Thatcher] to shift our policies in the direction I wanted. The balance of opinion in the Shadow Cabinet, following rather than leading opinion in the country, was now that we could and should obtain a mandate to clip the wings of the trade union militants” (Thatcher, 1995, p. 435).

This did not imply that the implementation of such a program would proceed smoothly. When implementation began in earnest, in particular with the budget of 1981, it provoked an immediate and strong backlash, both on the street, with the Brixton and Liverpool riots, and from academia.¹⁵ Nevertheless, in part because of the shift in public opinion engendered by the Winter of Discontent (captured in the eighteen point polling shift mentioned above), and because Thatcherite policies had been openly advanced and prevailed in an electoral campaign, the regime’s fundamental legitimacy survived, and the policy paradigm shift – the turn towards a politics of breaking promises – proved durable

¹⁵ 364 economists signed a letter saying “There is no basis in economic theory or supporting evidence for the government’s belief that by deflating demand they will bring inflation permanently under control.” The 1981 budget “will only deepen the depression” (Quoted in Bartel, n.d., Chapter 4).

(Kalyvas, 1994).¹⁶ As Thatcher would later say, her greatest success was Tony Blair:¹⁷ symbol of the fact that, despite considerable rioting and intense resistance on the way, most of British society came to accept the legitimacy of her austerity and deindustrialization programme. Faced with the crises of the seventies, British elites thus succeeded in doing more than buying time: they broke promises and shifted expectations, without breaking their regime.

E. A comparative case study in creating beliefs of necessity (2/2): Poland

To underline how this mechanism is linked to the economy-polity divide constitutive of capitalism, it is instructive to observe the corresponding process of attempted expectation shifting in a command economy. The Polish Politburo's attempts to do exactly this—convince their veto players, in this case the leadership and rank-and-file of Solidarity, that there is no alternative to painful economic reforms—demonstrate the pitfalls of public persuasion in the absence of depoliticized economic signals.

In 1980, a third attempt by the Polish government to raise food prices led, like in 1970 and 1976, to strikes and protests (see pp. 297-298 above). In response, in August 1980 the government effectively revoked its price increases via salary increases, agreed in

¹⁶ This account of events in the UK meshes well with how scholars have described this period and process in the United States: “the conservative reaction to the policies of the welfare-defense state in late-twentieth century America suggests that the more trusted way to handle the gap [between aspirations and outcomes] has been not by committing more resources, or trying even harder to effectively implement general goals, but by lowering public expectations” (Ezrahi, 1990, p. 254).

¹⁷ According to Conor Burns MP, in 2002 Margaret Thatcher responded to the question “What was your greatest achievement?” by saying “Tony Blair and New Labour. We forced our opponents to change their minds” (Burns, 2008). Note the emphasis on a change in beliefs, consistent with the epistemological mechanism centred on expectation-shifting that I foreground here.

the Gdansk Accords (Garton Ash, 2002, pp. 74–78). This U-turn, however, bought the government no more than three months of breathing room: “the state of the economy made it impossible to meet the material commitments in the time-spans indicated” (Garton Ash, 2002, pp. 77–78). By December, dwindling exchange reserves necessitated a new attempt at reducing food consumption.¹⁸ As prices were increased and the material promises of the Gdansk agreement broken, strikes and unrest recommenced.

On the one hand, it was clear to the government that the imposition of hardship was unavoidable: it was estimated that food price increases of 100% to 300%, large investment cuts, and “massive redundancies of the order of 1.2 million” were required (Nutti, 1981, pp. 130–131). On the other hand, in light of three failed attempts to impose hardship over the last decade, the government also recognized that it could not do this without winning public support from Solidarity (Garton Ash, 2002, p. 202). In light of this twin recognition, the Communist leadership spent the remainder of 1981 attempting to build sufficient public support for doing more than buying time, i.e. for a politics of austerity and breaking promises.

The attempt went off to a good start: In March 1981, the government shared confidential information about the state of the economy (Bartel, n.d., Chapter 4), which succeeded in convincing the Solidarity leadership of the gravity of the situation: “Their [Solidarity’s] economists told them [...] they would have to support a stringent austerity

¹⁸ During the seventies, Poland had become a major importer of food from the West, so that the food supply was directly tied to the amount of hard currency Poland could acquire through borrowing and exports. See Tiraspolksy (1980).

program. [...] the workers would have to accept those drastic price increases which they had effectively vetoed in 1970, 1976, and 1980. Moreover, the “rationalization” of industry would require the relocation of labor, which would mean putting up to one million people out of work” (Garton Ash, 2002, pp. 114–115). From Spring 1981 on, both the Communist party elite *and* Solidarity’s leadership understood that austerity and deindustrialization were well and truly necessary.

However, and this is the crucial point of the case study, *despite* this recognition negotiations soon turned sour. The fallout over a small-scale violent confrontation in March 1981 could be contained; but the continued shortage of foreign exchange could not. As the government ran out of hard currency in the spring, a new round of austerity was required, resulting not just in price increases but in the introduction of rationing cards for meat, butter, and grain (Bartel, n.d., Chapter 4). More than thirty years after the end of World War II, and after decades of panegyrics on socialist economic prowess, the population interpreted the introduction of rationing as a *political decision* to squeeze the people at large so that the party, security forces, the Soviet Union, and Western creditors could be lavishly supplied: “Having been lied to for so long, the Poles did not believe their rulers even when they were telling the truth” (Garton Ash, 2002, p. 193).

In virtue of the deeply conjoined nature of polity and economy, there simply was no credible signal – not even the two leadership changes of September 1980 and October 1981¹⁹ – that the government could send to indicate the shortages were *not* politically

¹⁹ Edward Gierek was replaced by Stanisław Kania in September 1980, who in turn was replaced by Wojciech Jaruzelski in October 1981.

driven. As a result, the hand of Solidarity's leadership was forced from below: "With each new blow to the economy, the Solidarity leadership felt compelled by popular pressure to demand more social and political power in return for its sponsorship of austerity and reform" (Bartel, n.d., Chapter 4).

Although Solidarity's leadership acknowledged the severity of the situation behind closed doors, they did not do so in public. In October 1981 Deputy Prime Minister Rakowski angrily reported that "our partners, or rather our opponents [Solidarity] [...] publicly take the position that if the government agrees to give them control over the economy and government policy, then the economic misery and severe shortages...will disappear like morning fog" (Bartel, n.d., Chapter 4).

Negotiations between the government and Solidarity continued through the fall of 1981, but because public opinion could not be moved, a peaceful solution was out of reach. The population believed that austerity was a political attempt to extract more resource from it. The government had no signal that could unilaterally alter this belief. Solidarity's leadership in turn could not support the government's line that austerity was needed without looking like the government's stooge, thus losing the support and allegiance of its rank-and-file membership. This presented Solidarity's leadership with a dilemma: unconditionally support an austerity program, risking self-destruction at the hands of its more militant rank-and-file members; or tie support for austerity to demands amounting to regime change, risking destruction at the hands of the regime.

The endgame had begun. The government concluded that a negotiated solution was ever less likely and prepared a crackdown (Garton Ash, 2002, pp. 244–249).

Solidarity, amid widespread rumours of troop movements and after the government violently broke up small-scale strikes in early December, convened an emergency meeting of its National Committee on 11th December 1981. After nearly a year of negotiations, Solidarity's leadership decided the time had come to force the matter: Solidarity would demand free elections and a free press, as well as the institution of a parallel, Solidarity-run, economic government with veto power over the state socialist government (Bartel, n.d., Chapter 4; Ost, 1990, p. 144; Rakowski, 2004, pp. 112–119).

These demands never reached the public: having wiretapped the meeting, the next morning the Polish Politburo decided to move ahead with the planned crackdown. Solidarity's leadership was arrested, martial law was imposed, and two weeks of strikes, repression, and bitter fighting around factories, mines, and shipyards followed (Garton Ash, 2002, pp. 273–280).

This crackdown bought the government another decade in power. Nevertheless, the attempt to convince the public of the necessity of austerity by winning the support of Solidarity had ended in failure. Although there was a genuine economic crisis; although there was publicly *seen* to be such a crisis; and although—behind closed doors—both reigning elites and challenger elites agreed that austerity and deindustrialization were inevitably required, the reigning regime could not take the necessary measures without sparking massive unrest, as had happened in 1970, 1976, and 1980. On the opposition side, even *after* Solidarity *knew* austerity and deindustrialization to be necessary, i.e. from March 1981 on, its leadership could not publicly support it without either asking for regime change or fatally undermining its own credibility with rank-and-file members. As

a result, instead of winning Solidarity's support, the government resorted to a crackdown that, while staving off Solidarity's regime challenge in the short run, marked the beginning of the end for state socialism in Poland (Kotkin, 2009, pp. 99–131). Faced with the kind of legitimation crisis that Streeck argues awaits contemporary capitalism, the Polish government, unlike the British, could do no more than buy time.

Summarizing this mechanism, in the West the separation of polity and economy allowed for changes in economic performance to be read as credible and independent (if noisy) signals about the efficacy of public policy, by both policy makers and publics. The groping towards higher growth and lower inflation, in response to the severe and persistent economic crisis of the seventies, led to a series of economic signals: persistent stagflation in much of the G7 economies; US fuel rationing in 1973/4; the UK's IMF programme of 1976 and the Winter of Discontent of 1979; Italy's turn to the IMF in 1974 and 1977 (H. James, 1996, pp. 283–285); France's departure from the Snake in 1976 and a series of balance of payment crises in October 1981, June 1982, and March 1983 (covered in Chapter 4 above), to name but a few. These signals, in discrediting the approaches that had been tried, created political space for policies that were known in advance to be painful. They shifted down expectations.

In contrast, in the East substantially similar symptoms (disappointed economic expectations, queues and, on the black market, inflation) were interpreted by the population at large as a *political* attempt by elites to exercise pressure on the populace and to skim off ever more surplus for the nomenklatura, Soviet overlords, and Western

creditors.²⁰ Even after Eastern governments had formed the intention of persuading—rather than forcing—their populations into hardship, given the non-distinction between economy and polity, and the prior loss of legitimacy that the economic crisis (among other factors) had caused, there was no signal that governments could send that would be seen as credible by the people at large. Instead of simultaneously creating expectations of government action *and* widening the set of policies that veto players in the population would accept, only the first took place. As a result, state socialist governments were limited to a politics of buying time. When time was up, the regimes collapsed.

F. Four alternative explanations fail

Before discussing the wider implications of the mechanism just described, I consider four competing explanations for why, when faced with the severe and persistent economic crisis of the seventies, the West did more than buy time, while the East did not. Since the case studies outlined above were far from comprehensive, either in geography or depth, this is useful in order to increase confidence that the mechanism in question was operative and important. Four competing explanations in particular, I show in this section, fail: neither a uniquely successful return to post-War growth rates; nor uniquely visionary or courageous leadership; nor the immediate acquiescence by electorates, trade unions, or

²⁰ This mechanism was described here for the case of Poland. Similar dynamics were at work across the Eastern Bloc. On the Hungarian case, for example, see Fehérváry (2009): “in the state-socialist context flaws stemming from ill-conceived design or inadequate materials were experienced in *explicitly political terms*. Consumers interpreted them as evidence of malicious intent, cheapness, negligence, or simple incompetence on the part of the Hungarian state, as unitary designer/producer. If imported from a COMECON nation, these flaws were evidence of the failure of the Soviet system” (Fehérváry, 2009, p. 446, italics added). For the Eastern Bloc more generally, see Bartel (n.d.)

other veto players; nor superior economic or political expertise fit with the historical record as explanations for why democratic capitalist regimes, but not state socialist ones, did more than buy time. Elites in *both* East and West failed to restore the growth rates of the Golden Age of Capitalism or the Age of Red Plenty (see also Fourastié, 1979; Marglin & Schor, 1990; Spufford, 2010); shied away, initially, from taking politically painful actions; ran into popular rejection when taking early steps towards austerity and the politics of breaking promises; and yet saw the necessity of hardship and deindustrialization.

Concerning growth rates, it was “not [...] by virtue of unleashing a new era of economic growth” (Krippner, 2011, p. 139) that Western governments succeeded in surviving the economic and legitimation crises they faced in the nineteen seventies. While growth rates in the West did pick up again in the eighties, they never stabilized at the high levels of the fifties and sixties (Glyn, 2006, Chapter 6). Even after the Reagan Revolution, US total factor productivity growth, when measured per decade, never reached more than half the level of the nineteen sixties, or even a quarter of that of the fifties (Gordon, 2016, p. 547).²¹ Nor was the mid-eighties resurgence of growth unique to the West: from 1983 to 1988, Western per capita growth recovered to 2.5% p.a.; but similar growth rates returned to Eastern Europe, with per capita growth of 2.3% p.a. from 1983 to 1988 (International Monetary Fund, 1990, p. 65, table 18).

²¹ In fact, while total factor productivity grew at an average of 1.4% p.a. during the seventies, productivity growth declined to 0.3% during the nineteen eighties and only recovered to 0.8% during the nineteen nineties and two thousands (Gordon, 2016, p. 547).

Nor was it the case that Western elites immediately grasped the nettle while their Eastern counterparts failed to do so: whether energy policy, trade unions and industrial relations, macroeconomic management, monetary policy or currency management, by and large Western governments in the early seventies *did* begin by buying time: President Nixon, for example, responded to the 1973 oil shock by imposing direct government control on the energy sector, thereby shielding consumers from rationing via the prize mechanism (and his government from the political fallout of rising oil firm profits during a national energy crisis) (M. Jacobs, 2016, p. 71). Prime Minister Harold Wilson, immediately after the February 1974 election, instead of continuing with wage repression in order to reduce inflation and restore the profitability of investment, removed statutory pay controls, allowing wages to rise and inflation to increase to a peak of twenty two per cent in April 1975 (Burk & Cairncross, 1992, pp. 14–15). In France, both a conservative and a socialist government turned to Keynesian stimuli in response to the downturns of 1975-6 and 1981-3, only to spark balance of payments and inflation problems (Judt, 2005, pp. 551–554).

Nor, once governments in the West did turn towards hardship and risk shifting, was their success driven by the immediate acquiescence of electorates, trade unions, or other veto players (see again Chapter 1, section G, p. 52 above): where governments made early attempts to deviate from the path of least resistance, they lost at the ballot box. President Ford, within months of entering office, attempted a frontal attack on inflation with his “Whip Inflation Now” (WIN) campaign. This was sternly rebuked at the midterm elections of November 1974 (M. Jacobs, 2016, pp. 128–132). Similarly, in the

presidential election of 1976, faced with a decision between an austerity-leaning Gerald Ford and a stimulus-offering Jimmy Carter, the American people chose the latter (H. James, 1996, pp. 288–289). And when, in 1974, the Conservative government of Edward Heath asked “Who governs Britain?”, in an effort to face down trade union resistance, the British electorate answered: not you (Judt, 2005, p. 538). Much like the Polish government in 1970 and 1976, governments across the West ran into popular rejection whenever they first attempted to dash their populations’ expectations.

Lastly, we can also exclude explanations based on differential expertise: by the late nineteen seventies, a number of important advisors and politicians on both sides of the Iron Curtain had understood the nature of the crisis. In the West, the secular nature of the economic crisis was widely grasped on both sides of the political spectrum.²² But in the East, too, key politicians and advisors came to understand the secular nature of the challenges ahead, and pushed for corresponding actions, including politically explosive deindustrialization.²³ In other words, by the late seventies a key thinkers, politicians, and

²² In France, while there was a fierce battle on the left over how to respond to the second oil shock, by the time Mitterrand entered office in 1981, his most trusted economic advisors—in particular François-Xavier Stasse, Elisabeth Guigou, and Jean-Louis Bianco—stressed the limits of the Keynesian paradigm (Fulla, 2016). In the UK, both Margaret Thatcher and the head of her Policy Unit, John Hoskyns, argued that “Recovery [of Britain’s economic position vis-à-vis the other G7 countries] requires a sea-change in Britain’s political economy” (Hoskyns, 1977, p. 2). More strikingly, a similar transformation was visible in James Callaghan’s speech at the 1976 Labour Party Conference: “We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists” (Fielding, 2004, p. 288). In the United States, finally, President Ford’s advisors, in particular Alan Greenspan as head of the President’s Council of Economic Advisors, Donald Rumsfeld as his chief of staff, and Richard Cheney as Rumsfeld’s successor, urged a turn to austerity as early as 1974 (M. Jacobs, 2016, pp. 129–132).

²³ Mieczysław Rakowski (editor of the influential weekly newspaper *Polityka*, deputy prime minister under Wojciech Jaruzelski, and later the last leader of the Polish communist party) saw the depth of the economic and legitimization crisis into which Poland had slid over the course of the nineteen seventies, and called for

advisors in both East and West had recognized the need to move from buying time to doing more than that, from a politics of making promises to a politics of breaking them.

The West's ability to turn towards a politics of breaking promises, to do more than just buy time, then, was neither the result of differential expertise vis-à-vis the East; nor the result of particularly courageous leadership or the immediate acquiescence by electorates, trade unions, or other veto players; nor the result of a uniquely successful return to the growth rates of the Golden Age of post-War capitalism. Instead, in the West but not the East, a bitter and in its individual elements contingent process of persuasion by trial-and-error had taken place.

Looking back, the decisive element was not so much that “a certain level of unemployment; reduced social transfer payments [...] and [controlling and reducing] inflation and government spending even at the price of economic hardship” (Judt, 2005, p. 539) were implemented throughout the West, and that this (marginally) boosted growth rates again. Austerity was ultimately imposed in Romania and (to a lesser extent) in Poland, too, and growth rates rebounded in both Eastern Europe and the West (though not the Soviet Union). What was decisive was that the new paradigm, of lower growth

austerity accompanied by political reform (Rakowski, 1981). In East Germany, President of the central bank Margarete ('Grete') Wittkowski, chairman of the state planning commission Gerhard Schürer, and central committee member and secretary for the economy Günter Mittag all pushed for austerity and a rebalancing of imports and exports at various points throughout the seventies (De Groot, 2018, pp. 38–39). In the Soviet Union, reflecting elite recognition of secular economic problems, there was a conscious, though ultimately unsuccessful, ideological push to reverse expectations of consumer affluence, replacing the vocabulary of “developed socialism,” introduced in 1971 and connotated with material affluence, with a vocabulary of a “socialist way of life,” connotated with frugality and a moral rather than material superiority over capitalism (Evans Jr, 1986).

rates and more insecurity, became *accepted* in the West by a majority of the population and by elites from across the political spectrum as “The New Realism” (Judt, 2005, Chapter 17). Its success lay less in the boost to growth—moderate at best (see also Glyn, 2006, Chapter 6), and not exclusive to the West (International Monetary Fund, 1990, p. 65)—and more in the fact that the crisis experience of the seventies and the groping for solutions in the context of a polity-economy distinction, entrenched the belief that growth could not be lifted any higher.

Returning to Streeck’s claim that a comprehensive malfunctioning in capitalism’s engine room will lead to regime delegitimation, we can now say the following. Since legitimacy is a function of beliefs, a generic shortfall in economic performance only acts to reduce legitimacy (over the medium and long run) when expectations remain as high as before, i.e. when the shortfall is perceived in some sense as avoidable, or—even more dangerous for regime legitimacy—as unnecessarily imposed. In order to understand the social sustainability of capitalism, it is thus not future economic performance that we must focus on—as long as growth is moderately positive—but the question as to whether the process of expectation-shifting that was instrumental in mastering the crisis of the seventies will continue to operate in the future. As long as it does, we cannot be certain that even severe and systemic shortfalls in economic performance, like that of the nineteen seventies, will lead inexorably to gradual self-destruction.²⁴

²⁴ Of course, serious shortfalls in economic performance are likely to cause significant difficulties, say for a decade, as adjustment proceeds, during which “destruction by rupture” may well be a possibility. This case is covered in Chapter 8. A decline of growth to zero (coupled with a savings rate greater than zero) *would*

G. What makes trial-and-error persuasion possible (1/2)? The importance of public information

When might this process of persuasion, or expectation-shifting through trial and error, not function? A first obstacle that might inhibit the process of persuasion through trial and error is a broad loss of trust in public information. This obstacle was a key reason behind the Eastern Bloc's failure to implement a politics of breaking promises. It is also timely in light of recent debates around declining trust in established newspapers, TV channels, and other sources of news.

In the absence of trust in public information, a process of expectation-shifting through trial and error is unlikely to take place. Nobody experiences the economy directly. Instead, we all rely on data from various sources to construct images of 'the economy' and to critically evaluate the narratives and images that others offer (Tooze, 2001). Without trust in publicly shared data, no veto player can be expected to accept the need for *them in particular* to suffer economic hardship. When a government announces that there are severe and persistent economic troubles, this may move veto players to accept a loss in living standards—but only if various data sources confirm the severe and persistent nature of the downturn. Where this is not the case, many veto players are likely to resist the retrenchment of their claims, thereby forcing the government in question to make cuts elsewhere, or—more likely—to buy time. When cuts, inevitably, are made somewhere, those affected, not believing the cuts to be necessary, cannot be expected to shift down

lead to the self-destruction of capitalism, through the "thorny choice" covered in Chapter 5, section E, pp. 261-263 above.

expectations. Instead, they are likely to question the legitimacy of the elites who imposed them. Over time, if material outcomes continue to disappoint, without the necessity of this disappointment being convincingly demonstrated, the legitimacy of the social order as a whole will fall, as was visible in the Polish experience described above. Where trust in public information is absent, a shortfall in prosperity can therefore lead to a gradual self-destruction of capitalism as a social order: group after group, faced with cutbacks and material disappointments that they do not believe to be truly necessary, would become disaffected, until the social order as a whole has lost a critical amount of legitimacy.

However, as long as capitalism is embedded in a liberal (though not necessarily democratic) polity, this scenario is unlikely, because information on the economy is difficult to falsify under capitalism. First, the financial sector, depending on accurate information in order to turn a profit, demands correct and exact information about economic indicators. Where the relevant information, often publicly provided, is seen to be inaccurate, entrepreneurs will seek for ways of producing and selling better alternatives.²⁵ One might object that this information will only be available to a small circle of investors – like Bloomberg terminals – but the cost structure of information production makes this unlikely: once produced, the marginal cost of selling an article, a photo, a series of statistics, or a video drops close to zero, so that information providers will, in general, have an incentive to sell them as widely as possible.

²⁵ Examples of this include Bloomberg terminals or the alternative inflation indices produced for Argentina in the two thousand teens, when the government of the day manipulated the official inflation index.

Second, and equally significant, in a capitalist economy systematic misinformation (insofar as it pertains to market transactions) is eventually self-revealing, again primarily and fastest in the financial sector: contrary trades force inaccurate information to reveal itself, as loans are or are not repaid, profits do or do not increase, stock prices move up or down, goods are or are not delivered. The case of Greek national statistics before 2009 is instructive here: despite intense efforts at obscuring the real nature of Greece's public finances – profitably aided and abetted by private sector 'expertise' – repayment difficulties eventually revealed the extent of revenue shortfalls relative to spending commitments.²⁶

While the absence of publicly trusted information may very well render the process of adjusting expectations downwards impossible, this absence itself is therefore unlikely to be a durable feature under capitalism. Accurate information is a valuable good, and once produced it is cheaply reproducible, so that it is likely to be endogenously provided. Under capitalism, this obstacle is hence likely to remain hypothetical.

H. What makes trial-and-error persuasion possible (2/2)? The absence of higher prosperity elsewhere

A second obstacle to the process of public persuasion through trial and error is the following: where other countries at comparable or higher levels of prosperity enjoy substantially higher growth rates, weaker results will be seen as unnecessary and avoidable.

²⁶ This case also shows that considerable misinformation can prevail for years – the manipulations aided and abetted by Goldman Sachs started in 2002 and did not become public knowledge until 2009-10 (Balzi, 2010) – so that the mechanism described here, too, must be taken as probabilistic and operating with significant lag. It must also be noted that in 2005, Goldman Sachs – acutely aware of the counterparty risk – sold (to Greek banks) the off-the-books loans that it had arranged for the Greek state, so that it had extracted itself off the hook when the Greek state became predictably unable to repay this debt.

Expectations will be sticky, and weak economic performance in a single state, e.g. a crisis situation like that of the nineteen seventies or as envisaged by Streeck for our time, will delegitimize the particular state's social order.

Where the countries with comparatively higher prosperity are themselves capitalist ones, this is not a challenge to capitalism as a social order. For example, the perceived weakness of continental European economies during the nineteen nineties, in particular that of Germany,²⁷ did not lead to a challenge against capitalism. On the contrary, it led to a deeper embrace of market-conforming politics.

With regards to the self-destruction of capitalism, we can therefore focus our attention on cases where non-capitalist countries outperform capitalist ones. Such scenarios are eminently possible: unregulated capitalism is full of pathologies that reduce prosperity.²⁸ Examples include the underprovision of public goods, the tolerance of public bads, an inherent tendency towards oligopoly and monopoly, destructive cycles of financial exuberance and despair (Minsky, 1977, 1986), difficulties in handling information goods,²⁹ and a tendency towards high inequality (Piketty, 2014) that in turn leads to

²⁷ The June 5th 1999 issue of *The Economist* was entitled "Germany stalls, the euro falls." The cover story, "The sick man of the euro," begins with the words "The social-market economy devised in Germany after the second world war, with its careful blend of market capitalism, strong labour protection and a generous welfare state, served the country well for several decades. But it is now coming under pressure as never before." The story continues "Germany can hardly claim that its malaise is a rich-world commonplace. The American economy is still booming" ("The sick man of the euro," 1999).

²⁸ For an overview, see Cassidy (2009). See also Chapter 3, esp. section B above, starting p. 143.

²⁹ Reproducing information, once it has been created, is close to costless today. In competitive markets prices converge on the cost of producing the last additional unit ("marginal cost"), which in the case of information is zero. Given an expected future price of zero, investment in research in the context of competitive markets is thus a losing proposition. The solution to this problem lies outside the market process: through the creation of legal monopolies (e.g. through the enforcement of trade secrets or patents), through the public provision

structurally insufficient demand (Summers, 2015) as well as creating a gap between average and median income growth rates (Gordon, 2016, Chapter 18).

And yet, three reasons suggest that such a scenario is *prima facie* unlikely. First, solutions to some of the pathologies listed above are ideologically compatible with capitalism: the creation of monopoly profits as an incentive for innovation (e.g. US Constitution, Article 1, Section 8); the use of property rights to control emissions (e.g. the New Zealand and EU Emissions Trading Scheme, or the US Acid Rain Program); the pursuit of anti-trust policy to limit oligopoly and monopoly formation; and the use of monetary and fiscal policy to boost demand are key examples.³⁰

Of course, the *possibility* of introducing market-conforming responses has little weight on its own: a comparative study of German and US anti-trust enforcement policy, for example, shows that propitious political circumstances are necessary for competition policy to be effectively enforced (Ergen & Kohl, 2019). However, the intellectual and ideological availability of these solutions means that they stand ready, over the medium- to long-run, as a safety valve: regime-invested elites can choose to adopt them, for example when coming under pressure from rival elites who point to the superior performance of countries that already introduced similar measures, without thereby questioning the

of research funding, or through voluntary, non-market efforts (e.g. Wikipedia). See Mason (2015) for a useful summary of market failures arising from the zero marginal cost of reproducing information.

³⁰ Given the re-emergence of a demand-side secular stagnation literature (Ball et al., 2014; e.g. Summers, 2013, 2015), I restate the following: in monetary regimes with fiat currency, demand-side secular stagnation is a political, not an economic problem. Additional demand can *always* be created (Buiter, 2014). The political problem arises from the fact, well known since Marx and Kalecki (Kalecki, 1943), that a certain degree of ‘spare capacity’, i.e. unemployment, reinforces the power of investors and employers, who are therefore sceptical, to say the least, of persistent full employment through monetary or fiscal stimulus.

regime as a whole. Again, the availability of these reforms does not imply that they will be introduced immediately once their effectiveness is understood or soon enough to prevent a revolutionary situation from arising; but it does imply that a long run trajectory of permanent decline cannot be predicted with certainty. After a decade or so of crisis, trial-and-error may well result in the widespread adoption of measures that succeed in dispelling the perception of crisis.

Second, competition between capitalism and rival social orders, whether state socialism, commercially closed market democracy, or otherwise, does not take place on a level playing field: as argued in Chapter 4, it is impossible to participate substantially in capitalist world markets and the international division of labour that they enable, and at the same time to run a substantively capital-unfriendly domestic social order. A country wishing to run economic policies that go against the interests of investors and entrepreneurs, for example via significantly more redistributive taxation, through extensive command-and-control elements, or through running the domestic economy closer to full employment, will over time have to choose between retreating from the international division of labour or changing its domestic economic policy regime (This was precisely the choice faced by President Mitterrand between 1981 and 1983). This skews any competition between capitalism and a non-capitalist system in favour of the capitalist world, as the more extended division of labour that it can engage in through international trade allows for specialisation and the exploitation of comparative advantage. The magnitude of this advantage depends on the marginal gains from the longer extension of the division of labour that is enabled in the capitalist world, compared to the division of

labour that is possible in the non-capitalist world, but in current circumstances, this advantage may well be substantial.

Third, and most importantly, responding to unexpected technological or resource shocks through extending private sovereignty over the division of labour can be both efficient and resistance-demobilizing. In the context of the nineteen seventies, this was most visible in how the West adapted to the sudden and significant increases in oil prices in 1973 and 1979.

Just as with the British response to stagflation covered above, Western governments, under the pressure of their electorates, did not turn immediately to markets and deregulation in response to rising energy prices. Perhaps surprisingly, the American response initially consisted of introducing central planning to the energy sector: besides using direct price controls, the Nixon administration created the Federal Energy Office (FEO) and gave it the power to control “to what industries, dealers, and regions the oil companies sent their products [...] [and] what the oil companies refined and when” (M. Jacobs, 2016, p. 71).

However, as outlined in Chapter 3 above (p. 162), the results were less than ideal: “the shortages worsened and the public’s nerves frayed” (M. Jacobs, 2016, p. 73). Truckers in particular were caught in the crossfire: trucking freight rates were capped by the Interstate Commerce Commission (ICC), so that higher operating costs (both from the limited fuel price increases that the Federal Energy Office permitted, and from the additional time cost of queuing for diesel) could not be passed on to customers. At the same time, the 55-mph speed limit, while reducing fuel consumption also reduced the usage that

truckers could get out of their fixed capital investments. Caught between the ICC, the FEO, and fuel shortages at gas stations, truckers were unable to break even, let alone turn a profit. In response, independent truckers went on strike in the winter of 1973-1974 (M. Jacobs, 2016, pp. 74-77, 90-91, 93).

The difficulties of organizing collective action among the independent truckers meant that the strike soon turned ugly (Olson, 1965): in virtue of the atomized nature of the work itself, and because they placed themselves outside pre-existing structures of collective action, in particular the Teamsters Union, the independent truckers were difficult to coordinate. Further, since any benefit from lifting speed limits or ICC rate caps would be widely shared across all independent truckers, free riding was a constant threat. Upholding the strike thus required drastic action: “the strikers slashed tires, cut brake lines, and littered the highways with nails. Arsonists set aflame fuel tanks and big rigs, and gunmen opened fire on noncomplying trucks” (M. Jacobs, 2016, p. 91). “11 violence-scarred days ... left two drivers dead, scores injured and 100,000 workers temporarily out of work” (The Associated Press, 1974). In this way, the truckers’ strike both exacerbated local fuel shortages, as gasoline was no longer being delivered from central depots to gas stations, and added to the general sense of panic, as violent scenes of highway clashes were televised across America’s evening news programs. The result was “panic at the pump,” and a gradual discrediting of the command-and-control approach.

As the decade proceeded, direct control was phased out in favor of rationing via the market mechanism (Yergin, 2009, pp. 661-64). While the second oil shock of 1979 led to renewed political pressure, the Carter administration’s response was to lean on the price

mechanism rather than re-run the command-and-control strategy of the later Nixon years (M. Jacobs, 2016, p. 200). The turn towards market-led adaptation was not complete—Carter aligned with the French and against the British and German governments in calling for binding national ceilings on oil imports (Sargent, 2015, pp. 279–280)—and the distributive effects of this policy shift were regressive, redistributing income from the population at large to oil firms and time from poor households to affluent households; but the macroeconomic results were impressive: “In the industrial market economies energy consumption per unit of output fell sharply in response to the rise in the relative price of energy, whereas in the Soviet Union and the Eastern European economies price adjustments occurred only with a lag of several years and even then there was virtually no response in energy consumption” (International Monetary Fund, 1990, p. 68).³¹ The turn from central planning to market-led change, while driving a redistribution from energy consumers to energy producers, thus helped the Western, capitalist states adapt to the oil shocks more efficiently than the state socialist countries could.

Foreshadowing discussions around political agency, the topic of Chapter 8, adjusting to the resource shock through granting capitalists additional discretion also had a distinct *political* advantage. This, too, was visible in the evolving US response to the energy crisis of the seventies. When, in response to popular pressure, Congress and President Nixon gave the FEO control over oil refining, the fuel mix, and the allocation of fuels to end users, “Washington officials became the apparent gatekeepers to jobs,

³¹ See also Nordhaus (2007, p. 224) and Blinder and Rudd (2013).

commuting, recreation, and many other facets of daily life” (M. Jacobs, 2016, p. 72). This entailed officials having to answer, implicitly or explicitly, questions like: “Should there be high school football games at night or only during daylight hours? Should the Indianapolis 500 car race take place or be suspended?” (M. Jacobs, 2016, p. 72). In having to answer these questions, the Federal Government inadvertently became an obvious focal point around which popular anger could coordinate.

By the end of President Ford’s term, the prices of half of all refined oil products were deregulated, and in 1978 a gradual phase-out of price controls on natural gas was legislated (M. Jacobs, 2016, pp. 156–57, 185–86). Policy had turned from administrative control to coordination and rationing via the market. This diffused both de facto and perceived responsibility: as the FEO dropped out of the picture,³² no single institution or actor remained as the obvious and unique culprit for high gasoline prices, energy-cost-driven layoffs, queues at gas stations, or electricity brown-outs. When it was a general rise in energy prices that, for example, forced financially stressed schools to cancel night-time football games, the culprit was elusive: was the decision of oil producing-states to cut production to blame? Were American oil firms and their decision to raise prices in pursuit of profits at fault? Was it the local school board that refused to raise taxes or cut spending elsewhere in order to provide an ampler budget? Or perhaps car companies, the construction industry, and suburban commuters, all of whom drove up energy demand elsewhere in the economy? While discontent did not disappear—see, for example, the

³² The final steps to full energy price deregulation were taken in the first weeks of the Reagan administration in 1981 (M. Jacobs, 2016, pp. 271–80).

second truckers' strike in 1979—it now lacked a focal point around which to coordinate effectively.

As a result, with no 'natural' focal point around which to coordinate, the peak intensity of protests was durably diminished. When oil prices returned to their real price peak of 1979 in 2008, there was no re-run of “panic at the pump,” nor any threat of truckers' slashing tires, cutting brake lines, or littering highways with nails. Instead, the highly redistributive price shock was quietly absorbed, without much in the way of protest or unrest, or political discussion over how to share the costs of this sudden and morally arbitrary hit to prosperity.

Summing up, a second obstacle to the process of trial-and-error persuasion is that, where other countries at comparable or higher levels of prosperity enjoy substantially higher growth rates, weaker results will be seen as unnecessary and avoidable. However, solutions to some of the most obvious problems with capitalism are ideologically compatible with a capitalist social order. Second, capitalist states, where they are embedded in commercial federations, benefit from an extended international division of labour, which may allow them to compete with non-capitalist social orders from a position of greater comparative advantage. Finally, market-coordinated adjustment to resource- or technological shocks is both politically demobilizing, insofar as it deprives protestors of a singular focal point around which to coordinate, and, when compared to command-and-control measures, relatively efficient. There are a number of reasons to believe, then, that the second obstacle, too, will rarely obstruct a downwards shift in expectations.

I. The Nordic counterexample: the stability of capitalism relies on the absence of CCMDs

Nevertheless, against the reasons just given, I point out there *do* exist regimes that produce better economic outcomes than US capitalism for large parts of their population: in particular, the mixed economies of Canada and the Scandinavian countries.³³ Indeed, seen through the epistemological lens defended here, the existence of Canada and Scandinavia may well be a greater threat to American capitalism than the 2008 Financial Crisis: unlike the financial crisis, the existence of these countries directly questions whether capitalism delivers the goods for the American population at large, not because it reduces “delivery,” but because it shows that a more expansive definition of “the goods” is possible.

The power of the Nordic counterexample is weakened by the following consideration: while Scandinavia is less capitalist than the United States,³⁴ in recent decades Sweden, Finland, Norway and Denmark have significantly shrunk the size of their

³³ This becomes obvious when measures of income are supplemented with measures of health outcomes, subjective happiness, education, and time use. However, even on the artificially narrowed plane of income-based comparison, the United States has fallen behind Canada with regards to *median* income levels, and behind Canada, Norway and the Netherlands with regards to incomes at the 30th percentile and below (the list of countries outperforming the US grows longer at the bottom of the distribution. At the fifth percentile, it includes eight countries). Also, while the U.S. is still ahead of most European countries regarding the level of median incomes, the average growth rate of U.S. median incomes since 1980 has lagged far behind that of Canada and most European countries (Leonhardt & Quealy, 2014).

³⁴ Quantitatively this is visible in the difference in taxation and spending relative to GDP (around thirty per cent in the US versus approximately 50% in Scandinavia) (International Monetary Fund, 2018b), in levels of inequality (the top ten per cent’s income shares are around thirty per cent in Scandinavia, closer to 50% in the US) (*World Inequal. Database*, 2019), and in the socialisation of health care, education, labour market, and other existential risks. More diffusely, it is also visible in the differences in political discourse and social norms, especially with regards to what is seen as an appropriate balance between individual and collective rights and responsibilities.

public sector³⁵ and have become considerably more unequal.³⁶ Zooming in on the largest of the Nordic countries, other, more qualitative elements of Sweden's social order have also shifted towards a more market-conforming model, notably in the wake of a deep financial and fiscal crisis in the early nineteen nineties: the financial sector was deregulated, indirect taxes were increased, direct taxes decreased, a pre-existing trend towards labour market dualisation was reinforced, and – through privatisation and decentralisation – previously fully socialised risks (especially in health, education, and child care) were partly shifted back to the neighbourhood level (Mehrtens, 2014, Chapter 6). Their power as counter-examples is hence weakened by the fact that, although there are significant *level* differences, e.g. with regards to inequality, risk socialisation, and the size of the public sector, the Scandinavian countries are moving in the same overall direction as the more full-blooded Anglo-Saxon capitalist countries (on this, see Streeck, 2016, Chapter 9).³⁷

And yet. As I will argue in the conclusion of the dissertation, it is far from clear that societies like the Nordic ones are in all and any circumstances doomed to collapse into

³⁵ Public expenditure as percentage of GDP has fallen (from 1993, when it peaked in three of the four countries, to 2016-8 average) by eighteen percentage points in Sweden [sic], by six in Finland and Denmark, and by two in Norway. The average across the four fell from 60% in 1993 to 51% in 2016-8 (author's calculations based on International Monetary Fund 2019). See also the annex to Chapter 3 above, p. 187.

³⁶ The direction – rising inequality – is the same in all four countries, though the magnitude of the increase differs: in Sweden, the largest of the four, the share of national income going to the top ten per cent has increased by around seven percentage points from 1980 to the most recent data available (2012), in Norway by three (to 2011), and in Denmark by one percentage point (to 2010). In Finland, where data is only available from 1990 on, the increase has been the steepest: around seven percentage points in less than twenty years (to 2009) (*World Inequal. Database*, 2019).

³⁷ The picture is further blurred by the fact that a number of the mixed economies of continental Europe, in particular France, Italy and Spain among the larger ones, are not obviously outperforming American capitalism, even when comparing the income and wealth of lower income deciles.

liberal capitalism. As I showed in Chapter 4 above, the one mechanism that reliably drives even robustly social-democratic states in the direction of market-conformity is integration into commercial federation. But this is not a fact of nature: as Fichte theorized long ago, a commercial state can be commercially open or closed (Fichte 2012 [1800]; Nakhimovsky 2011). I will argue that, where Nordic counterexamples are commercially closed, they need not collapse into liberal capitalism, greatly amplifying their power as legitimacy-undermining counterexamples.

Of course, the conditions of modernity *do* impose certain binding constraints: any social order, if it is to be durable in our times, must be productive enough both to satisfy the aspirations of its citizens, and to survive geopolitical competition, especially with capitalist societies. It must therefore feature an extended division of labour, in whose coordination markets play an important role. But while these two are essential prerequisites for any social order under modernity, they do not amount to capitalism: markets, as I explore in the conclusion, can be embedded sustainably in a democracy, as long as commercial closure and certain other preconditions are fulfilled. Where this is done at scale, in states or regions whose population is measured in hundreds of millions, not dozens, it may well provide a counterexample powerful enough to block the trial-and-error expectation-shifting process outlined above. Were a Streeck-like crisis, of a severity and persistence akin to the nineteen seventies to strike capitalism in such a context, the delegitimizing effect may well be fatal. Compared to life in commercially closed market democracies, life under liberal capitalism may then come to seem solitary, poor, nasty, brutish, and short. While Streeck is therefore wrong in the circumstances of today—even

the sum of the economic malfunctions need not imply a fatal delegitimation of contemporary capitalism – if these circumstances were to change, in particular through the creation of a group of commercially closed market democracies, he may yet be proven right.

J. Conclusion

This concludes the discussion of Streeck’s first overarching claim: that we are witnessing, and will continue to witness, a malfunction within capitalism’s ‘engine room,’ affecting both the *material functioning* of capitalism and undermining its *political legitimacy*. In response to this, I agreed that declining growth, increasing debt, and rising inequality, the three main malfunctionings mentioned by Streeck, are all real phenomena. Further, I concurred that they are mutually reinforcing. However, despite their reality and despite their mutually reinforcing nature, I argued that we cannot predict that they will necessarily cause – either individually or taken together – a fatal economic implosion or a terminal loss of regime legitimacy.

In the previous chapter I argued that neither falling growth, nor inequality, nor rising debt, taken individually, point necessarily towards capitalism’s self-destruction. In this chapter, I argued that even the sum of these malfunctions, i.e. all three trends taken together, need not cause the self-destruction of capitalism. Due to the separation of polity and economy, governments under capitalism are well-placed to convince electoral majorities and other veto players of the necessity of economic pain. When hardship is at first avoided, as it usually is, whether through inflation in the nineteen seventies, or public and private debt since then, feedback eventually emerges from ‘the economy,’ for example in the form of rising inflation, growing budget shares dedicated to debt service, shortages

of particular goods or services, or recurring financial crises. This feedback, publicly credible due to the separation of polity and economy, then provides legitimacy for a shift away from a politics of “buying time” to a politics of “breaking promises.” In this manner, what looks ex ante like a period of fumbling and ineffective policy responses becomes ex post a period of necessary and transitional expectation-adjustment. Shortfalls in economic performance, even if severe and permanent, hence need result in no more than limited periods of (painful) transition. A long-run, protracted process of existentially threatening delegitimation of capitalism is of course possible, but, going by the experience of the nineteen seventies, is not necessary or even likely.

Having said this, in closing I gestured towards a possible spanner in the works: successful commercially closed market democracies, to be considered more fully in the conclusion, could disrupt the process of downwards expectation shifting.

As long as this wrench remains but theoretical, however, Streeck’s first claim cannot be substantiated, neither in its individual components, nor in its totality. Capitalism – in the absence of successful commercially closed market democracies – does not display “a continuous process of gradual decay, protracted but apparently all the more inexorable” (Streeck, 2016, p. 50); neither the trends in growth, inequality, and debt taken by themselves, nor the sum of these malfunctions point necessarily to economic implosion or a terminal loss of legitimacy.

7. Not a Pyrrhic Victory

Capitalism's Defeat of Countervailing Power Does Not Necessitate Self-Destruction

A. Introduction

Having addressed Streeck's first main claim, it remains to consider his second major claim: that capitalism, in defeating the forces that seek to limit it, has won a Pyrrhic victory. "The stability of capitalism as a socio-economic system depends on its *Eigendynamik* being contained by countervailing forces" (Streeck, 2016, p. 57, italics original). When those forces were decisively defeated in the nineteen seventies and eighties, capitalism won a victory that, Streeck claims, will in the end prove self-defeating. With Polanyi, he concludes that capitalism is now *en route* to destroying the political exoskeleton, the monetary system, and the natural environment on whose functioning it depends.

As in discussing the first claim, I cast no doubt on the factual accuracy of the historical observation at stake: the main countervailing forces arrayed against capitalism – in particular trade unions,¹ social democratic political parties, and the state socialist countries – have indeed been vanquished or converted to the cause, certainly for now (see also section D of Chapter 3 above, pp. 168-183). However, as before, I claim that this

¹ Note that the decline of trade unions, despite continuing differences in unionization levels, is a global phenomenon (Streeck, 2016, p. 81, figure 2.3). For example, while it is true that Canada has a higher overall union density (29%) than the US (11%), the Canadian rate, too, has fallen significantly (from 38% in 1981 to 29% in 2014) (Statistics Canada, 2015; U.S. Bureau of Labor Statistics, 2018c). Note also that the Canadian national average disguises a large difference between public sector (71.3%) and private sector (15.2%) unionisation rates. In other words, unions in the trade-exposed private sector, despite a very different policy regime, have suffered similarly in Canada as in the US.

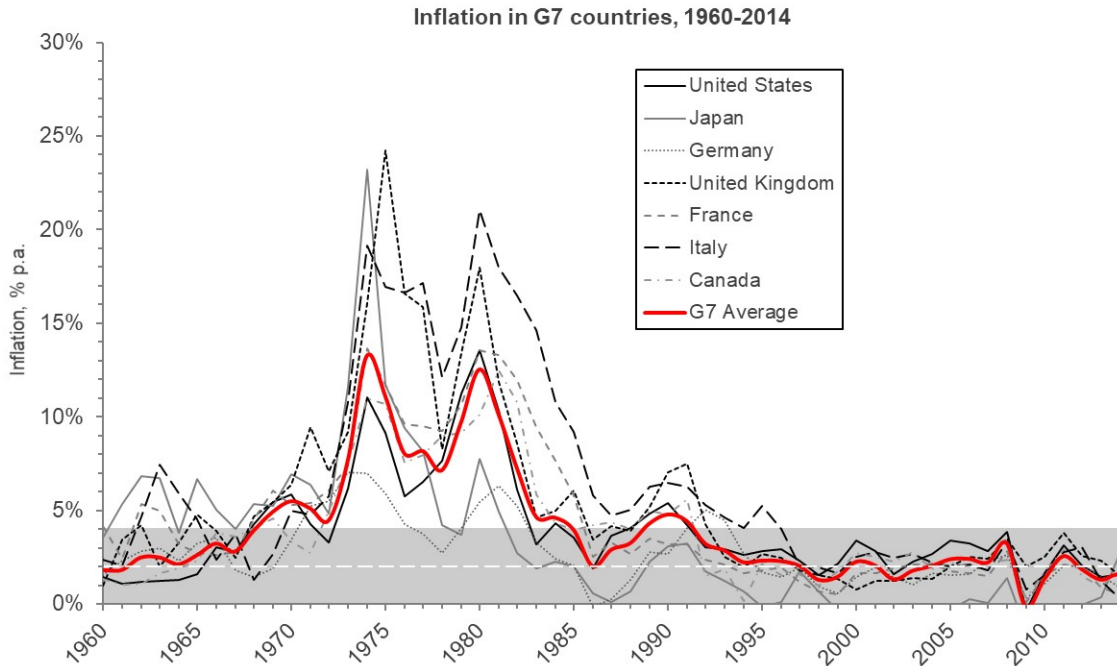
does not entail an inevitable tendency towards self-destruction. The monetary system, the natural environmental, and the political exoskeleton, much as they are degraded, corrupted and warped, are not necessarily *destroyed* by unshackled capitalism, contrary to what Streeck and others assert.

B. The monetary system can be managed through technocracy under capitalism

This is most obvious with regards to the monetary system. Central bank independence, the unshackling of monetary policy from democratic control, has been a success from the point of view of inflation control and monetary crisis management.² Since the triumph of central bank independence towards the end of the last century (Garriga, 2016, p. 860, figure 5), inflation rates in the major economies have hardly moved outside a corridor of two to three percentage points above or below a two per cent target (Figure 6).

² Its effect on democracy, growth, and unemployment, particularly in the context of the Eurozone, is of course a different matter. See e.g. Berman and McNamara (1999), Scharpf (2011), or Streeck (Streeck, 2016, Chapter 6).

Figure 6. Inflation in G7 countries, 1960-2014



Source: author, based on OECD (2017, *Inflation, CPI*)

Unlike in the wake of 1929 (M. Friedman & Schwartz, 1963), monetary crisis management in the era of central bank independence has been strikingly successful: central banks across the advanced economies applied monetary stimulus through cutting interest rates, engaged in extensive lender-of-last-resort liquidity provision, and—notably in the US, UK and Japan, and, though with counterproductive delay, in the Eurozone—supported fiscal stimuli through purchasing large quantities of government bonds and other assets (Krugman, 2018; Tooze, 2018). Together with fiscal policy responses, this succeeded in preventing a breakdown of real economic activity, despite an astonishingly severe financial crisis: “[w]hat threatened in 2008 wasn’t 1929. What threatened was

something even bigger and quite possibly even worse” (Tooze, 2018, p. 163).³ Setting aside Greece and a number of very small economies (the Baltic states, Cyprus, Iceland, and Slovenia), no country experienced peak-to-trough drops in GDP of ten per cent or more, and only five countries experienced peak-to-trough drops of more than five per cent: Spain (9%), Finland (8%), Portugal (8%), Italy (8%) and Germany (6%). Twenty-five out of the OECD’s 39 advanced economies, accounting for more than 80% of this group’s GDP, experienced drops of five per cent or less (author’s calculations, based on International Monetary Fund, 2018b).

Financialisation—the other major shift as the monetary system of advanced capitalist countries became ‘liberated’ from the influence of countervailing forces—has a more mixed record: it has contributed to rising inequality and led to repeated asset bubbles, both through increasing private sector leverage (as discussed above) and through rendering financial supervision increasingly ineffective.⁴ However, as is clear from both inflation and GDP numbers, and from the fact that the fallout of the 2008 Financial Crisis was successfully contained, this has not durably impaired the basic functioning of the monetary system in advanced capitalist countries.

³ In particular, what distinguished 2008 from 1929 was the extent of international integration and therefore contagion: “In the 1930s there was no moment of such massive synchronization, no moment in which so many of the world’s largest banks threatened to fail simultaneously. The speed and force of the avalanche was unprecedented” (Tooze, 2018, p. 163).

⁴ See Krippner (2011) for financialisation in general, Lin and Tomaskovic-Devey (2013) for financialisation’s contribution to rising US income inequality, Hager (2016) for the contribution of rising public debt in particular to income and wealth inequality in the US, and Jordà, Schularick, and Taylor (2017) for the correlation between increasing leverage, asset bubbles, and more severe economic downturns.

Indeed, here too an alternative reading of the nineteen seventies is possible: the threat of continuing dollar inflation and depreciation towards the end of the seventies was perhaps the closest that the advanced capitalist world has ever come to complete monetary breakdown. As outlined in footnote 51 of Chapter 5 above (p. 275), a loss of faith in the US Dollar would have deprived the international economy of its main, and at that point *only*, anchor (since gold had been uncoupled from the international monetary system in 1971), with potentially catastrophic consequences. None of the monetary crises experienced since then, whether on the periphery (Latin America in the nineteen eighties and 1994, Russia and South-East Asia in 1997) or the core (e.g. the US Savings & Loans crisis of the late eighties, the banking crises in Sweden in 1991-2, the collapse of the Japanese stock market, real estate, and banking sector in the nineties, or even the 2008 Financial Crisis), has come close to causing a similar kind of monetary unmooring. Here, too, then we may see the nineteen seventies and early eighties not as the beginning of the end for capitalism, as Streeck would have it, but as a deep crisis of capitalism that was overcome, in large part through casting off the democratic control over the division of labour that the specific historical context of the early twentieth century had forced on it.

C. Though less certain, the environment, too, can be saved as long as public power exists

The situation is more complicated concerning the effect on the natural environment of capitalism's victory over countervailing forces. Environmental degradation is one of the main negative externalities that profit-oriented firms will reliably cause when left to their own devices (Pigou, 1920). If the defeat of countervailing forces removes all chances of tackling environmental externalities, then self-destruction via the degradation of the

natural environment would indeed be a highly likely, even a certain outcome. Looking at global environmental indicators, a number of trends along these lines are deeply concerning: climate change, the depletion of freshwater resources, growth in ocean dead zones, deforestation, and biodiversity destruction and the rate of species extinction, to name but the most serious.⁵

However, it is not obvious that the defeat of the countervailing forces mentioned above—trade unions, social democratic parties, and the state socialist countries—is indeed a decisive obstacle to environmental regulation. First, at the level of tools and instruments, there is no contradiction between a market economy and environmental sustainability. The price mechanism, whether via taxes or tradable quotas, has proven effective at inducing large environmental improvements when deployed with sufficient political will. The most prominent examples of this at scale are the US Acid Rain Program and the EU Emission Trading Scheme, both of which have proven efficient and effective in bringing the emissions of the targeted pollutant to the politically desired level: US sulphur dioxide emissions have declined by 88% since 1990 (U.S. Environmental Protection Agency, 2018). The EU ETS is achieving its desired level of emissions (a twenty-one per cent

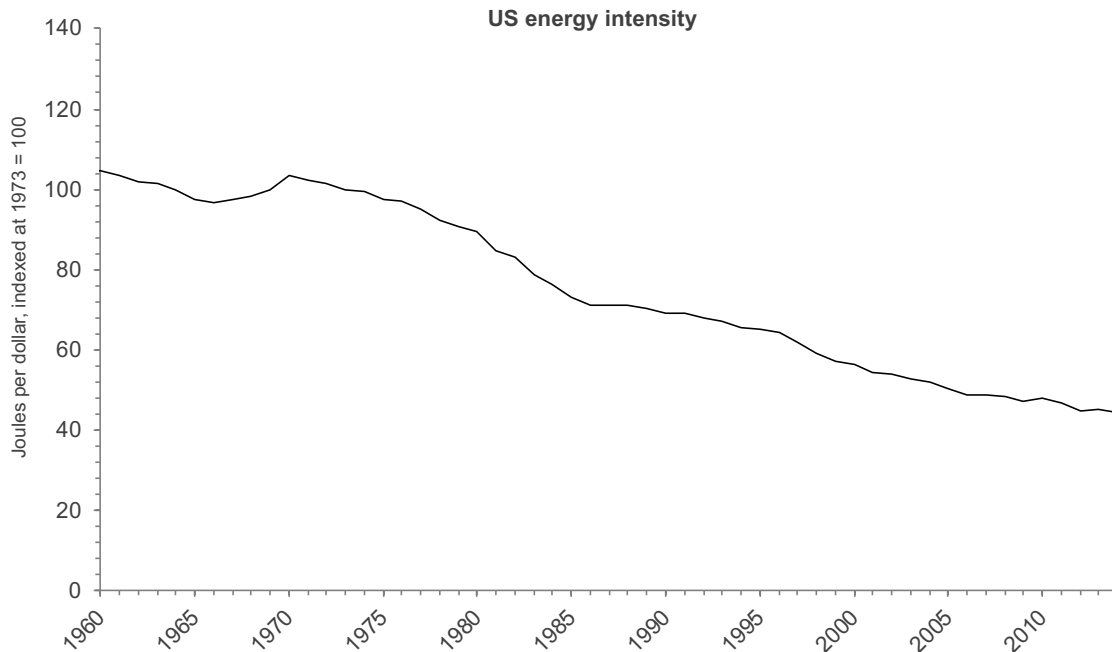
⁵ The headline numbers are as follows: from 1960 to 2016, global average surface temperatures have increased by slightly less than 1°C; freshwater resources per capita have declined from more than 13,000 m³ to less than 6,000 m³; ocean dead zones have increased from less than 50 to more than 600; CO₂ emissions have risen from less than 10 Gt per year to more than 35 Gt p.a.; and vertebrate species abundance has fallen to approximately 40% of its 1970 level (Ripple et al., 2017). Forest cover, for which reliable data is not available prior to 1990, has declined by around 130 million ha between 1990 and 2015, equivalent to approximately three per cent of the global total or an area approximately the size of Peru or South Africa; France, Spain, and the UK combined; or Texas, California, New York State and Pennsylvania combined (Keenan et al., 2015).

reduction relative to 2005 levels by 2020, via a reduction of allowances by 1.74% per annum) (European Commission, 2016) and doing so at low costs to industry, with emission permits trading at five to ten euros per ton of CO₂ from 2013 to 2017, though prices have moved into the fifteen to twenty euro range over the course of 2018.⁶

Second, the pace at which environmental degradation proceeds may be sufficiently slow that gradual adaptation, of the kind at which decentralised, market-coordinated production and distribution systems excel, can greatly reduce its sting. Returning to the energy crisis of the nineteen seventies, it is notable, for example, that the energy intensity of the US economy (i.e. the amount of energy consumer per dollar of GDP produced) fell by twenty per cent within a decade of the first oil crisis, and by more than half between then and now (Figure 7). Although the speed at which energy intensity is reducing has fallen, this demonstrates the effect that major shifts in relative prices can have on a market-coordinated division of labour.

⁶ This is still considerably below the social cost of carbon (SCC), the monetary estimate for the damages resulting from emitting a ton of CO₂. Estimates of the SCC vary widely and depend heavily on the discount rate used to discount future damages into dollar values today, but the EPA's estimates, for example, are generally in the \$30 to \$70 range (U.S. Environmental Protection Agency, 2016). In other words, even though the EU ETS is achieving its targeted emissions reduction, the reduction target itself appears to be considerably too lax.

Figure 7. US energy intensity, 1960-2014



Source: author, based on Feenstra, Inklaar, and Timmer (2015, *Expenditure-side real GDP at chained PPPs (rgdpe)*) and US Energy Information Administration (2018, *total primary energy consumption*)

Third, from the perspective of profit-oriented firms taken as a whole, tackling existentially threatening environmental degradation has the characteristic of a collective action problem, not of a zero-sum game: where all firms can be made to obey environmental regulation, everyone is better off, insofar as collective self-destruction is avoided. The decisive issue with regards to the relationship between capitalism and the natural environment is therefore less whether countervailing forces can defeat the interests of investors and entrepreneurs, as might be the case in tax and labour market policy, but rather whether capitalists can coordinate around their collective self-interest.

D. A victory of capitalism need not be fatal for public power

This leads to the third area in which the defeat of countervailing forces is argued to lead to a self-destructive dynamic, that of the political exoskeleton or public power. Although present in Streeck (e.g. Streeck, 2016, pp. 57–59), the clearest formulation of this mechanism is in Fraser (Fraser, 2015, p. 159, italics original): “On the one hand, legitimate, efficacious public power is a condition of possibility for sustained capital accumulation; on the other hand, capitalism’s drive to endless accumulation tends to destabilize the very public power on which it relies.” Therefore “*every* capitalist social formation harbors a deep-seated *political* ‘crisis-tendency’ or ‘contradiction.’” In other words, in defeating the forces that seek to constrain it, profit-seeking firms and investors may inadvertently destroy the public power of the state, the “committee for managing the common affairs of the whole bourgeoisie” (Marx, 2000 [1848], p. 247), i.e. precisely the institution that allows capitalists to overcome collective action problems like environmental pollution. This is a powerful charge that has more than just a ring of truth to it. However, I claim that a closer investigation of the argument reveals that it is ultimately a *normative* problem, and not one of self-destruction.

Fraser’s argument distinguishes between the destruction of public power as such, and the destruction of *democratic* public power. It is the former, the destruction of public power as such, that she sees as a driver of instability. This is surely correct; capitalism requires public support—a politically constructed exoskeleton—in order to reproduce itself. A partial listing of the elements of state support required for capitalism to last over time include: the creation and enforcement of property rights, both in tangibles (land, goods, etc.) and intangibles (ideas, certain forms of capital, etc.); the enforcement of credit

contracts and contracts in general; the public production, via education, child care, healthcare and family policies, of a trained, healthy, and ready-to-hire workforce; the building and maintaining of basic transport and communications infrastructure; the funding of basic research and development; aggregate demand management, via fiscal policy, automatic stabilisers, and monetary policy; preventing the erosion of competition through cartelisation and monopolies; backstopping the financial system and guaranteeing the stability of the overall price level (i.e. controlling inflation); enabling international trade through export financing, bilateral investment treaties, multilateral trade agreements, and the threat or exercise of armed force (e.g. in the protection of international sea lanes); and providing national defence.

This listing makes clear that, where public power as such is undermined, the basic survival of a market society is no longer assured. Capitalism would soon be on the road to self-destruction. However, we also know that this exoskeleton can be provided by non-democratic regimes as well as by democratic regimes. Nineteenth century Britain and Germany, Chile in the years after Allende, and contemporary Singapore and China serve as examples of this possibility. To identify a problem of *self-destruction*, as opposed to a normative problem, specific evidence of the undermining of public power per se is required; evidence of the undermining of democracy alone does not suffice.

While evidence for the erosion of democracy is strong,⁷ the evidence for why this translates into a destruction of public power per se is weaker. Fraser gives two points for

⁷ See Chapter 2, esp. Section H (pp. 117), and Chapter 3, Section D (pp. 168) above.

why the hollowing out of democracy constitutes, at the same time, a hollowing out of public power as such: First, “current practices of transnational business regulation [...] rarely if ever subordinate short-term profits to long-term stability” (Fraser, 2015, p. 181, footnote 35). The claim is that, since public power can only function as an effective political exoskeleton to the extent that it is capable of subordinating short-term profits to long-term stability, a shift from democratic public power to “transnational business regulation” and similar non-democratic forms of public power would undermine the effectiveness of public power *per se*. Second, Fraser argues that public power unmoored from democratic foundation will lack the “necessary heft to discipline capital” (Fraser, 2015, p. 181). A non-democratic public power would struggle “to push through system-saving reforms at critical junctures without risking revolt” (p. 181).

Both of these claims are empirically questionable. Current practices of transnational business regulation *do* subordinate short-term profits to long-term stability. They also fail to do so from time to time. But it is not a valid inference to conclude from the existence of failures to their ubiquity, at least without adducing further evidence. In the area of finance, for example, Basel I, II, and III are attempts at ensuring long-term stability at the cost of short-term profitability. They have been arrived at not through public deliberation or popular referenda, but in a paradigmatically post-democratic (Crouch, 2004) fashion: through secret negotiations between non-elected officials, mostly central bankers. Much the same could be said about the WTO: in the short term, many countries, and certainly many firms, would benefit from various barriers to trade; but accepted economic thought holds that free trade better serves long-term economic interests. The WTO, again created

not through a democratic mechanism (nor, indeed, possessing one itself), serves to promote precisely this (conception of) long-term interest, and has done so with success, notably even during the 2008 crisis and its aftermath. In the area of the environment, the Montreal Protocol of 1987 (banning CFCs and HCFCs) is an example of an internationally successful long-term regulation, equally arrived at through negotiation between civil servants and ratified by governments rather than voters. Despite its distance from the democratic process, it has greatly reduced the quantity of substances threatening the ozone layer, and as a result “Substantial recovery of the ozone layer from the effects of ozone-depleting substances is expected near the middle of the 21st century” (Hegglin, Fahey, McFarland, Montzka, & Nash, 2014, p. 74).

In general, it therefore seems premature to dismiss the ability of existing formal (such as the UN, the WTO, and regular G7 and G20 summits; Murlon-Druol, 2012) and informal (such as the World Economic Forum) non-democratic institutions and networks to facilitate precisely the subordination of short-term profits to long-term stability that is required to maintain market economies. There is no reason to think, *ex ante*, that these actors and institutions are necessarily incapable of thinking and acting for the long term.

Second, regarding the lack of heft and the absence of counter-power, this presupposes a view in which long-term, stability-enhancing reforms are always pushed through by anti-capital forces against the (unified and effective) resistance of capital. However, this view is overly simplified: the work of Peter Swenson and others shows that capitalists themselves are often well aware of their long-term interests, and that they

sometimes work behind the scenes to realise them (Eichenberger & Mach, 2011; Swenson, 2002).

In particular, different parts of the bourgeoisie have different time horizons: a high-frequency trader may hold any given stock for only fractions of a second; but a pension or sovereign wealth fund may stay invested in the same company for decades. Even where the latter class of capitalists do not hold the same assets for decades, their planning horizon and hence their interest extend many years into the future.

Long-term investors are a non-trivial fraction of total investment volume: pension and sovereign wealth funds hold assets amounting to 40 to 50% of world GDP.⁸ In the US, these shares are even higher: US pension funds hold more than 120% of GDP in assets (Towers Watson, 2015, p. 6), of which around 80% of GDP are held by private pension funds (OECD, 2015, p. 7, figure 1). If we follow Piketty's accounting of total assets in the US,⁹ this implies that long-run capitalists hold around one quarter of all capital in the US. The self-interest of these investors is aligned with pursuing long-run stability over short-term profits.

To the extent that the hollowing out of democracy directly empowers firms (e.g. Crouch, 2004, 2011) or investors (Streeck, 2014a), we therefore cannot directly deduce a self-destructive dismantling of public power. Long-term investors provide a natural counter-power *within* the capitalist class to those whose conception of self-interest is highly

⁸ Sovereign wealth funds hold around \$7 trillion in assets (SWFI, 2015), while pension funds hold between \$25 trillion (OECD, 2015, p. 7) and \$36 trillion (Towers Watson, 2015, p. 3) in assets. World GDP is estimated at approximately \$80 trillion (World Bank Group, 2018).

⁹ Which gives private assets as 410% of GDP in 2010 (Piketty, 2014, table S4.2).

short-termist. Again, this does not mean that long-term interests will always prevail over short-run ones; but it does mean that we cannot exclude this possibility *ex ante*, and that we cannot conclude from the defeat of countervailing forces to the inevitable self-destruction of capitalism via the dismantling of public power.

Finally, it is not obvious that, even if investors as a class were to demand a dismantling of the costliest or most profit-inhibiting parts of the state, particularly the welfare state, an oligarchic, post-democratic state would accede to these demands. Even an oligarchic, post-democratic state would contain different kinds of elites, and it is by no means obvious that all would agree with the imposition of unfettered private sovereignty over the division of labour. Of pertinence here, Karl Polanyi for example observed that “The Ten Hours Bill of 1847, which Karl Marx hailed as the first victory of socialism, was the work of enlightened reactionaries,” i.e. the work of the non-capitalist faction of the British oligarchy of the nineteenth century (K. Polanyi, 1944, p. 174). Moreover, setting out from Evans, Rueschmeyer, and Skocpol (1985), a prominent literature in comparative political science supports the observation that the state is, to a certain extent, an independent actor, more than the sum of the vectors that act on it. Given that the neoliberal turn has resulted, along certain dimensions, in stronger rather than weaker states, it is possible, that state actors will take the position that various parts of the public exoskeleton are required for its own continued existence, and should therefore be preserved even against the pressure of investors demanding their dismantlement.

E. Neoliberalism is not an anti-statist ideology

In this context, it is worth making a final observation about contemporary capitalism and its relationship to the state. Unlike classical liberalism, the ideology of contemporary capitalism – neoliberalism – is not an anti-statist ideology.

To be sure, neoliberalism is a “loose and shifting signifier” (Brown, 2015, p. 20), referring to different ideas, policies, and practices in different times and places (Peck, 2010). Some have argued that this term has become so stretched and contested as to be nearly useless, a mere “academic catchphrase” (Boas & Gans-Morse, 2009, p. 138; see also Clarke, 2008; Venugopal, 2015). Like Brown (2015) and others (Dardot & Laval, 2014; Mirowski, 2013; D. Stedman Jones, 2012), I disagree with that assessment: I take “neoliberalism” to refer to an ideology, i.e. a set of ideas about how the world is and how it should be (Brown, 2015, Chapter 1; Foucault, 1965), that is no less precise than other ideologies. Substantively, in my reading, it is a river fed by two tributaries: the inter- and post-war Freiburg School in Germany, and the post-war Mont Pèlerin Society and its associated economists and intellectuals, especially at the University of Chicago, arrayed around Friedrich von Hayek and Milton Friedman.

Though there is no agreed-upon canonical statement, I interpret its substance as revolving around four main poles: the prioritisation, at least in theory, of individual freedom as the highest normative value; the belief that markets are the best means for achieving that freedom; the belief that individuals are epistemologically highly constrained, but that market interaction allows for the effective production of sophisticated social knowledge; and the belief that markets do not emerge and sustain themselves spontaneously, but that state intervention is required to ensure this.

Importantly, while classical liberalism views markets as natural phenomena, emerging unaided as long as collective agents (like the state, but also corporations) get out of the way,¹⁰ under neoliberalism markets are understood as socially constructed (e.g. Hayek, 1960). This view implies a less hostile attitude towards non-market collective agents, since these are now seen as necessary for the construction and maintenance of markets. As long as the collective agents in question, such as the state or large corporations, are organised in support of and in accordance with market norms, they hence no longer pose a problem, and may even attract ideological support. Neoliberalism is not, then, an anti-statist ideology.

Contrary to what Fraser argues, the defeat of countervailing forces, and in particular the substantive de-democratisation of advanced capitalist societies through their neoliberal turn, does not entail the deconstruction of the political exoskeleton on which capitalism's survival depends. The absence of democracy does not immediately translate into short-termism: oligarchies, through their own mechanisms of national and international coordination, are capable of governing for the long run, of subordinating short-term interests to long-term ones.¹¹ Nor does the absence of countervailing power deprive the

¹⁰ The canonical statement of this “markets as natural phenomena” view is in Smith’s *Wealth of Nations*: “the propensity to truck, barter, and exchange one thing for another [...] is common to all men” (Adam Smith, 1976 [1776], p. 25).

¹¹ This does not mean that they will in fact always do so – counterexamples abound – but what it does mean is that there is no systematic tendency for them to *fail* to do so either. Capitalism under oligarchy may well collapse due to policy errors and the misjudgements of individual leaders. But this is of course a very different argument. It is one thing to say that ‘everyone is doing what is rational and reasonable for them, and this will lead to crisis.’ It is quite another thing to say that ‘if someone commits an error of judgement, *this* will lead to crisis.’

state of all ability to “discipline capital” or “to push through system-saving reforms at critical junctures:” the bourgeoisie is internally heterogeneous, particularly with regards to the time horizons over which it conceives its self-interest; capitalists are often aware of the benefits that they derive from what I have called the political exoskeleton; and the ideology of neoliberalism, unlike that of classical liberalism, is by no means universally hostile to public power per se. All of this provides the state with resources to discipline particular branches of industry, to reign in the most egregiously destructive side-effects of capitalism, and to push through system saving reforms at critical junctures.¹²

F. Conclusion

Summing up then, this chapter has briefly assessed the second main claim behind the gradualist self-destruction thesis put forward by Streeck (2016). While I agree with Streeck and Fraser that many of the countervailing forces that have historically bridled capitalism have been defeated since the nineteen seventies, I do not agree with their reading of this as a Pyrrhic victory. Neither the monetary system, nor the environmental basis, nor the political exoskeleton on which the continued survival of capitalism depends is condemned to fatal breakdown by this defeat of countervailing forces. Management of the monetary system of contemporary capitalism has been remarkable effective in the face of financial crises, despite being unshackled from democratic constraints and under the near-exclusive control of technocratic central banks. Environmental degradation, while ongoing

¹² Again, the possibility of this does not imply it will always happen. The point is that even oligarchic states are *capable* of disciplining capital, so that we cannot conclude from the undermining of democracy to the presence of a tendency towards self-destruction of capitalism.

and dangerous, can be solved with market-compatible instruments. Moreover, given that it is primarily a collective action problem, whether or not it will be tackled depends less on whether countervailing forces can defeat the interests of investors and entrepreneurs, and more on whether the bourgeoisie can coordinate around its *own* collective self-interest. Finally, the absence of countervailing power has not resulted in a deconstruction of the political exoskeleton that allows, among other things, for coordination around collective self-interest. Because the capitalist class is internally heterogeneous, because capitalists themselves are well aware of the benefits they derive from public power, and because neoliberalism, the dominant ideology of contemporary capitalism, is by no means hostile to public power, the state remains strong under contemporary capitalism, even as the countervailing power of trade unions and social democratic parties has waned.

Taken together with the arguments made in the previous two chapters, this shows that capitalism does not suffer from “a continuous process of gradual decay, protracted but apparently all the more inexorable” (Streeck, 2016, p. 50). To be precise, it shows that there is nothing necessary or inexorable about processes of decay, for there exist various counter-mechanisms and responses that are capable of offsetting the trends identified, not just temporarily but over the long run.

Foreshadowing the next chapter, I do not claim that the mechanisms that work against gradual self-destruction are speedy, responsive, and complete. To the contrary, they often fail at first—this is an integral part of how I conceptualised the mechanism of expectation-shifting in the previous chapter—so that periodic crises, just as they have always been, will remain a prominent feature of capitalism. What I have sought to argue

against is the claim that underneath these recurring crises there are trends at work that will gradually but inevitably lead capitalism to self-destruction. We have good reason to believe that this is not so.

To complete the case that capitalism is not self-destructive, it now remains to be shown that, though capitalism periodically generates crises, we cannot expect these crises to result in rupture. This task is taken up in the next chapter.

8. The Revolution Will Not Be Necessitated

Capitalism in the Twenty-First Century Does Not Endogenously Generate Revolutions

“there is now no group in advanced industrial society which unites the four characteristics of (1) being the producers on whom society depends, (2) being exploited, (3) being (with their families) the majority of society, and (4) being in dire need.”

G.A. Cohen (1995, p. 8)

A. Introduction

This chapter continues the argument begun in Chapter 5: that capitalism does not carry within itself the seeds of its own destruction.

The previous chapters made a case that, while there are crisis tendencies inherent in capitalism, these do not point towards a gradual, inevitable slide into self-destruction. However, what the argument in those chapters did not exclude – what it deemed positively likely in fact – are recurrent periods where a capitalist social order is particularly fragile. Even if the argument against a “death by a thousand cuts” convinces, then, it does not preclude the possibility of recurrent crises.¹

Does my argument not miss the forest for the trees then? Will not a series of crises, even if they contribute to capitalism’s long-term viability, eventually lead to self-destruction through catastrophe? Probabilistically speaking, if each crisis has a small but

¹ In fact, in the account given in the previous chapters, recurrent crises constitute an important element that renders a “death by a thousand cuts” *less* likely, for as charted in Chapter 6 it is in part through the public perception of crises that expectations are periodically brought in line with economic performance.

positive likelihood of escalating into a revolution, for example, does it really matter if there is no deeper directionality, no gradual worsening from crisis to crisis? Can we not say that one of the short runs will, eventually, make the long run irrelevant—especially if, to many, the long run destination looks ugly?

No, is what this chapter argues. While capitalism may find a sudden end, there is no mechanism, trend, or ‘dialectic’ internal to capitalism that *necessitates* this, or even, as far as I can discern, makes it particularly likely. In terms of the typology of crisis theories given above (Chapter 5, Figure 3, p. 247), this chapter therefore argues against “death by catastrophe”-type theories. This does not rule out the possibility of a revolution, of course, or indeed of non-revolutionary, fundamental change; but it implies that the self-destruction thesis is false insofar as it sees capitalism as *inevitably* generating its own revolutionary downfall.

Revolutionary self-destruction theories, while often also diagnosing long run tendencies of gradual decay, argue that capitalism is likely to end with and through a revolution, where suddenly the “integument is burst asunder” (Marx, 1992 [1867], p. 929). There are, of course, a number of catastrophes besides revolutions that may spell the end of capitalism: climate change, nuclear war, environmental exhaustion, a pandemic, or an asteroid impact, for example. Both this chapter and the vast majority of theories of “death by catastrophe,” however, focus on the possibility of anti-capitalist *revolutions*.² This

² For exceptions, see for example James O'Connor (1988), John Bellamy Foster & Fred Magdoff (2011), and Jason Moore (2015), who provide an integrated account of capitalism’s (looming) environmental catastrophe and political dynamics. See also Diamond (2011) for an account focused on environmental collapse, though not specifically tied to capitalism.

is, in part, because it is not clear that environmental catastrophes would lead to the end of capitalism. It may well be the case that catastrophic climate change, for example, leads to or coexist with a dystopian but recognisably capitalist society: one in which increasing scarcity is allocated via markets, in which key productive assets are still held as unequally distributed private property, in which the ethos of competitive, rational, even if cruel, profit maximisation continues to prevail. Such a post-catastrophic society would have to involve considerable coercion, as many would resist being pushed to subsistence or below—for there is no guarantee that ‘equilibrium prices’ would allow everyone to make a proverbial living—but it is a *prima facie* possible, perhaps even likely, scenario. Even where environmental catastrophes occur, then, capitalism may continue to survive unless there is a social revolution. For this reason, both this chapter and the majority of theorists of “death by catastrophe” are occupied primarily with revolutions rather than the full range of potential catastrophes in capitalism.

Arguing against these theories, I show that contemporary capitalism, while it does endogenously generate crises, does not endogenously generate revolutions. This is so for two reasons: first, revolutions require revolutionaries. However brittle a social order, and however vulnerable its administrative-coercive state apparatus, without a mass uprising and revolutionary leadership, no social order falls to a revolution. Contrary to what Marx claimed, capitalism—while generating an *interest* in revolutionary change—does not necessarily create successful anti-capitalist revolutionary *agency*.

Nevertheless, this first claim notwithstanding, it is worth inquiring what the prospects of an anti-capitalist revolution, peaceful or otherwise, would be, were it to be

attempted. Investigating this possibility is recommended both by epistemic humility,³ and by incipient signs of discontent and proto-revolutionary agency.⁴ A closer look, however, reveals that, due to the continued and non-contingent strength of the state under contemporary capitalism, were an anti-capitalist revolution to be attempted, it would most likely be doomed to failure. As a result, this chapter concludes that capitalism, while endogenously generating crises, does not reliably generate anti-capitalist revolutions.

B. What do we know about the causes of revolutions?

Before the two main claims are defended, I present a sketch of a theory of the causes of revolution. With that on the table, links can be made—or denied—between the various mechanisms and trends inherent in contemporary capitalism and the likelihood or not of a revolution against it.

I define “revolution” as rapid and fundamental change in both the social order and the justification of legitimate authority in society, driven often, but not always, by mass action. This definition distinguishes revolutions from coups, which the personnel in power

³ The quiescent nineteen fifties, for example, gave way in less than a decade to the closest thing that the advanced capitalist core has seen to a revolutionary situation after WWII, the student revolts of 1968.

⁴ The wake of 2008, for example, has seen anti-capitalist activism both in the streets, e.g. Occupy Wall Street, *los indignados* in Spain, or *nuit debout* and *gilets jaunes* in France, and in politics, in the form of *Syriza* in Greece, *la France insoumise* in France, and to a certain extent in the campaigns of Jeremy Corbyn in the UK and Bernie Sanders in the United States. Perhaps most importantly, the Black Lives Matter movement and the election of Alexandria Ocasio-Cortez—a member of the Democratic Socialists of America—to the United States House of Representatives show that this wave of activism may well succeed in combining anti-racist and anti-capitalist organizing, creating resilience against the single biggest weakness that historically afflicted American anti-capitalist activism. If these movements were to be repeatedly frustrated, a possibility that is by no means remote, it is possible, though far from certain, that they may over time radicalise and turn towards proto-revolutionary agency.

but leave both the overall social order and its structure of justification intact;⁵ from revolts, which often do not aim at, and in any case fail to achieve, revolutionary change; usurpations and foreign conquests, which may change a society's social order but usually fail to change the structure of legitimation; and civil wars as well as profound reforms, which, although both may lead to fundamental changes in both social order and the structure of justification of authority, are usually not rapid.

What do we know about the causes of revolutions so defined? Drawing on Luxemburg (2004, Chapter 6 [1906]), Lenin (1992 [1918]), Skocpol (1979, 1994), and others (Goldstone, 2001; Mann, 2013, Chapter 9), three propositions can be distilled from the historical record: first, and most obviously, for a revolution to succeed, there must be a mass uprising that destabilises the existing regime (Luxemburg 2004 [1906], pp. 146–67; Skocpol 1979, p. 112; B. Moore 1966, p. 480). The most salient observation about mass mobilization is that, in general, it is not produced through intentional action alone;⁶ and so although revolutionary leadership is *also* a necessary cause of revolutions – this is explored below – mass uprisings are best thought of as independent causes, not reducible to the agitation or organisational efforts of revolutionaries.

⁵ Note that I adopt a comparatively wide definition of coups. In outcome though not in process, for example, I classify the Arab Spring in Egypt as a coup, replacing the Mubarak Regime with the Al-Sisi Regime. What I mean by coup is thus also captured by one reading of (mere) “regime change,” but due to the many-faceted nature of that term I prefer “coup” over “regime change.”

⁶ “If anyone were to undertake to make the mass strike generally, as a form of proletarian action, the object of methodological agitation, and to go house-to-house canvassing with this “idea” in order to gradually win the working-class to it, it would be as idle and profitless and absurd an occupation as it would be to seek to make the idea of the revolution or of the fight at the barricades the object of a special agitation” (Luxemburg, 2004 [1906], p. 171).

In particular, “The purposes of men, especially in a revolution, are so numerous, so varied, and so contradictory” (Gordon Wood, quoted in Skocpol, 1979, p. 18) that the intentional instigation of a mass uprising is close to impossible. Even where discontent is widespread and known to be widespread—itsself a considerably obstacle to overcome (Kuran, 1991)—the vast majority of people will only participate in mass anti-state action if they believe that a great many *other people* will also participate. Otherwise participation, even against a weakened coercive apparatus, and even when the attitude of discontent is known to be widespread, is simply too costly.

But causing this belief—that mass participation is likely—is challenging for those who are already known to be fiercely committed revolutionaries (Lohmann, 1994): a strike, a guerrilla attack, an act of civil disobedience, or other forms of protest that overwhelmingly feature already-committed revolutionaries are weak signals. Such acts, after all, are simply what revolutionaries *do*, and so they do not contain new information about whether or not *other* people are likely to join in. Only a protest that is bigger than expected, or a guerrilla action that demonstrates stronger-than-expected capabilities, or a strike that quickly spreads, tells bystanders that there are a significant number of moderates (in Lohmann’s sense) who, for some reason or another, are now motivated to participate or support the action.⁷

⁷ An observation that lots of ‘moderates’ have unexpectedly joined an action, in turn—in a context where discontent and the desire for change is already widespread and known to be widespread—is likely to draw in more participants to the next protest, sending an even stronger signal, which in turn draws in even more participants to the next protest, and so on, in a potentially rapidly cascading fashion.

While this explains why intentional action by revolutionaries is unlikely to set off such a cascade—and hence why mass mobilisation is best thought of as a separate cause from revolutionary leadership—it does not say what kind of event is likely to trigger a cascade. Because an event’s effectiveness as a trigger (or lack thereof) depends on a complex interplay between the event itself, how it is interpreted by various groups, what actions these interpretations trigger, how *these* actions are interpreted and responded to by other groups, and so on, this is an inherently difficult thing to predict. A crackdown, for example, might be seen as a signal of strength, demonstrating a regime’s capacities of coercion and willingness to use them, thus stopping further mobilization, as in Bahrain in 2011; or as a disproportionate affront and as a signal of weakness, indicating previously hidden regime fears of vulnerability to further protests, thus boosting further mobilization, as with the Bloody Sunday massacre setting off the 1905 Revolution in Russia.⁸

Given their varied and inevitably context- and interpretation-dependent nature, nothing much can be said about trigger events in the abstract.⁹ In discussing the first cause of revolutions, i.e. mass mobilization, analysis must therefore restrict itself to latent mass

⁸ “The bloody massacre in St. Petersburg was, as is well known, the signal for the outbreak of the first gigantic series of mass strikes which spread over the whole of Russia within a few days and which carried the call to action of the revolution from St. Petersburg to every corner of the empire and amongst the widest sections of the proletariat” (Luxemburg, 2004 [1906], p. 173).

⁹ Historical examples of trigger events, showing the variety of events that may set off a cascade of mass mobilisation, include the decision of Mohammad Bouazizi to self-immolate on 17th December 2010, setting off the Arab Spring; Günter Schabowski’s (member of the central committee of the GDR’s governing party and its press secretary) fumbling answer at a press conference on 9th November 1989, which inadvertently led to the opening of the Berlin Wall and sped up the end of the Soviet Empire in Eastern Europe; or the heavy snow falls and degraded railroad infrastructure around St. Petersburg in February 1917, delaying food transports and setting off the food riots that then turned into the February Revolution. In other words, action from below, action from above, and acts of nature can all serve as trigger events.

mobilization, in particular the existence or not of an interest in revolutionary change. The presence of such an interest is not sufficient, of course, for mobilization; but where there is a widespread interest, expressing itself in discontent and a desire for radical change, the situation is somewhat parallel to a house of cards on a windy day. It is impossible, indeed unproductive, to ask which gust of wind brings it down (triggering a mass uprising); but it is a near certainty that some gust will do so.¹⁰

Second, in addition to mass mobilization, successful revolutions require direction and leadership. This is because mass mobilizations are “not inherently revolutionary in themselves and usually lead only to abortive rural rebellions and urban protest. They become effective in creating revolutionary change when they link up with elite opposition to the regime” (Goldstone, 2001, p. 151). Or, stating this point in conjunction with the previous one, “Revolutionaries do not make revolutions! The revolutionaries are those who know when power is lying in the street and when they can pick it up” (Arendt, 1971). Due to the inherently chaotic nature of mass uprisings, it takes the determined leadership of a challenger elite to transform a situation of anarchy into a new and different social order.

The presence of this additional element constitutes a crucial difference between uprisings and revolutions, for example between unsuccessful rural rebellions and successful peripheral revolutions (Goldstone, 2001, p. 143), between the Iranian Revolution and the Arab Spring (Bayat, 2017),¹¹ or between the ‘mere’ workers’ uprisings

¹⁰ I owe this metaphor to Jon Elster.

¹¹ Tunisia forms a partial exception. In addition, though consistent with what I highlight elsewhere in this chapter, Bayat foregrounds the absence of revolutionary ideology, strategic visions, or concrete programmes (e.g. Bayat, 2017, p. 2), in addition to the absence of leadership. “Revolutionaries held enormous social and

in the Eastern Bloc—East Germany 1953, or Poland in 1970, 1976, and 1980-1, suppressed with domestic means—and the revolutions and proto-revolutions there—Hungary 1956, Czechoslovakia 1968, Poland 1989, or East Germany 1989-90, successful or suppressed only by Soviet intervention.

Finally, revolutions only succeed where the coercive forces of the state are weakened, or where a sufficiently large part of them stands aside or sides with the revolutionaries. As long as the state's core administrative, revenue-raising, and coercive-military capacities are functioning; as long as, when push comes to shove, they side with the regime; and as long as that regime is led by united elites willing to use force to defend it, no revolution from below has a prospect for success. Even where there is a mass uprising coupled with determined revolutionary leadership, the coercive forces at the disposal of the state are usually stronger and better organised so that, as long as they are undivided and deployed in support of the regime, they will win out in armed confrontation. As Skocpol highlights, "Regimes can crush or fight off [...] challengers as long as their state organizations remain administratively and coercively coherent" (Skocpol, 1994, p. 311; see also Kandil, 2011). "It is [...] worth restating, that fiscally and militarily sound states that enjoy the support of united elites are largely invulnerable to revolution from below" (Goldstone, 2001, p. 146).

street power but failed to assume governmental authority; they did not actually rule. Revolutions stayed relatively peaceful and orderly but brought little structural change. [...] The protagonists were rich in tactics of mobilization but poor in vision and strategy of transformation; they adopted loose, flexible, and horizontal organization but one that suffered from fragmentation; they espoused civil opposition but over-looked the danger of restoration" (Bayat, 2017, p. 18).

Returning to the overall picture, while jointly sufficient, all three causes also appear individually necessary. Where only the first two conditions obtain – mass mobilization and determined leadership – an abortive revolution or civil war, as in Syria after the Arab Spring or in Spain from 1936 to 1939, is likely.¹² Where the second and third conditions obtain – determined leadership and a breakdown in administrative-coercive capacities, but without mass mobilisation – a coup, not a revolution, is the most likely outcome.¹³ Finally, if only the first and the last obtain – a mass uprising and a breakdown in administrative-coercive capacity – the most likely outcome is that, after a revolutionary crisis, the coercive state rallies, and instead of a revolution the outcome is a successful crackdown: Russia in 1905, for example, or much of the Arab Spring (Bayat, 2017).

While individually necessary and jointly sufficient, it is important to reiterate that their conjunction cannot, in general, be brought about through intentional action alone. Revolutions require both conspirators *and* a conspiracy of circumstances. Further, Revolutionary agitation, guerrilla warfare, strikes, or mass demonstrations have, historically, not sufficed to weaken the coercive capacities of otherwise stable states. To

¹² See also the communist and nationalist revolutionary movements in Malaya, the Philippines, El Salvador, and Guatemala during the early and later Cold War, which followed a similar trajectory of a major uprising that was then defeated by the incumbent regime (Goodwin, 2001).

¹³ This latter constellation is approximately similar to Vilfredo Pareto's theory of revolutions. Pareto reduces revolutions to a particular form of struggle between elites, where a rising elite allies with the masses in order to displace a reigning elite (Pareto, 2014 [1906], p. 65, Chapter II, §106). Insofar as the masses remain a mere instrument of the challenger elite – what Marx and Engels described as “a bribed tool of reactionary intrigue” (Marx 2000 [1848], p. 254) – and do not mobilise autonomously, however, this constitutes, in the definitions used here, a coup rather than a revolution. In narrowing revolutions in this manner, Pareto of course erases the very category of “social revolutions” – “rapid, basic transformations of a society's state and class structures” (Skocpol, 1979, p. 4) – which constitutes the central topic of this chapter.

satisfy this third condition, an external shock—such as intensifying geopolitical competition or outright war; major economic shifts, such as industrialization or the end of Fordism; or fast and intense demographic change (Goldstone, 1991)—is in general required. Just like mass mobilisation, revolutionary agents cannot in general produce these kinds of shocks unilaterally. As a result, it is correct to say that “revolutions are not made; they come” (Wendell Phillips, quoted in Skocpol, 1979, p. 17).¹⁴

C. Capitalism generates an interest in, but not necessarily the means for, revolutionary agency

Let us begin, then, with the first two conditions of a successful revolution: a mass uprising and revolutionary leadership. Beginning with Marx, these are the elements on which many theorists of revolution under capitalism (Lenin, 1992 [1918]; Luxemburg, 2004, Chapter 6 [1906]; Marx, 1992 [1867]; Trotsky, 1964 [1926]) have focused their attention.

Simplifying somewhat, the Marxian tradition sees an anti-capitalist revolution as likely, even inevitable, because capitalism generates both an *interest in* and a *capacity for* revolution among the working class: “Along with the constant decrease in the number of

¹⁴ This connects to the “Political Opportunity Structure” literature on revolutions (e.g. McAdam, McCarthy, & Zald, 1996; Tilly, 1978), insofar as it stresses the need for an opening that would-be revolutionaries cannot themselves reliably produce. Unlike this literature, however, my account distinguishes between elite/coercive weakness and mass mobilization, neither of which can reliably be produced by revolutionaries themselves, and both of which require external events to transpire; and, concerning mass mobilization, it highlights that the opening in question can be generated by any event or process, whether ‘opportunity’, ‘threat’, or something altogether different, that affects beliefs in the relevant way, setting off a participation cascade. See also Goldstone (2004, esp. p. 356).

capitalist magnates, who usurp and monopolize all the advantages of this process of transformation, the mass of misery, oppression, slavery, degradation and exploitation grows [interest]; but with this there also grows the revolt of the working class, a class constantly increasing in numbers, and trained, united and organized by the very mechanism of the capitalist process of production [capacity]" (Marx, 1992 [1867], p. 929).¹⁵

From Bernstein on, we know that this is not precisely how capitalism has unfolded (E. Bernstein, 1993 [1899]). Given that revolutions are inherently hazardous, would-be revolutionary agents must have a strong interest in revolutionary change to even consider participating in, let alone leading, revolutionary action. But while workers did become concentrated – “trained, united, and organized” – in particular industries, especially iron and steel, coal mining, railroads, and manufacturing, after Engels’ Pause (Allen, 2009) real wages have generally risen across the income distribution (Clark, 2007), albeit unevenly (e.g. Piketty, Saez, & Zucman, 2018, p. 578, table II). The “mass of misery, oppression, slavery, degradation and exploitation,” while never vanishing, did not grow without end. In the context of the mid-century class compromise state (Przeworski, 1985), the classic

¹⁵ There is also, of course, a much deeper driver of revolutions in Marx’s oeuvre: revolutions occur when the relations of production become fetters on the development of the forces of production (Cohen 1978, chap. 6; Marx 2000 [1859], pp. 424–27). This, the core of historical materialism, is not separate from the process outlined above. Rather, the particular way in which this general mechanism expresses itself in capitalism is, according to Marx, the manner in which capitalism gives the workers both an interest in, and the power for, a socialist revolution. What the precise mechanisms are that connect the deep process of match/mismatch between relations and forces of production with the more visible process of class struggle is not obvious – which is of course the problem – though see Cohen (1978, pp. 292–296) for suggestive thoughts on this.

Marxist account of how capitalism endogenously generates a widespread *interest* in revolutionary change therefore increasingly rang hollow.

However, this rejection of Marx's theory of revolutions on the basis of vanishing interest is no longer obviously convincing today. The class compromise state has itself been compromised: in the US, since the end of post-War capitalism's Golden Age (Marglin & Schor 1990), capitalism has been "unleashed" (Glyn, 2006), inequality (Piketty, 2014) and insecurity (Hacker, 2006) have risen dramatically, life expectancy has fallen among a significant part of the old working class (Case & Deaton, 2015, 2017) and, in a return to the early Marx, even where material deprivation is avoided, life under the profit motive has deformed human character (Boltanski & Chiapello, 2005; G. A. Cohen, 2009; Rogan, 2017; Skidelsky & Skidelsky, 2012). Seen with sufficient historical perspective, it was the Golden Age that proved ephemeral and exceptional. Capitalism's tendency to generate substantive harms¹⁶ and to erode the primary reformist tool to address them, on the other hand, has proven durable and persistent.

Given mounting evidence of the incompatibility between capitalism and democracy, and given that capitalism reliably produces a number of substantive ills, there is a strong case, then, that capitalism *does* generate a widespread interest in revolutionary change, even from otherwise moderate normative preferences. "If [...] a peaceful taming of capitalism can only obtain in unique and unstable circumstances [...] social democrats

¹⁶ These ills include distributive injustice; widespread agency-impairing instability; the corruption through commodification of virtues and valuable practices; a bias towards socially, environmentally, and individually harmful over-production. A more extensive account of these ills, and how they are linked to its operation, is given in the final chapter of this dissertation.

and liberal egalitarians [...] might have to become reluctant radicals” (Ronzoni, 2018, p. 126).

However, as I will argue now, even as the first element of Marx’s theory of revolutionary agency looks more credible today, the credibility of its second element, that capitalism endogenously generates a *capacity* for revolutionary change, has decreased significantly.

A key assumption in the Marxian account of how revolutionary agency is generated is that society at large, and the bourgeoisie in particular, rely on the working class, for grouped into this class “are the producers on whom society depends” (Cohen, 1995, p. 8). This is relevant for the success of revolutionary agency: a class that is integral to the functioning of society holds collective veto power, which it can deploy in pursuit of revolutionary change. It is also, however, relevant for the *organisation* of revolutionary agency, which, being a collective action problem, is non-trivial. By rendering credible the hope that mass mobilization may yield real power, it gives organisers an important argument with which to convince others to join the movement. Though this will not in general suffice to organise mass mobilisation—a mass uprising, as was discussed above, arises out of a conspiracy of circumstances, not a conspiracy of organisers alone—it may suffice to organise a core of committed revolutionaries, who can then supply the leadership element—“those who know when power is lying in the street and when they can pick it up” (Arendt)—that is required to turn a revolutionary situation into a revolution itself.

The credibility of this hope, however, looks strained today. On the one hand the collapse of the Soviet Union extinguished a universe of imagined alternatives to capitalism.

While the ideological hegemony of neoliberalism is waning (Fraser, 2017), the lost utopia represented by the USSR in certain moments is yet to be replaced by an equally comprehensive and tangible vision commanding equally wide allegiance in countries of the capitalist core.¹⁷ There are signs of demand for such a vision – whether in the spontaneous but ephemeral form of Occupy Wall Street or in the electoral success of Alexandria Ocasio-Cortez and other Democratic Socialists of America – but the twenty-first century equivalent to the *Communist Manifesto* has yet to be written.¹⁸ More importantly – since the claim under assessment is whether capitalism *endogenously* generates revolutionary agency – while it is of course possible that a new imaginary will arise, only a crude materialism would suggest that such an imaginary will inevitably be generated out of the suffering of contemporary capitalism. This, then, is a first challenge to the inevitability or high likelihood of revolution: organising a cadre of committed revolutionaries is facilitated by the availability of a rival vision to capitalism, for “it is meaningless to be [a] revolutionary

¹⁷ Of course, the “exhaustion of utopian energies”, as Habermas formulated it (Habermas, 1986), predated the end of the Cold War, as the totalitarian and corrupt elements of really existing socialism became progressively more apparent (see also Moyn, 2012). Nevertheless, the collapse of the Soviet Union amplified and reinforced this development, leaving little doubt that there remained, for the time being, no competitor ideology(ies) to liberal democratic capitalism (Fukuyama, 1992). In addition, on a more material basis, the collapse of the Soviet Union also deprived anti-capitalist movements in the West of financial and organisational support.

¹⁸ Concerning the materially most important recent wave of revolutions, the Arab Spring, it is telling that “these revolutions showed remarkable difference from those of the 1970s” insofar as they “lacked any associated intellectual anchor ... [N]o visionary intellectual current seemed to accompany the Arab Spring” (Bayat 2017, p. 11). In part as a result of this, and despite their “spectacular mobilization, inventive tactics, and non-violent repertoires,” the Arab Spring “failed to bring a radical break from the old order and meaningful change in the structure of the states” (Bayat, 2017, pp. 219-20). Concerning the Occupy Movement, the “deliberate lack of explicit demands” (Miller, 2018, p. 228) reflects the lack of a practical (or properly political) programme in its animating ideology, and was one of the reasons why its remarkable success in terms of mobilization and attention-attraction failed to translate into meaningful change.

in the absence of a revolutionary purpose” (T. F. Mayer, 1994, p. 227). But there is no way to know, in advance, whether and when such a rival vision will emerge under contemporary capitalism, and whether belief in it will become widespread.

On the other hand, the material power resources that underpinned earlier anti-capitalist organizing have also faded: with the replacement of coal power by oil, gas, nuclear, and renewable energy; of railroads by trucks and container ships; of centralised, Fordist mass-production by flexible specialization; and of centralised communication and media infrastructure by the internet, the decisive parts of social energy, transport, production and communication structures have moved from “hub and spoke” to web-like structures. Whereas the former created obvious points of intervention—where workers struck the coal mines, steel plants, and railroads, investors, management, and government had little choice but to bargain¹⁹—in the latter it is possible to respond to strikes at any one node by re-routing traffic via alternative nodes. As Fox-Piven and Cloward point out “it was the unique advantages afforded by [workers’] location in the mass-production industries that made the sustained organization of workers possible, and these situational advantages are not available to most other working-class and lower-class groups” (Fox Piven & Cloward, 1977, p. xvi).²⁰

¹⁹ Cracking down was of course an (often-used) alternative. However, this carried its own costs, particularly where the cause of the strikers was seen as legitimate, and became self-defeating once, in the context of war, full national mobilization was required to survive and succeed in geopolitical competition.

²⁰ Rentier states, in particular oil-based regimes, are of course an exception. Due to my focus on the capitalist core, I leave them aside here.

The change from ‘hub and spoke’ to ‘web’-like structures does not render strikes ineffectual—just-in-time production in particular remains vulnerable to strikes—but it greatly increases the extent of coordination required to achieve meaningful gains: striking against, say, General Motors, or the port of New York, may disrupt the firm or port in question, especially when they operate on a just-in-time model. However, since this disruption shifts the relative competitive position between GM and competing firms, or between the Ports of New York and Newark, it does not necessarily generate much leverage: even if GM or the New York Ports make concessions, if these concessions are profit-reducing, they will lose market share, and the workers’ success may become a Pyrrhic victory over the medium run. Durable change likely requires organizing an entire industry so that competition in the product market cannot easily erode it. This level of coordination, in turn, is challenging to achieve. Where the extent of required organization significantly exceeds the reach of pre-existing facilitators of solidarity, such as a shared workplace or a shared local culture, and where organisation is inhibited by a hostile legal and cultural landscape, as in the United States, the arguments of organisers may struggle to convince. In this context, it takes heroic faith both to convince and to be convinced of joining a radical, let alone revolutionary, movement.²¹

Concerning the leadership element of revolutionary agency, then, we cannot assume that it will necessarily be generated by the regular operations of contemporary

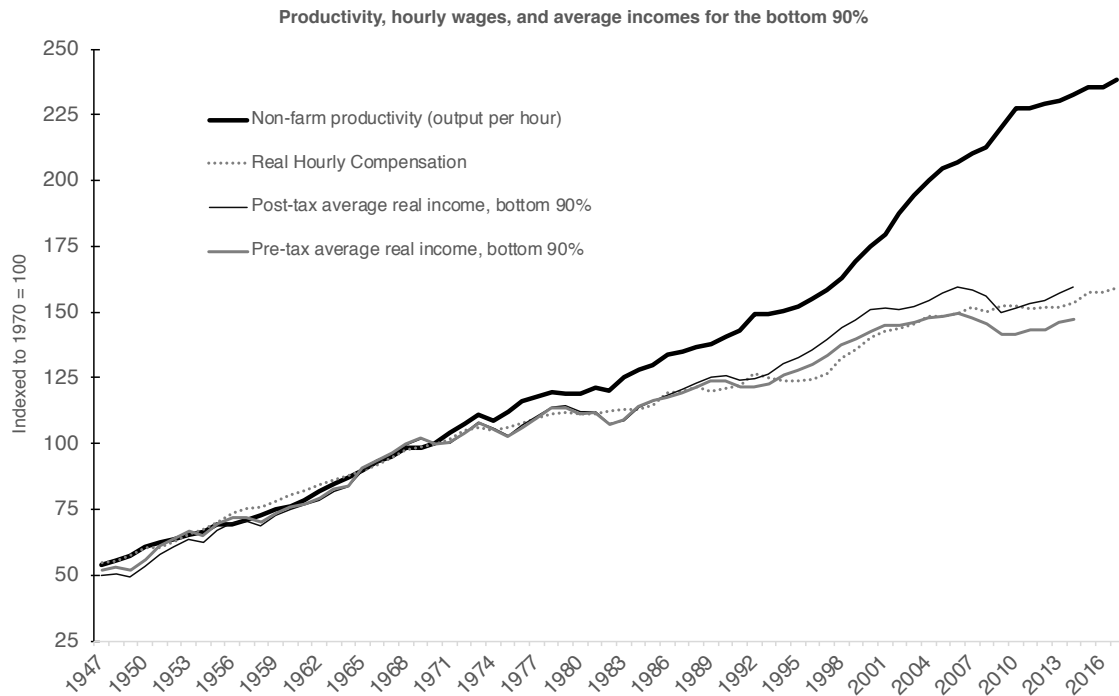
²¹ See Gaventa (1980) for an account of how the experience of defeat and loss of bargaining power can undermine the hope that is required for organisation in pursuit of collective action. The important result is that deep grievances can durably coexist with quiescence, implying that quiescence must not be confused with the absence of grievance.

capitalism. The ideological lacuna left by the collapse of the Soviet Union may be filled; the material context, with network rather than hub-and-spoke structures in energy, transport, production, and communication technology, while likely to change more slowly than the landscape of ideas, may change; but in neither area is there any guarantee. It is possible that the backdrop to anti-capitalist organizing remains so challenging that, despite an endogenously generated interest in anti-capitalist activism, further explored in the following paragraphs, no leadership element forms.

Turning next to the mass element of revolutionary agency, here too the epitaph identifies the key causal drivers in the Marxian story: where many, or even a majority, have the characteristics of “being exploited [...] and [...] being in dire need” (Cohen, 1995, p. 8), spontaneous mass mobilization—especially in the context of an opening, e.g. through crisis and agitation by revolutionary leadership—is plausible. The extent to which exploitation and deprivation are present in contemporary capitalism is far from negligible: Figure 8 shows that, since approximately 1970, wages and incomes have fallen (far) behind productivity growth. On a common sense understanding of the term, this is a strong indicator of an increase in exploitation: labour is bearing new fruits, but they are reaped by idle hands.²²

²² A technical discussion of the concept of exploitation is given in Chapter 9, Section E below (p. 434).

Figure 8. Productivity and wage growth in the United States, 1947-2016



Sources: author, based on U.S. Bureau of Labor Statistics (2019c, 2019d, productivity and real hourly compensation), and World Inequality Database (pre- and post-tax average real income for bottom 90% of US population)

Deprivation, too, is not entirely absent. There has been a notable increase in health inequality in the United States, most strikingly in the form of declining life expectancy among working class Americans.²³ Mental and physical well-being has become more

²³ Case and Deaton (2015, 2017) found a decline in life expectancy among working class middle-aged white Americans, driven by increases in suicide, alcoholism, and drug overdoses, since around the year 2000. Along similar lines, Bosworth, Burtless and Zhang (2016) find a growing gap in longevity along class lines in the US. The correlation of smoking with income has increased dramatically in the US since the nineteen seventies (G. Singh et al., 2017, fig. 27). The same is true, to a lesser degree, for cancer (G. K. Singh & Jemal, 2017), HIV mortality (G. K. Singh, Azuine, & Siahpush, 2013), and cardiovascular disease (G. Singh, Siahpush, Azuine, & Williams, 2015). For England, *The Economist* (“Big little ones: As rich children slim down, poor ones are getting fat,” 2018) reports that the gap in obesity between poor and rich children has grown from around eight percentage points to approximately thirteen points over the last decade. How tight these findings are connected to the operation of capitalism specifically is an open question—deaths from alcoholism, for example, famously increased dramatically in the final years of the Soviet Union. I am not familiar, however, with data disaggregating this increase by social class, so that it is unclear whether this

unequal: “those with incomes below the poverty line [around 40 million Americans] were twice as likely to report chronic pain and mental distress than those earning \$75,000 or more, and three to five times more likely to have extreme pain or extreme distress” (Graham, 2017, p. 78; see also Krueger, 2017). A non-negligible number of Americans live in destitution, with the number of families living on two dollars a person a day doubling between 1996 and 2011 to 1.5 million (Edin & Shaefer, 2015). And while real wages have, by and large, long risen above material subsistence (Clark, 2007), it is unclear to what extent they have risen above *social* subsistence.²⁴

An inability for wages, certainly for unskilled labour, to rise significantly above social subsistence may be intrinsic to capitalism, necessary to sustain the commodity status of labour. Both Max Weber (1992 [1905]) and Karl Polanyi (1944) pointed out – and Joseph Townsend (1786) actively recommended²⁵ – that in order to turn labour into a commodity that can reliably be purchased, a transformation of human motivation is necessary. Without this transformation, buying additional labour power can be impossible, even for buyers with ample means.²⁶

general decline in health exhibited the same striking asymmetries of the American case, which are more relevant for the argument made here than the general decline.

²⁴ See Marx (1992 [1867], p. 275) for a definition of social subsistence wages.

²⁵ “Hunger will tame the fiercest animals, it will teach decency and civility, obedience and subjection, to the most perverse. In general it is only hunger which can spur and goad them [the poor] on to labour; yet our laws have said they shall never hunger. The laws, it must be confessed, have likewise said, they shall be compelled to work. But then legal constraint is attended with much trouble, violence and noise; creates ill will, and never can be productive of good and acceptable service: whereas hunger is not only peaceable, silent, unremitting pressure, but, as the most natural motive to industry and labour, it calls forth the most powerful exertions” (Townsend, 1786, as cited in K. Polanyi, 1944, p. 118).

²⁶ As cited in Chapter 2 above, “only a human lifetime in the past it was futile to double the wages of an agricultural labourer in Silesia [...]. He would simply have reduced by half the work expended” (Weber,

Achieving this transformation required “the pangs of hunger on the one hand, the scarcity of food on the other” (K. Polanyi, 1944, p. 119). While the stimulation of greed (G.A. Cohen) or acquisitiveness (Keynes) also contributes to commodifying labour, the history of capitalism—from the enclosure movement (Marx),²⁷ via the New Poor Laws (Polanyi)²⁸ and the Silesian weavers (Weber), to “ending welfare as we know it”, the Hartz IV reforms in Germany, and post-crisis austerity in the UK²⁹—indicates that neither the stimulation of greed, nor the one-time effect of primitive accumulation sufficed or indeed suffice to maintain the commodity status of labour. Instead, it appears necessary to induce a *continual* fear of scarcity, by keeping non-labour forms of income to, at most, the level of social subsistence.³⁰

1981 [1927], p. 355). Note that it is somewhat misleading to call this, as Weber did, a case of ‘traditional’ morality: “For he [the agricultural labourer] did *not* continue to do what he had always done. He began to work a lot less than before. To cease to work from sunrise to sunset is to forsake tradition at least as much as to work no less hard, or harder, at twice the old wage rate” (Cohen, 1978, p. 321).

²⁷ “the agricultural fold [were] forcibly expropriated from the soil, driven from their homes, turned into vagabonds, and then whipped, branded and tortured by grotesquely terroristic laws into accepting the discipline necessary for the system of wage-labor” (Marx, 1992 [1867], p. 899).

²⁸ On the New Poor Laws, note that Benjamin Disraeli, a Conservative Prime Minister, had the following to say: “I consider that this act has disgraced the country more than any other on record. Both a moral crime and a political blunder, it announces to the world that in England poverty is a crime” (quoted in Himmelfarb, 1983, p. 182).

²⁹ On British austerity, a 2018 report by the United Nations Office of the High Commissioner for Human Rights (UNHCHR) is worth quoting: “Leaving the economics of change to one side, it is the underlying values and the ethos shaping the design and implementation of specific measures that have generated the greatest problems. The government has made no secret of its determination to change the value system to focus more on individual responsibility, to place major limits on government support, and to pursue a single-minded, and some have claimed simple-minded, focus on getting people into employment at all costs” (Alston, 2018, p. 2). In other words, precisely the mechanism described in the main text: making non-labour market income (for the poor, of course, not those whose non-labour income consists of dividends or rents) so meagre as to force people into any kind of work, with little regard for the human consequences.

³⁰ See also Bell (1975) on this.

If reservation wages are kept to social subsistence, in order to preserve labour's commodity status, and if the permanent existence of a reserve army of the unemployed (Kalecki, 1943) together with the fading of trade unions keeps wages (at the bottom end of the labour market) relatively close to reservation wages, then wages may not be able to rise sustainably above social subsistence under capitalism. In that case, the divergence between productivity and incomes shown in Figure 8 above is no longer a contingent outcome, e.g. the result of a mishap in the race between education and technology (Goldin & Katz, 2008). Instead, it would be a structural tendency of capitalism, driven by the twin features of lopsided bargaining power in the labour market, and the necessity of fear (in addition to greed) to maintain labour as a commodity. Where this is true, as strongly appears to be the case in the United States after the nineteen seventies, there is a clear interest in major, and potentially revolutionary, change.

Further, in addition to this continuously acting mechanism, we must also reckon with periodic economic crises—equally endogenous to capitalism—that strike both living standards and perceptions of stability with sudden intensity, pushing large numbers of people to levels at or below social subsistence. Not only does capitalism generate an interest in substantial change, then; it also generates flashpoints where this interest will be felt most keenly. Even though material deprivation is not—at least broadly speaking and bearing in mind this dissertation's restriction to the capitalist core³¹—a widespread feature of

³¹ Though see again the UNHCHR report on Britain, concluding that, although “the full picture of low-income well-being in the UK cannot be captured by statistics alone”, “14 million people, a fifth of the population, live in poverty. Four million of these are more than 50% below the poverty line, and 1.5 million are destitute, unable to afford basic essentials” (Alston, 2018, p. 1).

contemporary capitalism, the same cannot be said for *perceived social deprivation*; a dismissal of Marx's theory of revolutions because there is not a mass *interest* in revolutionary change is hence no longer convincing.

However, when it comes to the translation of suffering into agency, the texture of deprivation matters. As Fordism has given way to post-industrial society, inequality and discipline have parted ways, wedged by the increasing automation of manufacturing.³² Where railroads, mines, and factories were once places of both manifest inequality and inadvertent mass organisation, today's service economies produce inequality and deprivation, but not, as far as I can tell, necessarily organisation. The dramatic increase in American inequality since the nineteen seventies, in particular, is not so much driven by growing inequality *within* firms—as would be the case in classic mass-manufacturing if workforce wages and managerial salaries and profits were to diverge—but largely by growing inequality *between* firms, as a small number of firms capture a growing share of total value (Song, Price, Guvenen, Bloom, & Von Wachter, 2019). If we assume that social networks are, all else being equal, tighter within firms than across firms, then between-firm inequality may make for a harder landscape for mass mobilization than within-firm inequality.³³ In retrospect, then, the mechanism of mass organization associated by Marx

³² The growing automation of American manufacturing is visible in the divergence between output and workers: whereas the American manufacturing labour force has shrunk from around 18 million (or 20% of the total labour force) in the nineteen seventies to around 13 million (down to 8%) today (U.S. Bureau of Labor Statistics, 2019a) manufacturing output has nearly tripled since the early seventies (Board of Governors of the Federal Reserve System, 2019).

³³ See Snow et al (1980), McPherson et al (1992), or McAdam (1986) for the importance of social networks for mass mobilisation. Note that the rise of the gig economy does not appear to be a major factor here. Though data is generally of poor quality and short historical horizons, the most reliable sources show no significant

with capitalism—that the working class is “trained, united and organized by the very mechanism of the capitalist process of production” (Marx, 1992 [1867], p. 929), that “[w]hat the bourgeoisie, therefore, produces [...] are its own gravediggers” (Marx, 2000 [1848], p. 255)—may have been an artefact of industrialization, carrying over into Fordism but not, with equal power, into post-industrial society. Whether this mechanism of organization is intrinsic to capitalism per se, as Marx argued, is thus an open question.

Some argue that the contemporary equivalent to industrialization is automation: workers may no longer be “trained, united and organized” in virtue of being assembled in dark, satanic mills, but the mass displacement of workers by automation, this argument goes, will have a similarly galvanizing effect, particularly if it extends rapidly and across many industries.

Once again, however, such a development seems possible but by no means necessary, or even particularly likely. Even if we grant that automation will in fact proceed

increases in freelance working, and even slight decreases vis-à-vis the nineteen nineties. The only regular survey on independent workers in the US began in 2011, and shows no increase: the number of people doing more than fifteen hours per week of independent work stood at sixteen million in 2011 (MBO Partners, 2011, p. 2), and while rising in between, has fallen to just below sixteen million by 2018 (MBO Partners, 2018, p. 4), or around ten per cent of the US workforce. The Bureau of Labor Statistics occasionally collects data on contingent (“workers who do not expect their jobs to last”) and alternative employment arrangements (independent contractors, on-call workers, and temporary help agency workers, and workers provided by contract firms; note that these categories are not mutually exclusive with contingent work, so that they cannot be summed to obtain a total) where this is the primary source of income. Data was collected in 1995, 1997, 1991, 2001, 2005 and 2017. This also shows no increase: on the highest estimates, contingent workers constituted 4.9% of the workforce in 1995, 4.1% in 2005, and 3.8% in 2017; alternative employment arrangements constituted 11% in 1995, 10.7% in 2005, and 10.1% in 2017 (U.S. Bureau of Labor Statistics, 1995, p. 2, 2005, p. 2, 2018b, p. 2). When the definition is broadened to all workers who do at least some independent work, the estimates generally rise to twenty to thirty per cent of the workforce (Manyika et al., 2016, p. 6; MBO Partners, 2018, p. 2), but no good historical data is available for this definition.

rapidly, *and* that those displaced by automation will not be reabsorbed by the service sector,³⁴ the potential for mass mobilization that this generates may be limited. The industrial working class, engaged in the mining of coal, the production of iron and steel, the manufacturing of locomotives, cars, ships, planes, and industrial equipment, among many other sectors and products, could feel essential to society as a whole—because it was.³⁵ Even the Iranian Revolution, whose relationship to capitalism and modernization was complicated, was put over the top in large part by a general strike emanating from the industrial proletariat.³⁶ Where workers' interests were harmed, whether through low wages, unsafe working conditions, seasonal unemployment, or political

³⁴ I am sceptical of both of these claims (see pp. 263-270 above). Nevertheless, it is worth pointing out that the proportion of prime age men, aged 25 to 54, not in work has increased from two per cent in 1954 to twelve per cent in 2016 (The White House, 2016, p. 2). Of these, almost half take pain medication on a daily basis (Krueger, 2017, p. 3). Since “reductions in the demand for labor, especially for lower-skilled men, appear to be an important component of the decline in prime-age male labor force participation” (The White House, 2016, p. 3), growing automation may well be behind this trend; if so, then it may be the case that, in future, many of those displaced by automation will not be reabsorbed in the service sector.

³⁵ This is amply reflected in the cultural production of the nineteenth and early twentieth century labour movements. The third verse of “Solidarity Forever” goes:

“It is we who plowed the prairies; built the cities where they trade;
Dug the mines and built the workshops, endless miles of railroad laid;
Now we stand outcast and starving midst the wonders we have made;
But the union makes us strong.”

Examples from other languages include the German *Bundeslied für den Allgemeinen deutschen Arbeiterverein*, esp. the tenth verse, *Alle Räder stehen still, wenn dein starker Arm es will* (“all wheels cease their motion, if your arm wills it so”), and of course the French *L’internationale*, in particular the last verse.

³⁶ “when seventy thousand workers in the oil sector, forty thousand steelworkers, and thirty thousand railway workers put down their tools, the dynamics of labor protests shifted, with the strikes spreading like wildfire to involve the key sectors of oil, communication, transport, public services, banks, customs, and even the movie industry and state TV in a short span of time.” It was the “general strike after October 1978 following Bloody Friday in Tehran, which had forced the shah to impose martial law in the country,” in turn leading to the final escalation of uprising into revolution (Bayat, 2017, p. 54).

disenfranchisement, the emotions summoned—either immediately or upon agitation—were likely to be indignation, rage, and affront.

The first-round effect of automation, on the other hand, is to render the worker performing the now-automated task superfluous. It results, to the extent that it in fact proceeds as quickly and as far as some argue, in what Barbara Ransby calls a “labor-light economy [...] to which many are increasingly superfluous” (Ransby, 2018, p. 8). The precise psychological consequences of automation remain to be determined and likely vary with context; but if the immediate outcome of automation is unemployment, then, according to the literature on the effects of unemployment, the baseline consequence may be shame rather than indignation;³⁷ and whereas anger generally leads to action, “the natural reflex of shame”, as Martha Nussbaum puts it, “is hiding” (Nussbaum, 2013, p. 361). There are exceptions of course—the Luddites being only the most prominent example of unemployment leading to rage, not shame—but generally speaking “It is much harder to struggle against irrelevance than against exploitation” (Harari, 2018).

Next, although this is not a new problem, nor is it a problem limited to the US context,³⁸ racism is an obstacle to revolutionary organizing that cannot be ignored. Unless

³⁷ This is an oft-repeated finding in studies of unemployment. See e.g. Jahoda, Lazarsfeld and Zeisel (1971 [1933]), Eisenberg and Lazarsfeld (1938), Schlozman and Verba (1979), or J.B. Turner (1995).

³⁸ Concerning France for example, “French citizens of color have been protesting social inequality for years without receiving [...] respect. In 2005 the killing of two minority youths by French police in the Paris suburb of Clichy-sous-Bois ignited a string of violent uprisings against police brutality, but the government declared an official state of emergency instead of launching a grand débat. In 2009, the overseas departments of Guadeloupe and Martinique saw a huge strike against the high cost of living—a forty-four-day uprising that also targeted fuel prices and demanded an increase to the minimum wage. In 2017 an almost identical protest occurred in Guyana, another French overseas department, where residents demonstrated against household goods that were as much as 12 percent more expensive than they were in mainland France, despite a lower minimum wage. The French government was slow to respond in both of these instances, while the

it is overcome, mass mobilization by the working class is vulnerable to an elite-instigated strategy of racial division, i.e. the fostering of racial animosity in order to deflect anti-elite class-based mobilization into racial strife.³⁹

The fight against racism is a historically important component of anti-capitalist revolutionary organizing: where the more moderate, reformist American Federation of Labor (AFL) long remained racist in word and deed, excluding and looking down on black, Chinese, Japanese, Slavic, Italian, Greek, Jewish and other workers at various times in its history (Brody, 1993, pp. 103–128; Cornford, 1987; Kazin, 1995; Saxton, 1971), the more radical, revolutionary Industrial Workers of the World (IWW) practiced anti-racism from the organization’s founding in 1905, seeking to include workers of all ethnicities in its structures of organization and action.⁴⁰ Nevertheless, despite an active struggle against racial discrimination and division, there are mechanisms operating within capitalism that render this an uphill – though not impossible – struggle: in particular, capitalism creates

concerns of the gilets jaunes have resulted in a personal apology from the president and a slew of concessions” (McAuley, 2019).

³⁹ To take but one example of this, in the unionization effort at the Smithfields Food plant in Tar Heel, North Carolina, “it was the employer’s intent to replace blacks with Latinos with two objectives in mind: to keep the workforce divided through both instigations of racial conflict and overt segregation, and to create an undocumented immigrant workforce that the employer believed they could more easily control” (McAlevey, 2016, p. 158). Note that this succeeded in two out of three unionization campaigns (“the employer succeeded at driving racial divisions between 1997 and 2005”), but was overcome by determined and skilful union organizing, resulting in the plant’s unionization in December 2008 (p. 176). Racism, in other words, is clearly not destiny. The “key to the union’s success in 2006 would be first earning legitimacy with each major constituency in the plant, and then bridging the divisions between them, creating unity and solidarity despite the extraordinary efforts by the boss to systematically pit worker against worker” (p. 158).

⁴⁰ “Wobblies [members of the Industrial Workers of the World] fought with much heroism but spotty success to organize unskilled proletarians regardless of race, sex, or immigrant status” (Kazin, 1995, p. 316). See also McGirr (1995) and Dubofsky (2000, Chapters 1, 10). For a counterpoint, see Dreyfus (1997).

widespread social instability (K. Polanyi, 1944),⁴¹ which in turn can trigger otherwise latent dispositions towards authoritarianism and intolerance.⁴² Where these are triggered, agents express, in action and word, “the ‘classic’ triad of racial, moral, and political intolerance” (Stenner, 2005, p. 28).

The translation of triggered authoritarian dispositions into racism is not a necessary effect: an increased desire for enforced in-group cohesion, awakened as authoritarian dispositions are activated, can attach to different conceptions of what the in-group is: ethnicity, religion, class, caste, or – more rarely – other salient features can all become focal points.⁴³ However, in the circumstances of contemporary American capitalism, a class-

⁴¹ Not all kinds of instability trigger authoritarian dispositions. In particular, and perhaps counter-intuitively, “family financial distress, criminal victimization, and personal trauma (such as divorce, serious illness, loss of loved ones) actually dampen the effects of authoritarian predispositions” (Stenner, 2005, p. 31). The authoritarianism-activating instability that capitalism creates is not the personal-level instability arising out of ordinary labour market competition, but the various kinds of *sociotropic* instability that it fosters. This includes in particular the effects of large relative price changes and sudden economic crises, both of which can destabilise entire communities (e.g. the “Rust Belt”) and disrupt established rankings of social hierarchy, leading to “social disorder.” It also includes capitalism’s tendency towards commodification and its inflammation of certain passions (“sex sells”) that traditional morality sought to moderate (though cf. Hirschman *Passions and the Interests*), both of which may be perceived as “moral decay” (Stenner, 2005, p. 33). The fact that capitalism can be a sufficient cause for authoritarianism-activating instability and normative threat does not imply that it is a necessary cause, of course. An important kind of authoritarianism-activating normative threat that is not immediately related to capitalism, for example, is the perception of “national decline” (Stenner, 2005, p. 33). Note also that this creates the potential for positive path dependency: the socialization of important life risks—health, education, employment—can serve to reduce precisely the sociotropic instability that triggers authoritarian dispositions, and hence make it easier (and potentially durable) to overcome racism.

⁴² This analysis, grounding expressions of intolerance in the conjunctions of an authoritarian predisposition and conditions of threat and instability, is taken from Stenner (2005), whose analysis clarified a half-century of confusion concerning the reality and operation of the concept of the “authoritarian personality” (Adorno, 1950).

⁴³ This is consistent, for example, with the observation that large parts of the working class have, in a number of cases, migrated rather suddenly from communist parties to ethno-centric, reactionary parties (in the case of France, for example, from the *Parti Communiste Français* to the *Front National*). One interpretation of this move is that the desire for in-group cohesion triggered by the perceived external threat of instability attached

centred closing-of-ranks looks less likely than an ethnically-centred one, all else being equal. Contingently, both in Europe and in the United States, demographic change and migration are eroding the relative weight of privileged racial groups, facilitating the construction of a narrative around ethnic threat.⁴⁴ Less contingently, since activated authoritarianism evokes a “triad of racial, moral, and political intolerance” (Stenner, 2005, p. 28), constructing a racially or ethnically diverse conception of in-group is, probabilistically, harder than doing so around a racially and ethnically homogeneous conception.⁴⁵ As a result, overcoming ethnic division among those with the strongest interest in an anti-capitalist revolution is a difficult struggle, where success is possible but by no means guaranteed.

Finally, changes in two background conditions – social trust and the age structure of society – also challenge the organisation of revolutionary agency, and today more so than in the past. While the relevant changes in these conditions may or may not be tied to the operations of capitalism – no such linking will be attempted here, though there is

itself to a different focal point: race or nationality instead of class. On variations in the designation of “us” and “them,” see the literature listed in Stenner (2005, p. 1).

⁴⁴ See Goldstone (1991, 1997) for accounts linking revolutions to demographic change. See also Huntington (2004, pp. 309–316) for a prescient account of the rise of white nativism in the US.

⁴⁵ Indeed, “if ever there were sectors of the working class that *should* have been “the closest of allies,” [...] it was the black and white poor. But the institutional development of the United States had determined otherwise” (Fox Piven & Cloward, 1979, p. xii); and, we may add, the psychology of group mobilization under conditions of perceived instability and threat. This issue is not limited to the American context: perhaps the single most consequential and tragic instance where an ethnic-nationalist closing-of-ranks trumped a class-based closing-of-ranks was the collapse of the Second International in the weeks before the outbreak of World War I.

suggestive evidence to this effect—change in both areas generally moves slowly, so that long trends in an adverse direction cannot, in general, quickly be reversed.

First, there has been an asymmetric decline of social trust and social capital: whereas, broadly speaking, indicators of social capital have remained stable among the upper and upper middle classes, they have declined significantly among the lower middle and lower classes (Putnam, 2015; Skocpol, 2003; M. Wright, 2015). This is reflected in, and reinforced by, the gradual disappearance of a rich working-class culture—a formerly dense network of choirs, sports clubs, social clubs, charitable organisations, and local party associations—in much of Europe and the US over the course of the twentieth century. This decline in trust and community adversely affects mass mobilization: on the one hand, a sense of community helps to transform shame into anger, and anger into action. On the other, “people are recruited to movements along the lines of membership in groups and friendship with people already tied to the movement” (Goldstone, 2001, p. 153). As those lines are frayed and membership rolls shortened, recruitment into formal movements becomes harder.

In a second-round effect, where trust and community are weaker, effective coordination and collaboration requires stronger formal organisation and hierarchy (Gambetta, 1988; M. Granovetter, 1985; Macaulay, 1963), which in turn renders more salient Robert Michels’ iron law of oligarchy.⁴⁶ This problem is not new—Rosa

⁴⁶ In large organisations, where a division of labour is formalised, there is a tendency towards oligarchy (Michels, 1962 [1911]). An oligarchic organisational structure in turn reduces the number of people who need to be bribed or cajoled in order to incapacitate the organisation. Organisational differentiation may also organically demotivate and demilitarise a mass movement, insofar as solidarity between leaders and members

Luxemburg, for one, was acutely aware of it (Luxemburg, 2004, Chapter 10 [1904]), and Michels' 1911 study was focused on the German SPD—but likely to be particularly acute in a low trust, low solidarity environment.

Finally, demographic change renders successful mass mobilisation less likely, through shrinking the pool of people who might otherwise be willing and able to engage in it. Street mobilisation, whether for peaceful protest or militant action, involves risk-taking, because a regime crackdown cannot be ruled out even where protests remain peaceful. Risk taking, in turn, is a young persons', and to a certain extent a young men's game.⁴⁷ In addition to considerations of risk-philia and risk-aversion, other factors such as family and professional commitments mean that, all else equal, mass mobilization skews towards the young. The median age of the American population, however, has increased significantly, from twenty-eight in 1970 to a predicted 38 years in 2020 (U.S. Census Bureau, 2012, p. 13).

weakens, potentially undermining the legitimacy and hence effectiveness of the leadership.

⁴⁷ On the demographics of risk aversion and risk philia, see e.g. Jianakoplos and Bernasek (1998, figure 1, p. 629) or Halek and Eisenhauer (2001). Note, however, that this is again a probabilistic claim. To take but one example of female revolutionary activism and leadership, the Russian February Revolution began with strikes and demonstrations in St. Petersburg that were overwhelmingly led by and composed of women—notably on International Women's Day 1917 (23rd February in the Julian Calendar, 8th March in the Gregorian Calendar). Trotsky's description is instructive: "the fact is that the February Revolution was begun from below, overcoming the resistance of its own revolutionary organisations, the initiative being taken of their own accord by the most oppressed and downtrodden part of the proletariat – the women textile workers, among them no doubt many soldiers' wives." And "A great role is played by women workers in the relationship between workers and soldiers. They go up to the cordons more boldly than men, take hold of the rifles, beseech, almost command: "Put down your bayonets – join us"" (Trotsky 2008 [1932], pp. 76, 80–81).

Concluding this section, while an interest in revolutionary change may well be wider-spread and more widely recognised today than has been the case for many decades, there is no automatic translation of this interest into revolutionary action. The absence of a counter-hegemonic ideology and the weakening of the bargaining power of the many render the formation of a proto-revolutionary leadership difficult. The potential for mass mobilisation, as the second component of revolutionary agency, is in turn diminished both because struggling against irrelevance—the main consequence of automation under capitalism today—is harder than struggling against exploitation, and because a number of slow-moving background conditions—in particular demographic changes and asymmetrically declining trust and community—create a landscape against which mobilisation becomes harder. This does not imply that revolutionary mobilization, peaceful or otherwise, is impossible—both healthcare and education provide promising opportunities for future labour organizing,⁴⁸ and mass incarceration of the poor (discussed below) may well generate more mass mobilization in the medium- to long-run than it prevents in the short-run. It does imply, however, that there is nothing automatic, necessary, or inevitable about it.

⁴⁸ In particular, in these sectors there may be a mechanism at work that is largely absent from the classical Marxist account of how capitalism generates revolutionary agency. Many care and education workers are motivated by an ethic of care: “The social base of educators and health-care workers trends fundamentally toward solidarity and collective behavior because the workers are mission-driven” (McAlevey, 2016, p. 205). Insofar as commodification and cost-minimizing streamlining is inherent to capitalism *and* violates an ethic of care, we may reasonably expect mission-driven care and education workers to become particularly angry as these processes proceed. In addition, care work cannot (currently) be outsourced, and is vital to the social reproduction of capitalism. As a result, these are potentially fertile sector for organization, and thus potential sources for mass mobilization.

D. “The basic question of every revolution is that of state power”

(Lenin, 1964 [1917], p. 38)

Having argued that revolutionary agency will not emerge endogenously or automatically in contemporary capitalism, it is nevertheless worth inquiring what the prospects of an anti-capitalist revolution are, were it to be attempted. Epistemic humility urges limits on extrapolation, which the above largely consists of; and growing, if still far from revolutionary, signs of discontent suggest that the interest in revolution that was argued for above is beginning to be felt more widely (see footnotes 3 and 4 above, at p. 356). It is hence good to ask the following: let us assume that a revolutionary situation arises—for example in the wake of an American election that turns on a few hundred votes in the state of Florida, sparking mass protests mobilizing the most disadvantaged parts of the American population—and that in this situation, a determined leadership element emerges that seeks to overthrow contemporary capitalism, carrying on its banners demands to nationalise the banking system, levy a steep wealth tax, return to the income tax rates of the mid-twentieth century, institute capital controls, and implement universal rights to housing, healthcare, and a basic income. What are the likely outcomes of such a conjuncture?

Reaching back to the theory of revolutions developed above, with mass mobilization and revolutionary leadership in place, the remaining question is that of state power. The fact remains that, for as long the state’s core administrative, revenue-raising, and coercive-military capacities are functioning; for as long as, if called upon, the coercive apparatus sides with the regime; and as long as that regime is led by united elites willing to use force to defend it, no revolution has a prospect for success. What, then, is the status

quo with regards to these three factors in the United States today, and what effects on them can we discern from the mechanisms inherent to capitalism going forward?

To begin with, the United States possesses a considerable infrastructure of coercion. US local governments command a police force of approximately 640,000 (increasingly militarised⁴⁹) police officers; the federal states another 800,000 national guardsmen and -women; and the federal government an additional 1.3 million active-duty soldiers, of which 1.2 million – 900,000 excluding navy personnel – are stationed in the continental United States.⁵⁰ This results in a total state coercive force of over 2.5 million men and women in the United States, or approximately eight agents of coercion per thousand residents. For comparison, relative to population, this coercive apparatus is approximately the same size as Syrian loyalist forces in the Syrian Civil War,⁵¹ or Polish pro-regime forces in 1980-81,⁵² while better equipped and trained than either of these points of comparison.

⁴⁹ American policing has militarized over the last half-century (Kraska, 2007; Lawson, 2018). This trend includes both the increasing acquisition of army material and the formation and deployment of police paramilitary units (PPUs, such as Special Response Teams or Special Weapons and Tactics – SWAT – teams): the deployment of PPU has increased by 1400 percent between 1980 and 2000 (Kraska, 2007, p. 506), while US law enforcement agencies, through the so-called “1033 program”, have been acquiring former military equipment at a rate of approximately four billion dollars’ worth of equipment per year (Lawson, 2018, p. 6, figure 1).

⁵⁰ This is a lower limit: in addition to the 1.1 million active-duty soldiers stationed in the United States, the American armed forces employ around 730,000 civilian employees. Police numbers from FBI Crime in the United States (FBI, 2016), national guard and armed forces numbers from the Department of Defence (2019).

⁵¹ After substantial defections, the Syrian loyalist armed forces were estimated at around 180,000 to 150,000 in 2014, or, given a population of twenty million, between eight and nine per thousand residents (“Syria increases efforts to build up military after substantial losses,” 2014; Westall, 2014).

⁵² Polish forces of coercion in the early eighties numbered around 300,000 to 350,000, with approximately 220,000 soldiers (Bowers, 1985, p. 436) and national militia (Curtis, 1994, p. 267), 80,000 air force

Any picture of the American infrastructure of coercion would be drastically incomplete without considering the carceral state. The United States possesses an exceptionally large prison system, with more than 2.1 million persons incarcerated and 4.5 million people on probation or parole,⁵³ for an incarceration rate, highly skewed by gender, race and income,⁵⁴ of around seven per thousand residents (Lacey, 2008, fig. 14, p. 140; Walmsley, 2016, table 2, p. 5). This is approximately twelve to fifteen times higher than pre-revolutionary Syria and Yemen,⁵⁵ eight times higher than pre-revolutionary Egypt,⁵⁶ seven times higher than those of other Western liberal capitalist regimes,⁵⁷ six times higher than that of the US itself before the nineteen eighties,⁵⁸ and around three times pre-revolutionary Libya and Tunisia.⁵⁹ While this may or may not be a permanent state of affairs,⁶⁰ the staggering numbers of “working or workless poor” (Gilmore, 2007; see also

personnel, and 20,000 navy personnel (Curtis, 1994, pp. 263, 266), for a coercive force, given a population of approximately 35 million, of eight to ten per thousand residents.

⁵³ Kaeble and Cowhig (2018, appendix table 1).

⁵⁴ Around twenty per cent of the correctional population (including both community-supervised and incarcerated people) is female, 80% male; among the incarcerated population, ten per cent are female, 90% male (Kaeble & Glaze, 2016, appendix table 3, 15-6). Concerning race, the US population in general is approximately 1% native American, 13% black, 16% Latino, 64% white, while the correctional population is 40% black, 39% white, 19% Latino, and 1% native American (Sawyer & Wagner, 2019). Concerning income, the median annual income of incarcerated women (in the year before incarceration) is \$14,000, versus \$24,000 for non-incarcerated women, \$20,000 versus \$41,000 for men (Sawyer & Wagner, 2019).

⁵⁵ Walmsley (2016, table 3, p. 8).

⁵⁶ Walmsley (2016, table 1, p. 3).

⁵⁷ Murakawa (2014, p. 5).

⁵⁸ Cahalan (1986, table 3-3, p. 30).

⁵⁹ Walmsley (2016, table 1, p. 3).

⁶⁰ There has been a significant backlash against the carceral state in recent years, with a wide coalition—ranging from non- or bi-partisan organizations like the Sentencing Project or #Cut50 to left-leaning ones like the Brennan Center for Justice, faith-based ones like the United States Conference of Catholic Bishops,

N. Lewis, 2017) who are incarcerated speak to the American state's ability and willingness to coerce its own lower class.

There is also evidence that the United States Government possesses a capable system of digital surveillance;⁶¹ however, while it is likely that this adds significantly to the coercive capacities of the American state, we lack sufficient historical perspective to estimate reliably the effectiveness and regime loyalty of this apparatus as a means of preventing or cracking down on mass mobilization.

In terms of budget, too, the coercive forces are well equipped, with federal armed forces spending above \$600 billion per annum.⁶² Spending on police and prisons adds another \$99 and \$73 billion per year respectively,⁶³ for a total spending of around \$780

and extending to conservative and libertarian organizations like the R Street Institute or Right on Crime – mobilizing to reform criminal justice. Incarceration rates have started declining. However, if the decline of incarceration rates continues at its current pace (a decline of approximately ten per 100,000 per year, if we extrapolate between its peak at 760 per 100,000 in 2007 to latest figures, 670 in 100,000 for 2016; Kaeble & Cowhig, 2018, p. 4, table 4), it will take around half a century until the American incarceration rate will have fallen to the level of Western European nations (which generally ranges near 100 per 100,000; e.g. 104 in France, 76 in Germany, and 139 in England and Wales; Walmsley, 2016).

⁶¹ Besides the ongoing research by Privacy International, e.g. its recent report on intelligence sharing between governments (Privacy International, 2018), the most important evidence comes from the NSA files leaked by Edward Snowden to *The Guardian* and *The Washington Post* in 2013. These files revealed, among other things, the PRISM, ICREACH, and Treasure Map programmes. PRISM is a program under which the NSA and FBI were “extracting audio and video chats, photographs, e-mails, documents, and connection logs” directly from the servers of, among others, Google, Microsoft, Facebook, Skype, YouTube, and Apple (Gellman & Poitras, 2013). ICREACH is a “‘Google-like’ search engine built to share more than 850 billion records about phone calls, emails, cellphone locations, and internet chats” (Gallagher, 2014), while Treasure Map is a program that seeks to “map the entire Internet—any device, anywhere, all the time” (Müller-Maguhn, Poitras, Rosenbach, Sontheimer, & Grothoff, 2014). While the extent to which these programmes are still operational is unclear, as is their effectiveness in preventing or dispelling mass mobilization, it seems unlikely that they have been discontinued without replacement, or that they are entirely ineffective.

⁶² Figure for Fiscal Year 2018, (Office of the Under Secretary of Defense (Comptroller), 2018, figure 1.3).

⁶³ Bronson (2018, table 4).

billion per year, or around \$310,000 per coercive agent per year.⁶⁴ At approximately four percent of GDP, this is a sizeable burden on the American economy. Nevertheless, compared, for example, to Soviet defence expenditure—approximately two to four times as large a proportion of GDP⁶⁵—this burden does not seem crippling. And while government debt is at a slightly elevated (and rising) level—around 80% of GDP,⁶⁶ relative to an average of around 60% over the last thirty years, and an OECD average of 40%—the US has fiscal room to increase revenues if needed, at a tax take of 31% of GDP relative to an OECD average of 38%.⁶⁷ A fiscal crisis of the administrative-coercive state therefore remains unlikely, occasional bouts of political brinkmanship notwithstanding.⁶⁸

Concerning the first of the three components of a powerful state, i.e. the raw amount of coercive force at its disposal, the United States' government today is powerful enough to put down any mass mobilization, peaceful or otherwise, that could realistically be envisioned, should it choose to do so.

But coercive forces are only as effective for repression as they are willing to side with the state and against protestors or revolutionaries. The bulk of the imperial Russian armed

⁶⁴ This includes the costs of support staff, e.g. non-active duty military personnel, or police employees other than sworn officers, as well as capital expenditure.

⁶⁵ Soviet defence expenditure was and is notoriously difficult to estimate, but a reasonable range is ten to twenty per cent of GDP (Harrison, 2003). Note that, unlike the figure for the US, this excluded spending on regular police, known as the *militsiya*.

⁶⁶ This figure excludes Federal Government debt held by other arms of the government, in particular the Federal Reserve and Social Security Trust Funds (Federal Reserve Bank of St. Louis, 2019).

⁶⁷ Author's calculations on the basis of (Board of Governors of the Federal Reserve System, 2018, tables F.2 and F.105; OECD, 2017a, p. 68).

⁶⁸ In this context it is worth pointing out that active-duty military personnel and federal law enforcement agents are generally exempt from shutdowns of the Federal Government, as in 2013 or 2018.

forces, a battered but still effective fighting force, notably sided with the revolutionaries in 1917, for example. What, then, is known about the loyalties and disposition of the American state's police and military forces?

Concerning the police, little doubt exists about its regime loyalty: there is a long line of sociological research (Holdaway, 1983; Reiner, 1978; Rubinstein, 1973; Skolnick, 1966; Westley, 1970) highlighting the violence-oriented, tribal, and adversarial culture of American police forces. “Powerful undercurrents of masculinity encourage an aura of toughness and celebration of violence” (Loftus, 2010, p. 7); “obligations are primarily to the police and secondarily to the community” (Westley, 1970, p. 148); and the outside world is seen as “an enemy public that threatens and criticizes” (Westley, 1970, p. 49).⁶⁹ In addition to this violence-oriented, tribal, and adversarial culture, researchers have also identified a persistent conservatism in the culture of policing: born from “the fact that deviance may be a sign of danger” (Hazard, 1966, p. 228), police officers are broadly suspicious of any deviation from established norms. Further, since the police are “engaged in enforcing a set of rules”, this “implies that [they] also become implicated in affirming them” (Skolnick, 1966, p. 59).

Importantly, both the small-c conservatism and the endorsement of the rules that the police enforce are generated by mechanisms that are inherent in police work: due to cognitive-dissonance aversion, the activity of enforcing a set of rules will always tend to

⁶⁹ Much of this research was done in the nineteen fifties, sixties, and seventies, but recent research has shown “remarkable continuity with older patterns”, explaining that, despite changes in circumstances, equipment, personnel, and tactics, “[t]he timeless qualities of police culture endure because the basic pressures associated with the police role have not been removed” (Loftus, 2010, p. 17; see also Sierra-Arevalo, 2016).

lead, over time, to an endorsement of those rules. And since deviance (from norms of dress, language, or behaviour) correlates with danger to police officers (Hazard, 1966), deviance from norms becomes negatively charged—the equivalent of small-c conservatism. Taken together, this makes it likely that most American police officers will reliably side with the American state should they be ordered to crack down on anti-capitalist mass mobilization.

Concerning national guards and the American armed forces, the evidential basis is thinner, in large part because “[m]ost research into military organization has been under direct sponsorship of the armed forces, with access highly dependent on whether or not they saw their particular interests served by the inquiry” (Lang, 1965, p. 4). Nevertheless, what evidence there is shows that, despite a historic American aversion to a professional, separate military establishment,⁷⁰ “the military, as a subsystem of society, is characterized by distance from the people and a distinct noncivilian subculture and substructure” (Rukavishnikov & Pugh, 2006, p. 134). In particular, “the American military are significantly more Republican and conservative than civilians” (Rukavishnikov & Pugh, 2006, p. 144). This gap, evident in virtually every study of military political attitudes (Holsti, 1999, p. 12), has grown significantly since the abolition of conscription in 1973 (Holsti, 1999)—a highly significant change, from the perspective of troop regime loyalty⁷¹—and it is unlikely to diminish substantially in the future: as with the small-c

⁷⁰ As Huntington put it in the nineteen fifties, seen through American eyes, “the professionals [...] are always on the other side” (Huntington, 1957, p. 154), whether in the form of British officers and mercenaries or German militarism.

⁷¹ Conscription, through drafting across class and ethnic lines, is historically one of the most important mechanisms for rendering the armed forces less reliable as an instrument of state coercion. In Wilhemine Germany, for example, “From the military point of view, the most serious problem [of drafting an

conservatism of the police, “The need for such distinctiveness is related to the tasks, functions, and responsibilities which are assigned to military” (Rukavishnikov & Pugh, 2006, p. 134).

Though with less certainty than in the case of police forces, given the military’s separateness from American civilian society at large, its professional (as opposed to conscript) nature, its proximity to American state elites,⁷² and its conservative orientation, it seems likely that soldiers, too, would side with the regime and against potential revolutionaries, should it come to mass mobilization.⁷³

increasingly less rural, more urban-proletarian population] was the prospect of socialist ideas penetrating the rank and file [...]. The army indoctrinated its members heavily against social democracy and suppressed any sign of socialist subversion, but it could hardly have expected to counter social and political realities” (Gat, 2001, p. 360). The army tried to counteract this through its conscription policy “which favoured the rural and country population and discriminated against the city proletariat” (pp. 360-1), but “when, in 1905, France passed the Two Years Service Law and rigorously abolished all exemptions from conscription, this remedy started to look most unsatisfactory”, since it put Germany at a manpower disadvantage. Conservative German politicians resisted the obvious conclusion—make political concessions in order to mobilize the proletariat—but the pressure of competition with France eventually took its toll: “Less aristocratic minds were needed to draw the full conclusions from the character of modern war and [...] to disregard class problems” (pp. 361-2). See also footnote 83 below.

⁷² Asking whether “major differences exist between military and civilian elites” (p. xiii), the Rand Corporation (Szayna et al., 2007, p. xiii) found that, although “military officers tended to take more conservative positions on domestic policy issues” (p. xv), “military and civilian elites do not differ greatly” (p. xvi-xvii).

⁷³ Historically, when, towards the end of the nineteenth century, “national leadership began to tap the Army [...] The Army responded promptly and decisively to unrest, exercising disciplined responses that quelled disorders” (Laurie & Cole, 1997, p. v).

E. **Elites united will never be defeated**

The third element of an effective administrative-coercive state, besides a robust infrastructure of coercion and its regime loyalty, is an undivided elite's willingness to deploy it.

Here, too, the status quo and recent history point towards a state unafraid to make use of force when challenged. There is a long track record of American elites being willing to use coercion, in particular military force, to put down flashpoints of unrest: "military forces have been used for dealing with civil disturbances, racial disorders, labor unrest, and other domestic problems [sic] since the early days of the [American] republic" (Holsti, 1999, p. 7).⁷⁴ Further, concerning the most recent expansion of the American coercive apparatus—the turn towards mass incarceration—this has been a strikingly bipartisan project. Its roots lie in the post-War attempt by the liberal wing of the Democratic Party to regularise police activity, with the intention of reducing racist tendencies seen to arise from an excess of police discretion (see also Hinton, 2016; Murakawa, 2014); this attempt seamlessly transitioned, however, into the law-and-order, mandatory sentencing, and tough-on-crime approach that ran from the Nixon, through the Reagan, to the Clinton administrations.

While these observations are suggestive, they do little to determine whether American regime elites will be united and willing to order coercion against future mass mobilization. To shed more light on this question, in the remainder of this section I

⁷⁴ For overviews, see Coakley (1989), Laurie and Cole (1997), and Scheips (2012).

tentatively explore what is perhaps the single most important intra-elite fault-line, whose opening has often preceded revolutions: that between state elites and domestic-facing socio-economic elites.⁷⁵

While the latter are influenced primarily by their position in the domestic class order, the former are shaped by the two tasks incumbent on any state and its administrative elite: keeping order internally, and engaging in geopolitical competition externally. Due to their responsibilities for these tasks, where geopolitical competition intensifies or domestic order is threatened, state elites may be willing to make concessions to non-elite domestic constituencies, either because they hold resources (such as manpower) crucial for external defence, or because such concessions are the easiest way to maintain order. These concessions, however, often come at a cost to socio-economic elites, who may therefore try to resist them.⁷⁶ In this manner, intensifying geopolitical competition or an initial wave of domestic unrest may spark intra-elite conflict, potentially dividing and hence weakening the state's coercive force.

Examples of this kind of intra-elite conflict abound throughout history.⁷⁷ In the American context, the struggle over equal and fair treatment for African Americans is a

⁷⁵ See Skocpol (1979, p. 31) for a particularly clear description of this process.

⁷⁶ Insofar as the concessions involve power-sharing they also come at significant costs to state elites themselves.

⁷⁷ Examples include: recurrent medieval conflicts between crown and aristocracy over how to treat the peasantry, ("Kings were able to field armies of healthier and more grateful peasants if they could get the nobility to give up the institution of serfdom that bound peasants in servitude", Ferejohn & Rosenbluth, 2016, p. 7; see also Marx, 1992 [1867], pp. 880-1, 893-4, and Bacon, 1902 [1625], pp. 507-8); the early-twentieth century conflict between British industrialists and the military, over the issue of "widespread physical weakness among the working class" (Gilbert, 1965, p. 144); a similar conflict is latent in the contemporary US (Spoehr & Handy, 2018), though the falling manpower-intensity of contemporary

particularly clear case (see esp. Dudziak, 1988 on this). Could increasing external pressure, a possible scenario, for example, as the United States face pressure from a rising China, create similar intra-elite conflict in contemporary capitalism going forward?

The possibility for elite splits certainly exists, for American elites are far from homogeneous, either in terms of interest or ideology.⁷⁸ However, if we zoom in on the *coercive* state specifically, the potential for elite conflict looks weaker. To see this, consider the civil rights example mentioned above. The mechanism through which external pressure led to an elite split, creating space for agency from below, is well illustrated by how FDR's and Harry Truman's actions differed on the issue of race relations. As a brief recounting will show, it is not clear whether this mechanism, which has historically cleaved elites apart and created openings for agency from below, is still operative today.

warfare renders this a less significant problem today); or struggles internal to the German government towards the end of World War I, over the issue of democratising the German Reich's constitution in order to better mobilize the country for a final effort in the war (Röhl, 2014, pp. 1164–1169) (for a contemporary source, see also Ogg, 1919). Note also this passage from Plato's *Republic*: “they [oligarchies] won't be able to wage a war [...] because that would force them either to arm the general population, and end up more in fear of them than of the enemy, or else not to arm them, in which case they'll be truly oligarchs when it comes to the battlefield [Plato is punning here: he means they will have few, *oligoi*, to give commands to, *archein*, a word play on *oligarchia*, i.e. rule by the few]” (551d-e).

⁷⁸ In the crucial months of the 2007-8 financial crisis, for example, it took a highly unstable coalition of a Republican White House and a Democratic Congress to push through essential bank rescue legislation (Tooze, 2018, Chapter 7); when it came to legislating the macroeconomic stimulus that would greatly moderate the impact of the financial crisis, particularly compared to 1929, fierce resistance from a nominally pro-business opposition sub-optimally reduced its magnitude (Tooze, 2018, Chapter 12), in a manner remarkably evocative of Kalecki (1943). Both of these flashpoints are indicative of a deep, if often latent, conflict between regime-supporting, state elites, committed to financial and macroeconomic stability, on the one hand, and a risk-phile subset of economic elites, deeply resistant to any action, material or cultural, that goes against this subset's self-interest, on the other. This latent split, running through both of the major American parties as well as between them, is significant, for it may encumber the state's ability to manage the macroeconomy.

Judging by ideology, domestic power balance, and wider context, FDR was well placed to combat racism. But even though FDR was a committed liberal, both socially and economically; won a historic margin of victory in 1936, carried in part by the switch in allegiance of black Americans from the Republican to the Democratic Party; was buoyed by a general swing of attitudes in favour of assertive government action, especially on behalf of the less fortunate; and was supported by his equally liberal and outspoken wife, Eleanor, he nonetheless “remained silent on racial matters throughout his four term presidency, refusing even to come out in favour of anti-lynching legislation on the numerous occasions such bills were brought before Congress” (McAdam, 1999, p. xx).⁷⁹

In contrast, in July 1948, only a few months before his first presidential election, President Truman issued two landmark executive orders, establishing a Fair Employment Board in the Civil Service Commission (Executive Order 9980) and initiating the gradual desegregation of the armed forces (Executive Order 9981) (McAdam, 1999, p. xx). Truman did this despite his own qualms on race issues (McCullough, 1992), despite lacking an electoral mandate—let alone the landslide that had propelled FDR to re-election—and despite the risk of alienating Southern elites in an election year, which, of course, these actions did.⁸⁰

What explains Truman’s activism, despite a generally inauspicious context, and FDR’s inaction, despite promising circumstances? Unlike under FDR’s administration,

⁷⁹ On the racist underbelly of the New Deal more generally, see Katznelson (2013).

⁸⁰ “Angered by his proactive support for civil rights, the Dixiecrats broke away from the [Democratic] party in 1948 and ran their own candidate, Strom Thurmond, for president” (McAdam, 1999, p. xx).

under Truman the US was faced with intensive geopolitical competition by the Soviet Union. In the context of the Cold War, “Racial discrimination furnishe[d] grist for the Communist propaganda mills, and it raise[d] doubt even among friendly nations as to the intensity of our devotion to the democratic faith.”⁸¹ In other words, the geopolitical competition of the Cold War had begun to impose new pressures on state elites. These pressures pushed them into open conflict with a powerful domestic-facing group, white Southerners, that state elites – even FDR – had previously chosen to accommodate, despite ideological commitments to the contrary, and despite relatively abundant political capital. It was this intra-elite split that then allowed challengers to the status quo to advance their cause (Dudziak, 1988).

Note that, in this case, the conflict between Southern white elites and the state’s foreign policy-oriented elites arose not out of intensified geopolitical competition in general – geopolitical competition was intense, after all, during FDR’s administration as well – but out of the *particular kind* of geopolitical competition that the United States faced. It was the Soviet Union’s prestige, as the primary conqueror of Nazi Germany, coupled with its ideological commitment – even if honoured often in the breach – to racial as well as a class equality, that allowed it to “weaponize” domestic American racism, and so compelled American state elites to respond.⁸²

⁸¹ Brief for the United States as Amicus Curiae at 6, *Brown v. Board of Education*, 347 U.S. 483 (1954).

⁸² For more details on the role of international factors in the origin of the American Civil Rights Movement, besides Dudziak (1988), and McAdam (1999, introduction), see Layton (2000), Plummer (1996), or Skrentny (1998).

In other words, *how* an intensification of international competition affects conflict between different elites depends on what resources, ideologically and technologically, are required to prevail in the now intensified competition. Greater competition in times of manpower-intensive warfare, for example, such as the mass-manpower naval warfare of ancient Athens (Ferejohn and Rosenbluth, 2016, Chapter 2), the infantry warfare of pre-feudal Europe (White, 1962), or the industrial, railroad- and combustion-engine driven mass warfare of the nineteenth and twentieth centuries (Ferejohn and Rosenbluth 2016, Chapters 10-11) tends to empower the masses (Andreski, 1968; Scheve & Stasavage, 2016, Chapter 7).⁸³ Because resources that only the masses can provide are crucial to victory in these circumstances—in particular manpower, and in the age of nineteenth- and twentieth century industrial mass warfare, industrial armaments—and because both resistance by the masses and the use of scarce coercive resources to break that resistance impair fighting performance, such a constellation means that intensifying international

⁸³ Mann, for example, describes the impact of World War II, the most recent and most important case of mass warfare, on American society as follows: “Unemployment fell from 17 percent in 1939 to below 2 percent by 1943 and stayed there for the rest of the war. Since wages rose faster than prices, consumption and real incomes rose. Manufacturing workers did best, white and black, male and female. The taxes and war bonds to pay for the war fell mostly on the wealthy. Most Americans got butter while the troops got guns. Only Japanese Americans did badly. African Americans were beginning to do better under the horizon. They were flooding into manufacturing employment and receiving higher wages, and as soldiers they were experiencing the same emboldening (amid deeply racist armed forces) as colonial soldiers were elsewhere” (Mann, 2013, p. 38). Another instance of the mechanism under discussion is the political debate around military reform in post-1871 France. Defeated by a more intensely-mobilized Prussia, France was under pressure to return towards a citizen-army. President Thiers however, “[a]dhering to the old liberal principles of the Orleans dynasty [...] feared the arming of the people [...]. He saw no serious fault in the old long-service professional army, which he wanted to keep as a reliable political instrument” (Gat, 2001, p. 385). Thiers’ resistance was eventually overcome, under the pressure of continued competition with imperial Germany—whose military establishment, incidentally, was equally afraid of the political consequences of arming the masses (see footnote 71 above. For an example from antiquity, see Aristotle, *The Politics*, book VI, Chapter 7).

competition tends to empower the many. Greater competition in times of capital-intensive warfare, however, such as the cavalry-based warfare of feudalism, in virtue of the same mechanism, tends to empower the few (Ferejohn & Rosenbluth, 2016, pp. 169–175; Roland, 2003; White, 1962).⁸⁴

In other words, what may at first glance look like a permanent feature of intensifying international competition—that *external* geopolitical pressure may lead to *internal* elite splits—is in fact a contingent outcome of the particular military technologies, geopolitical constellation, and ideological resources of the nineteenth and twentieth century (Scheve & Stasavage, 2016, pp. 175–81).

Applying this insight to contemporary capitalism, we see that intensifying geopolitical competition, if it comes to pass, is in fact *unlikely* to split the elite, because over the last sixty years, war has become capital- rather than labour-intensive (Onorato, Scheve, & Stasavage, 2014; Scheve & Stasavage, 2016, pp. 181–184, also figure 7.1., p. 177).⁸⁵

⁸⁴ Note, however, that this paragraph describes a tendency, not an iron-clad law. The case of the Polish-Lithuanian commonwealth—a republic of nobles—is instructive here: “Even when cavalry fighting became obsolete against Russian and Prussia conscription armies in the eighteenth century, impoverished Polish minor nobility, faced with a loss in status and higher taxes, opposed arming an infantry that would put too many guns in the hands of too many peasants. The great magnates preferred instead to strike deals with their new Prussian and Russian overlords” (Ferejohn & Rosenbluth, 2016, p. 170). Over the long run, such resistance is usually futile—reluctance to adapt translates into foreign conquest—but it demonstrates the significant historical contingency surrounding the operation of this mechanism.

⁸⁵ Annual military spending per active-duty soldier has increased from around \$100,000 in the early Cold War years to more than \$450,000 today (both numbers in inflation-adjusted 2017 dollars). Peacetime US military strength has declined from between 2.5 to 3 million active-duty armed forces members between the Korean and the Vietnam Wars, to around 2 million after Vietnam to the end of the Cold War, to around 1.3 million today (Koziak, 2017, p. 1, figure 1). The military’s annual budget on the other hand, in inflation-adjusted 2017 dollars, has increased from \$200 to \$300 billion between Korea and Vietnam to \$500 billion in the Reagan, late-Cold War surge, to around \$600 billion, *excluding* contingency funding for Iraq and Afghanistan, today (Koziak, 2017, p. 3, figure 2). The balance between human and financial costs of actual warfighting have seen a similar shift: the war in Vietnam, for example, cost the US Government

If automated weapon systems rise to battlefield dominance, say in the form of drones and robots coordinated and commanded in part through artificial intelligence, this trend would be further reinforced.

As a result, an intensification of geopolitical competition, instead of pitting a state elite that has an interest in mobilising the masses for national defence against a socio-economic elite that wants to resist the accompanying empowerment of the many, is likely to empower the providers of capital, from whose taxes and bond purchases coercive power is funded, and the small set of high-skill workers who produce and man the weapons systems deployed, including cyber weapons. In this manner, the interests of the state administrative elite are well aligned with those of the economic elite, since both are interested in a social order that facilitates primarily the production and reproduction of capital. Of course, the shared interest in such a capital-conducive order becomes a conflict of interest when it comes to the *allocation* of the capital thus generated, but insofar as this is a conflict over divisible goods, it looks unlikely to split these groups irreconcilably (Hirschman, 1994). Looking at the historically single most important intra-elite fault line, then, given the capital-intense nature of military technology today, it looks unlikely for intensifying geopolitical competition to drive a wedge between economic and state elites.⁸⁶

approximately \$740 billion (inflation-adjusted) and caused the death of 58,000 American soldiers; the wars in Afghanistan and Iraq (counting only the second Gulf War), on the other hand, hitherto cost a combined \$1100 billion and caused the death of 6800 American soldiers (Daggett, 2010 for financial costs; U.S. Department of Defense, 2019 for casualty numbers). For more granular explorations of this shift towards capital-intense coercion, see Knox and Murray (2001) and Matthews and Treddenick (2001).

⁸⁶ Note that this trend matters not just for the prospect of revolution, but also for the course of non-revolutionary politics under capitalism. Political reforms, redistributive taxation, and the rise of the welfare state have all been linked to either the perceived threat that the masses or the working class can pose to elites

Summing up the discussion of the coercive power of the American state, all three of its main components appear to be in rude health. More importantly, they also look to be resting on stable foundations, so that a future weakening cannot be clearly discerned today. The material and human infrastructure of coercion is large and effective in the United States, while not being so fiscally costly as to risk a collapse under its own weight, as in the Soviet Union.⁸⁷ The regime loyalty of these forces of coercion is not in question today and, resting on psychological mechanisms that reproduce themselves reliably given the nature of police and armed forces work, looks unlikely to weaken going forward.⁸⁸ Elite resolve to deploy coercion, finally, while difficult to estimate precisely, also looks firm and based on firm foundations. In particular, there is a long track record of elites ordering coercion against “civil disturbances, racial disorders, labor unrest, and other domestic problems” (Holsti, 1999, p. 7); the recent expansion of the carceral state rests on a bi-partisan foundation; and given the capital-intense nature of warfare today, the main fault line that

(Acemoglu & Robinson, 2000; Flora & Heidenheimer, 1981), or to the reliance of elites on masses in fighting wars (Scheve & Stasavage, 2016). When the ability of the masses to threaten revolution falls, or when technologies of coercion become more capital-intense, as I argue above, both redistributive and constitutional politics are likely to drift in an oligarchic direction, all else being equal. Whereas historically, making concessions may have been cheaper for regime elites than ordering repression, the reverse may hold in the future.

⁸⁷ Moreover, the funding for this infrastructure appears to be resilient to reductions in perceived external threats. While US military spending declined in the years between the end of the Cold War and before 9/11, it stabilised at three per cent and at an active-duty headcount of more than 1.3 million (Office of the Under Secretary of Defense (Comptroller), 2018, figures 1.2. and 5.1.). Budgets increased temporarily after 9/11, rising to above four per cent of GDP, but they have since then returned to a level closer to three per cent, far below the (notoriously difficult to estimate) ten to twenty per cent of GDP that the Soviet Union spent during the Cold War (Harrison, 2003).

⁸⁸ Certainly not in the direction of sympathy with an anti-capitalist mass uprising. This does not, of course, exclude the possibility of disloyalty to the regime in case the regime’s leadership deviates ‘too far left’ from the conservative views prevailing among the forces of coercion.

has historically split elites – that between domestic-facing and state elites – looks likely to remain dormant, or at least amenable to successful bargaining, even if American capitalism is confronted with intensified international competition in the future.

Taken together, then, even if we assume that some trigger event sparks a wave of genuine mass mobilization – which I argued is unlikely, though not unimaginable – and even if this situation is seized by revolutionary leadership – which I argued is challenging, though not impossible, to organise under contemporary capitalism – the continued strength of the American coercive state makes it unlikely for this revolutionary situation to tip over into an actual revolution.

F. Conclusion

This chapter has argued that contemporary capitalism does not endogenously generate revolutions. The material, ideological, and geopolitical circumstances of the late nineteenth and early twentieth century allowed convincing arguments to be made in favour of an endogenous generation of revolutions under capitalism. These circumstances, however, have changed, and with them capitalism's propensity to generate revolutions. It is not that capitalism fails to generate an *interest* in revolutionary change. To the contrary, as capitalism has risen to dominance once more over the last half-century, its tendency to do precisely that has re-confirmed itself, in the form of wages lagging behind productivity, working class life expectancy trailing far behind that of the bourgeoisie – even declining in places – , rising insecurity curtailing hopes of the good life, and greed and fear undermining community and care.

However, it is no longer obvious that capitalism simultaneously generates revolutionary *agency*: an ideological lacuna and the material weakening of bargaining power render it harder, for now, to overcome the collective action problem of organising revolutionary leadership. Demographic changes, an increasingly automated service economy, and growing inequalities in social capital render spontaneous and durable mass mobilisation less likely. Over time, the proletariat became revolutionary; as of now it is unclear whether the precariat will, too.

Where these obstacles to organisation and mass mobilisation are overcome, as may well happen as time passes and new crises occur, the question of state power moves to the fore. A successful revolution becomes a realistic prospect only where the state is, in one way or another, weakened. The American coercive state, however, looks strong today and appears to be resting on solid foundations, so that a future weakening, though not impossible, cannot be predicted today. In particular, with coercion having become capital-intensive, the pressure of geopolitical competition no longer acts to divide state elites from domestic-facing socio-economic elites, so that one of the most important sources of elite splits looks, for now, to lie dormant. While revolutionary change cannot be ruled out, little suggests that contemporary capitalism generates it endogenously.

Indeed, the patterns of recent unrest across the capitalist core appear to confirm this analysis. Taking an illustrative example, when the Metropolitan Police shot and killed Mark Duggan on 4th August 2011, it sparked a wave of mass mobilization that led to “the most widespread and prolonged breakdown of order in London’s history since the Gordon riot of 1780” (Kawalerowicz & Biggs, 2015, pp. 673–674). Although the trigger event

was a police killing, the structural causes – the dry grass in the prairie – were the social and economic consequences of capitalism unleashed.⁸⁹ Echoing the argument above, this supports the claim that theories of revolutions can no longer be dismissed on the ground that capitalism fails to generate an interest in revolutionary change.

Yet, five days after the revolt began, the British state deployed 16,000 police officers onto the streets of London. By nightfall, “London was comparatively quiet, with only minor skirmishes” here or there (P. Lewis et al., 2011, p. 17). Those who had taken the streets in the days before came from “areas with high ethnic diversity and with low organizational density”, which Kawalerowics and Biggs “interpret as evidence for social disorganization” (Kawalerowicz & Biggs, 2015, p. 692). This made it comparatively easy for the police, once deployed *en masse*, to suppress unrest. Echoing the arguments made above, this supports the claim that contemporary capitalism neither inherently organizes those who have an interest in revolution; nor undermines the coercive capacities of the state; nor saps elites’ willingness to deploy these capacities.

This concludes my analysis concerning whether an ascendancy of capitalism leads to its own future undoing. The claim defended in this chapter and the preceding three is

⁸⁹ “If there’s one underlying condition [...] it has to do with unemployment and bitter poverty among people who desire to be part of the middle class” (Sassen, 2011); “rioters came from economically deprived areas” (Kawalerowics & Biggs, 2015, p. 692); and they were united by a general sense of unjust inequality. An LSE study, compensating for the noticeable lack of an official inquiry into the causes of the 2011 UK riots, summarises this aspect as follows: “at heart what the rioters talked about was a pervasive sense of injustice. For some this was economic – the lack of a job, money or opportunity. For others it was more broadly social, not just the absence of material things, but how they felt they were treated compared with others.” This finding was based on “confidential interviews with 270 people who were directly involved in the riots in London, Birmingham, Manchester, Salford, Liverpool and Nottingham” (P. Lewis et al., 2011, pp. 3, 24). Note that there *was* an official inquiry, resulting in the Scarman Report, following the 1981 Brixton Riots, the last episode of major unrest in London.

that there is nothing certain about such a self-reversal. “Capitalism does not dig its own grave by rearing up an agency of socialist transformation” (Cohen, 1995, p. 9); nor does it inevitably self-destruct through rising inequality, growing debt, or falling growth, or through the wholesale destruction of the social, political, and environmental exoskeleton on which it depends. As grim as these trends are, a renaissance of democracy cannot be predicted on the basis of a self-inflicted and predictable weakening of capitalism. Against the metaphor of a pendulum, or indeed that of a ticking time bomb, a social order dominated by capitalism may last for decades and decades. Though, like any historical formation, it will expire eventually, it does not come with an expiry date.

Given the context of contemporary history, as well as the uneven (if contingent) nature of the dynamic of water and oil, this makes capitalism ascendant, democracy in retreat, a realistic, even a likely scenario, for the capitalist core in the twenty-first century. Though the specifically neoliberal order of global trade and finance may come under intensifying pressure, particularly as its legitimating ideology rings ever more hollow, there is nothing that allows us to predict with certainty that whatever modification or replacement emerges in its stead will be substantively more democratic.

Before moving on to a preliminary normative assessment of this descriptive analysis—the subject of the final chapter of this dissertation—I briefly pause to ask the following: if, as I argue in this dissertation, capitalism is neither self-destructive, nor, due to the dynamic of water and oil, a tool that democratic societies can harness in pursuit of their chosen goals, then why has this not yet been widely recognised?⁹⁰

⁹⁰ Ronzoni (2018), for example, argues (at first glance persuasively) that the empirical findings of Streeck

The conjunction of these two claims is powerful: on the one hand, it calls into question not just nineteenth century “Third Way” politics, but the entire post-WWII social democratic project. If capitalism does not sit easily with democracy, it is not obvious how a reformist approach can durably succeed. On the other hand, insofar as I have argued that the self-destruction thesis is false (in both its gradual and its revolutionary form), a politics of overcoming capitalism through revolution does not look promising either. The preconditions for fundamental change may or may not arise from time to time, but if they cannot be known to do so in advance, then organising around them will be challenging. Given these implications, and the sheer amount of attention that both democracy and capitalism have received over the ages, it stands in need of explanation if this truth – if indeed it is a truth – has not been recognized before.

A full answer is beyond the scope of this dissertation, but I venture the following: until recently, there were good historical reasons to believe *either* that democratic reformism – the durable taming of capitalism by democracy – would be possible, *or* that capitalism tends towards self-destruction, so that capitalist ascendancy would eventually reverse itself or could be overthrown through revolution. For much of the nineteenth century, and again after 1917 and the Great Depression, the self-destruction thesis (either gradual or as rupture) looked eminently credible. During the Golden Age of post-War democratic capitalism, in turn, just as the self-destruction thesis lost its credibility, the

(2016) and Piketty (2014) force even moderate social democrats to become “reluctant radicals,” due to the incompatibility between capitalism and democracy. But this is only convincing if radicalism is at least potentially productive – which is by no means obvious, given the falsity of the self-destruction thesis.

thesis that capitalism was compatible with, even pliant to, democracy appeared credible, even reasonable. Until recently there appeared little need to reject both simultaneously.

Second, analytically speaking, while both the self-destruction thesis and the compatibility thesis are ultimately false, they are foils for each other. Those who are committed to the self-destruction thesis can distract from its weaknesses by pointing to the failure of reformism and of trying to render democracy and capitalism compatible.⁹¹ Those who are committed to the compatibility thesis can conversely point towards the weaknesses in the argument for the self-destruction thesis.⁹² In each case pointing out the speck in the other's eye distracts, so I venture, from the beam in their own. As a result of this analytical structure, and the fact that until recently one of the two theses had always seemed credible, the fact that capitalism is *neither* self-destructive *nor* generally amenable to democratic reformism is, while (I claim) true, not yet widely appreciated.

To discern what follows, normatively, from the descriptive arguments made thus far is the aim of this dissertation's final chapter. If capitalism is neither self-destructive, nor a tool that democratic societies can harness in pursuit of their chosen goals, and yet produces much that is of value, how should we evaluate capitalism? What should our agenda for further research be? What attitudes and actions ought to follow?

⁹¹ See for example Luxemburg or Streeck. Today, this line of argument is associated with, amongst other political tendencies, accelerationism and runs approximately: "You reformists have it all wrong, capitalism cannot be tamed or fundamentally altered through reform, so we must work towards accelerating the coming revolution."

⁹² See for example Bernstein, and perhaps, on a certain reading, John Rawls. On this side the argument runs approximately as follows: "You radicals have it all wrong, capitalism will not self-destroy – look at history – so attempting to accelerate it toward revolution is futile and/or counterproductive. We have no choice but to work through reform."

9. What Is Wrong With Capitalism

That Capitalism Undermines Democracy Is Its Decisive Ill

A. Introduction

Hitherto, this dissertation has focused on describing the relationship between capitalism and democracy, as well as the dynamics of a capitalist social order freed from democratic control. I concluded that capitalism is not self-destructive, nor compatible with democracy over time. In this final chapter, I attempt a normative evaluation of this predicament.

Following the economic downturn of 2008, critiques of capitalism have bloomed like a desert after the rain.¹ Given the suffering, the injustices, and the anger which this crisis produced and highlighted, these critiques are well-motivated. Yet, as Rahel Jaeggi pointed out, many of these critiques are “diffuse, [...] and, in some respects, even disconcertingly inflationary” (Jaeggi, 2016, p. 45). Moreover, despite engaging with themes like exploitation, justice, freedom, or the good life, they are often disconnected from the extensive work done on these and related concepts in normative political theory. It is not always clear what values precisely capitalism is thought to undermine, or which principles exactly it is said to violate. Equally, it is not always clear from which perspective, to whom, and potentially for whom the critics intend to speak.

To take but two examples, both Piketty’s (2014) *Capital in the 21st Century* and Wolfgang Streeck’s (2016) *How Will Capitalism End?* are insightful, critical studies of

¹ The following are a sample (Brown, 2015; Crouch, 2011; Fraser, 2013, 2015; Jaeggi, 2016; Klein, 2014; Mason, 2015; Piketty, 2014; Skidelsky & Skidelsky, 2012; Streeck, 2011, 2014a, 2016; R. D. Wolff, 2012, 2016; Zuboff, 2019).

capitalism. And yet, their normative foundations remain invisible.² Piketty's book shows that capitalism tends towards inequality, and that it does so intrinsically, not due to (contingent) market failures or other imperfections; but the foundations for Piketty's normative critique remain under-specified. It is implied and stated, but not argued and substantiated, that the kinds and levels of inequality produced by capitalism are unjust. It is claimed, but not defended, that this constitutes a normatively problematic challenge to democracy. In order for Piketty's descriptive achievement to become a successful normative critique, an account of *why* (this kind of) inequality is wrong, of *why* the resulting challenge to democracy must be defeated, is required. Concerning Streeck's works, though I have disputed some of his arguments earlier in this dissertation, there can be no doubt that they give perceptive readings of contemporary capitalism. Equally, there can be no doubt about Streeck's critical stance vis-à-vis capitalism. Like Piketty, however, he does not give an explicit justification for this critical stance: which ideal does capitalism violate? What values does it fail to uphold? Answers are suggested, but not made explicit.³

On reflection, the shared omission is understandable. Explicitly evaluating capitalism is difficult for at least three reasons. First, it is difficult because any evaluation presupposes a set of criteria, any judgement a standard of judgement. But disagreement on

² The implicit normative framework of the book is Rawlsian (O'Neill, 2017), but Rawls is mentioned only once, in passing, in the body of the text (Piketty, 2014, p. 480).

³ Leaving little doubt about his normative commitments, Streeck mentions, for example, "the debasement of work through excessive commodification and flexibilization" (Streeck, 2016, p. 27), observes "the gross violation of legal rules and the systematic betrayal of trust and moral expectations in pursuit of competitive success and personal or institutional enrichment" (p. 30), or points out that "no one seriously denies that the energy consumption pattern of rich capitalist societies cannot be extended to the rest of the world without destroying essential preconditions of human life" (p. 62).

these is endemic. Should a society be judged according to how equal it is? How free? How just? Or, perhaps more reasonably, according to a mixture of these values and others? But if so, a mixture of what proportions, and in which order of priority? And on what interpretations of freedom, equality, justice, and so on? Despite millennia of intellectual effort, these questions have not been settled; I would be surprised if they ever were. Any evaluation of capitalism thus takes place against a contestable set of values, standards, and criteria. If description is to be supplemented with evaluation, there is an omnipresent risk of both description and evaluation being overwhelmed by prior discussions of criteria of evaluation.

Second, besides the inherent contestability of the criteria of judgement, additional difficulties are introduced by the nature of the object to be judged. Capitalism, on the definition used in this dissertation, is an ideal-typical social order.⁴ It consists in the private ownership of the means of production, the presence of at least a minimal degree of competition, and the prevalence of a recognizably capitalist ethos. This narrows and identifies the range of social orders that can be described as capitalist; nevertheless, the specification remains abstract. As a result, it is often difficult to demonstrate whether any specific feature on which an evaluation turns—for example levels and patterns of income or wealth inequality, the distribution of opportunities and prestige, discrimination along class, gender, or race lines, particular labour market or social practices, specific sets of

⁴ Ideal-typical in the Weberian sense: the concept of capitalism, of a capitalist social order, is an analytical construct that accentuates certain features and arranges them into a unified analytical construct. It is (analytically) prior to observation, helping to organize what would otherwise be an incomprehensible complicated reality, and it does not correspond perfectly to any real social order (Weber, 1949 [1904]).

attitudes or beliefs, or particular health or environmental outcomes—is intrinsic to capitalism. Unless it can be demonstrated that the evaluatively relevant feature in question is intrinsically linked to capitalism, however, the evaluation will be wide of the mark (Van Parijs, 1984, p. 86): an evaluation of, say, inequality, racism, or greed, but not of capitalism.

Third, insofar as we want to arrive at an action-guiding evaluation, we must not only show that the evaluatively relevant features (both positive and negative) are inherent to capitalism, but also that they are not inherent to all other feasible alternative social orders.⁵ Claims about what alternative social orders are feasible, however, are difficult to substantiate. As we move further from the narrow range of social orders of which we have historical experience (in comparable material and cultural circumstances), it becomes hard to know how changes along any one dimension interact with changes along all other dimensions (Gaus, 2016). For example, it is challenging to predict how major changes to a society’s political constitution affect political practice, patterns of sociability, religious sentiment and action, or relations of production. It is difficult, as a result, to achieve a reliable understanding of the set of feasible alternatives (Wiens, 2015b). We are not entirely ignorant about these alternatives, but insofar as action-oriented judgements about

⁵ For example, all social orders must contend with our “unsocial sociability” (Kant, 1991a [1784]) or the “circumstances of justice” (Hume, 2000, Book III, Part II, Section 2; Rawls, 1971, pp. 126–130), i.e. the partially cooperative, partially conflicting nature of human character and human interests. In combination with the natural monopoly character of coercive power, this implies that a coercive agency, call it the state, is an inevitable feature of any human society at scale. Negatively evaluating capitalism because it cannot be envisioned without a coercive state is hence academic, in the pejorative sense: no feasible social order, certainly for modernity, can be envisioned without a state.

capitalism may turn on specific details of possible alternatives, this presents a third challenge.

Good evaluations of capitalism, then, must do three things: state and defend the criteria of evaluation; demonstrate that the evaluatively relevant features are intrinsic to capitalism; and show that alternative social orders are feasible in which the evaluatively relevant features are not equally present. This is a tall order. In this light, it is unsurprising that the recent flowering of critiques may still benefit from further clarification and analysis. This chapter hopes to contribute to that task, without claiming to complete it.

The argument presented in this chapter is as follows: the only conclusive argument in favour or against capitalism, and therefore the only conclusive critique thereof, is that it undermines democracy. Neither the most prominent arguments in favour of capitalism (freedom, prosperity, natural rights, and merit) nor the most prominent critiques (exploitation, justice, and corruption) allow for a conclusive judgement. While some arguments, in particular those from merit, do not stand up to scrutiny, the problem with the remaining claims is not that they falter under pressure, but rather that they cannot be tallied up. While the arguments for and against capitalism from freedom, prosperity, exploitation, justice and corruption offer good reasons for and against adopting capitalism as a social order, their respective normative weights remain unclear, so that no summative conclusion is possible. The situation is different, however, concerning a final critique of capitalism: the critique built on capitalism's tendency to undermine democracy. Given that capitalism is controversial and given that nobody has both the moral authority and the descriptive knowledge to adjudicate this controversy for everyone else, only the people as a

whole may decide, through majority rule, whether or not to make capitalism our social order, and if so, in what form. However, insofar as capitalism, through eroding democracy over time, undermines the ability of future majorities to reconsider and revise these decisions, it involves a form of self-abdication and binding of future generations that is illegitimate and impermissible. What is conclusively wrong with capitalism, then, is its tendency to undermine democracy.

The structure of this chapter is as follows: I begin with a brief summary of the two strongest arguments in favour of capitalism, the arguments from prosperity and freedom familiar from Chapter 2 above. Next, I canvas the weaker arguments in favour of capitalism, those from natural rights and merit, before analysing the three strongest conventional critiques: exploitation, justice, and corruption. I then take stock, showing that these considerations do not sum up to a decisive case either for or against, before presenting the critique from democracy, which, I argue, does result in a decisive case against. To underline this case, I close the chapter with a close comparative reading of parallel passages from Cohen's *Why Not Socialism* (G. A. Cohen, 2009) and Brennan's *Why Not Capitalism* (Brennan, 2014), which supports the argument developed over the course of this chapter.

B. What is good about capitalism?

In order to mount a convincing critique of capitalism, it is helpful to begin by summarising the strongest arguments in its favour.

Capitalism intrinsically drives productivity improvements (Clark, 2007): fanned by competition and guided by a rationalist, maximizing ethos, the “bourgeoisie cannot exist without constantly revolutionizing the instruments of production” (Marx, 2000 [1848],

p. 248). It is no coincidence that Marx could write in 1848: “the bourgeoisie, during its rule of scarcely one hundred years, has created more massive and more colossal productive forces than have all preceding generations together” (Marx, 2000 [1848], p. 249). A century and a half later, the statement has lost nothing of its truth or force.

This does not mean that capitalism is the only social order to permit and foster productivity increases, that it does so more than all alternative social orders,⁶ that productivity improvements under capitalism take the shape that most people desire,⁷ or that capitalism-driven productivity growth is an unalloyed good.⁸ Even less does it mean that market competition on its own drives technological progress.⁹ But there can be little

⁶ Recall that, since the end of catch-up growth reduced continental European growth rates to American levels, per capita growth rates have been largely the same in the considerably more mixed European economies as in the more thoroughbred capitalist economy of the US (Piketty, 2014, p. 97, figure 2.3): both the former and the latter grew at just above two per cent p.a. from 1970 to 1990, and just below 1.5% p.a. from 1990 to 2012. Within a significant range of different social orders, growth thus appears to be largely technology-driven: “broadly speaking, the US and British policies of economic liberalization [...] have had little effect on this simple reality, since they neither increased growth nor decreased it” (Piketty, 2014, p. 99). Fundamental technological change, in turn, is driven in large part by state- and especially defence-led investment (Mazzucato, 2013). It is worth recalling, though, that productivity can be affected as much by the simplest, lowest-quality inputs as by inputs from the technological frontier (Kremer, 1993), so that pushing out the technological frontier is necessary but not sufficient for productivity gains.

⁷ Given high inequality—a non-contingent feature of capitalism—ongoing product innovation and cost reductions disproportionately benefit high-income households, since this is where most profit can be made: “in the context of economic growth and rising income inequality, product innovations disproportionately benefit high-income households due to the supply response to market size effects. Using detailed barcode-level scanner data in the US retail sector from 2004 to 2015, higher-income households are found to systematically experience a larger increase in product variety and a lower inflation rate for continuing products” (Jaravel, 2018).

⁸ E.g. Hirsch (1976) or Markovits (2019) for negative social consequences, O’Connor (1988), Magdoff and Foster (2011), or Moore (2015) for negative environmental consequences of growth under capitalism.

⁹ See Chapter 7, Section D, p. 342 above. Unlike classical liberals, however, the most ardent supports of capitalism today—neoliberals—have understood the necessity of encasing markets in legal and social infrastructures provided by states or state-like public agents (Chapter 7, Section E, p. 348 above). Of course, pointing out that markets must be encased and supported by extensive publicly provided infrastructure to

doubt that capitalism has been and continues to be a tremendous engine of technological change toward greater human capacity to manipulate the environment and ourselves.

Besides driving productivity improvements, capitalism provides a considerable amount of freedom. First, the institution of bourgeois private property allows a historically large set of people the possibility of control over a wide set of means to formulate and follow diverse life plans. It furnishes those who can avail themselves of it with republican freedom (Pettit, 1997) against domination at the individual level (Brennan, 2014, pp. 78-80): a worker with eccentric tastes, whether in food, music, literature, sex, clothing, or anything else does not need anyone's permission to purchase whatever tickles her fancy. An artist who owns his studio, and who has the means to purchase her material and life's necessities, is free from the interference of a patron. Indeed, even landowners gain additional republican freedom under capitalism: in a bourgeois legal order, unlike under feudalism, landowners cannot be called to arms merely in virtue of their landownership. Bourgeois private property therefore allows a wide variety of life plans to be made and realised (Kant, 1996b [1797], Part I, Doctrine of Right).

Further, the institution of market exchange allows for the harmonization of millions of such disparate life plans with comparatively little overt coercion. The exchange of goods and services for money at ephemeral prices coordinates an extended division of

foster productivity growth ignores a second complication that is also implicit above: it is far from obvious what kinds of technological change constitute progress (is the invention of biological weapons technological progress?). This, too, undermines the claim that market competition alone drives technological progress.

labour, while simultaneously permitting a great many people a wide variety of choices as to where to live, which occupation to engage in, and who to associate with.

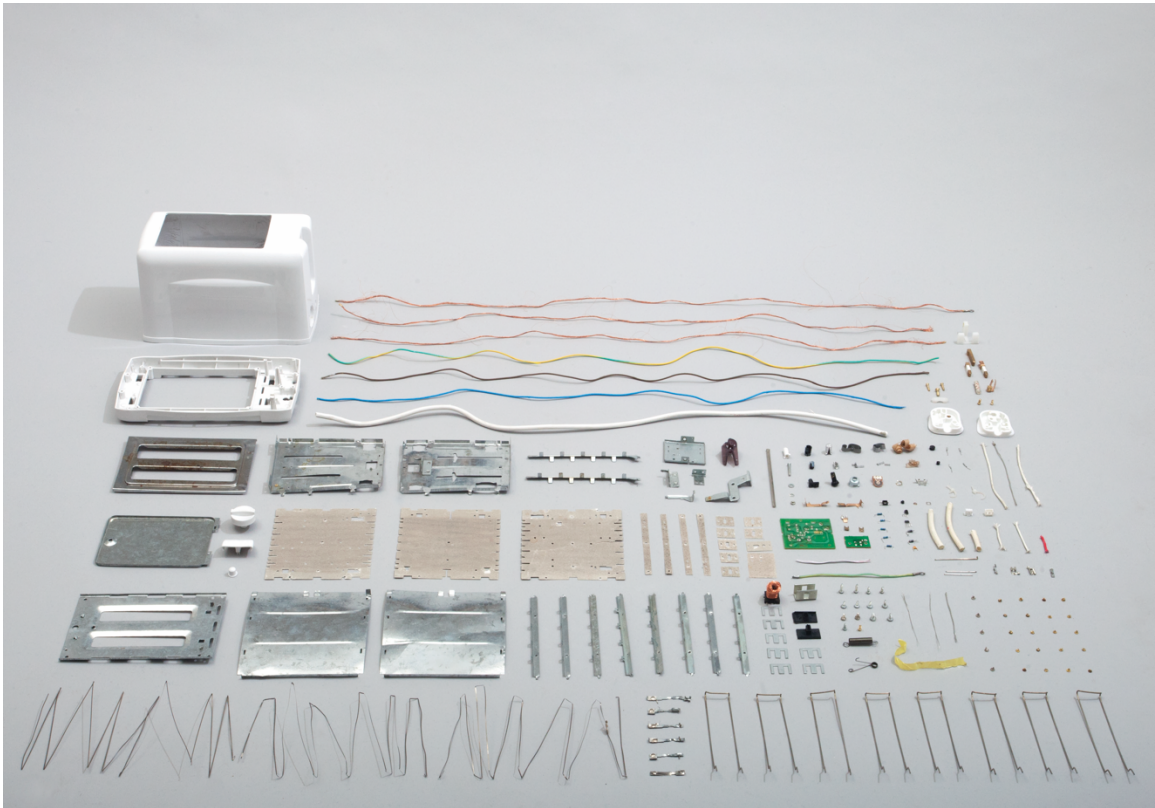
Despite operating to a large extent through decentralised, individual choice, this extended division of labour is remarkably efficient. An illuminating and entertaining example is British artist Thomas Thwaites' attempt to produce a toaster by himself, without relying on market exchange and the thus-coordinated social division of labour.¹⁰ The model he sought to emulate was a toaster sold by the British mail order company Argos. It consisted of 404 separate parts—see Figure 9—and retailed for £3.94 in 2009, less than a penny per part (Thwaites, 2011, pp. 13, 19). The production cost of Thwaites' replica was £1187.54 without labour (Thwaites, 2011, p. 13), £42,443.54 with labour.¹¹ Thwaites himself described the result as “a bread warmer rather than a bread toaster” (Thwaites, 2011, p. 169), and when plugged in to a 230 V socket, “[i]t worked for a few seconds, but then the element melted itself” (B. C. Howard, 2012). Its custom design can be appreciated in Figure 10 below. Importantly, it is not meaningless to say that the majority of those hundreds, thousands, perhaps even millions who collaborated in the production of the Argos toaster had a degree of choice as to where to position themselves in the division of labour. The final product is not only cheap, functional, and reliable, but also compatible with a wide range of choices among those who collaborated in its

¹⁰ I thank Douglas Rae for bringing this example to my attention.

¹¹ The project took nine months (Thwaites, 2011, p. 13). To calculate labour costs, I assumed a wage of £5.73 per hour (the UK minimum wage in 2008-9), 40 hours of work a week, and twenty working days per month.

production. In the wider sweep of history, this combination of efficiency and freedom is extraordinary.

Figure 9. Argos toaster, £3.94, disassembled



© Thomas Thwaites, Daniel Alexander (Source: Thwaites, 2011, pp. 16-7)

Figure 10. Thwaites toaster, £1187.54 (£42,443.54 with labour), casing removed



© Thomas Thwaites, Daniel Alexander (Source: Thwaites, 2011, p. 179)

Of course, upon closer analysis the kind of freedom provided by capitalism turns out to be both limited and misleading: “Within market society [...] the choices of others massively confine each individual's pursuit of her own choices, but that fact is masked [...] the unavoidable mutual dependence of human beings is not brought into common consciousness, as a datum for formal and informal planning. A particular person [...] may face a choice of being a building laborer or a carer or starving, his set of choices being a consequence of everybody else's choices. But nobody designed things that way, and his restricted options consequently misappear as mere facts of life” (Cohen, 2009, pp. 48-9). What private property and markets give (to some), the capitalist ethos (by narrowing the

range of projects that appear feasible and reasonable), market volatility (whether through sudden unemployment, the loss of asset values, or sudden price increases in goods essential for one's plan), unfortunate birth, or simple misfortune may take away.¹² Capitalist freedom is far from an unalloyed good; but as with capitalism's tendency to foster productivity growth, it is hard to deny that the freedom it offers is at least partially an attractive feature, and certainly so in wider historical perspective.

We have already encountered the limits and uncertainties of both the argument from prosperity and the argument from freedom in Chapters 2 and 3 above. There is little need to restate them in detail here, beyond the brief remarks made above. Neither can make a conclusive case for unlimited private sovereignty over the division of labour, but both contain important and positive, if partial, truths about capitalism.

C. **Rights- or justice-based defences of capitalism fall short**

Besides the arguments from freedom and prosperity, defenders of capitalism have advanced rights- and justice-based arguments in its defence (Brennan, 2014; Brooks, 2012; Nozick, 1974). Three such arguments can be distinguished: the argument from natural rights, and two variants of an argument from merit or desert. This section and the next scrutinize the three rights- and justice-based defences of capitalism, and find that all

¹² Recall that a capitalist labour market “could serve its purpose only if wages fell parallel with prices. In human terms such a postulate implied for the worker extreme instability of earnings, utter absence of professional standards, abject readiness to be shoved and pushed about indiscriminately, complete dependence on the whims of the market. [...] It is not for the commodity [of labour] to decide where it should be offered for sale, to what purpose it should be used, at what price it should be allowed to change hands, and in what manner it should be consumed or destroyed” (K. Polanyi, 1944, p. 185).

three fall short. Indeed, instead of offering successful defences, they point the way towards both justice- and exploitation-based critiques, which are covered next.

Capitalism, some argue, is entailed by natural rights. This argument runs approximately as follows: “individuals have rights, and there are things no person or group may do to them” (Nozick, 1974, p. ix). Among these rights are the rights “not to be killed or assaulted if one is doing no harm, not to be coerced or imprisoned, not to have one’s property taken or destroyed, and not to be limited in the use of one’s property so long as one does not violate the rights of others” (T. Nagel, 1975, p. 138). As a result of these rights, only “a minimal state, limited to the narrow functions of protection against force, theft, fraud, enforcement of contracts, and so on, is justified; [...] any more extensive state will violate persons’ rights not to be forced to do certain things, and is unjustified” (Nozick, 1974, p. ix). The argument concludes that it may be good, and even productivity-boosting in certain circumstances, to modify the division of labour through collective decision-making; but if this is done without the consent of each and every private property owner affected, it is an injustice and therefore must not be done. “Taxation” in particular “is on a par with forced labor” (Nozick, 1974 169, *passim* and esp. Chapter 7).

Arguments for capitalism along these lines can be initially attractive. The idea of strong natural rights – the rights to physical integrity, self-ownership, and free use of one’s own property – has a certain appeal; the inference from these rights to private sovereignty over the division of labour looks tight; and the argument depends little on contestable claims about relative growth rates, levels of inequality, multiple equilibria, or any of the other empirical questions considered earlier in this dissertation.

Upon closer scrutiny, however, arguments from natural rights have a number of problems. These include complications concerning original acquisition, the priority ranking of different rights, or the unattractive consequences of rights-absolutism.¹³ It is unnecessary to discuss the full list of problems in detail here, however, since all arguments from natural rights suffer from a foundational weakness: they are built on sand. Even granting the existence of the category of natural right, itself contentious (Hart, 1958), the *content* of natural right has always been disputed (Tuck, 1979). It is far from obvious, for example, that all natural rights are of equal strength, or that none of them may be overridden, whether on the grounds of other rights or for consequentialist reasons (Nagel, 1975, pp. 141-2). Unless combined with independent and convincing arguments for the particular catalogue of natural rights asserted, the particular priority ordering that is (explicitly or implicitly) asserted between them, and their interaction with other normative considerations, Nozick-style arguments for capitalism therefore amount to little more than “Libertarianism without Foundations” (Nagel, 1975, p. 136).

¹³ While self-ownership may be a natural right, it is far from obvious how this generates property rights in material resources and the external world (Cohen, 1995, Chapter 3). If we postulate that the world was originally owned in common, an assertion made by some of the canonical natural rights thinkers (e.g. Grotius, 2005 [1625], p. 420-3, Book II, Chapter II, §2; or Locke, 2003 [1689], p. 111, Chapter 5, §26; though not Nozick himself), then holding steadfast to the self-ownership thesis greatly undermines substantive freedom and autonomy: each individual would have a non-overrideable veto over anybody’s use of external resources (Cohen, 1995, Chapter 4; see also Chapter 1). Even if the problem of original acquisition could be overcome without questioning the absolute priority of private property rights – no mean feat – this would not offer conclusive protection against the utilitarian use of people, i.e. the use of people merely as a means, the prevention of which is sometimes at the heart of natural rights arguments. In particular, Nozick takes his own theory to permit slavery (in response to “whether a free system will allow him to sell himself into slavery”, Nozick answers, “I believe that it would”, p. 331), and as Susan Moller Okin points out, a Nozickian theory of justice seems to imply that mothers own their children as slaves (Moller Okin, 1989, pp. 79–86).

While the argument from natural right for private sovereignty over the division of labour hence fails, or is at least yet to be substantiated, there is a second argument from justice for capitalism that is worth considering. Many share the intuition that a fair distribution is a just distribution (e.g. Rawls, 1971, also Aristotle, 2004, *Nicomachean Ethics*, 1131a10-1131b25). Capitalism is therefore claimed to be fair, because it “aligns rewards to values produced” (Meltzer, 2012, p. 4). “When I work harder or longer hours in the free enterprise system, I am generally paid more than if I work less in the same job. Investments in my education translate into market rewards. Clever ideas usually garner more rewards than bad ones, as judged not by a politburo, but rather by large groups of citizens in the marketplace. True fairness makes free enterprise not just an economic alternative. It makes it a moral imperative” (Brooks, 2012, p. 64).

This argument, too, initially appears convincing. Effort no doubt correlates with material reward under capitalism, at least to some degree. And even if this correlation is not as tight as one may wish, “even if only half of the outcomes in life were due to merit,” it may still be good to dignify market outcomes as just, in order to encourage people to be “industrious, honest, innovative, and optimistic” (Brooks, 2012, p. 59).

Like the argument from natural rights, however, this argument suffers from a number of weaknesses. First, it presupposes that market rewards are fair in the sense that market participants are paid (in wages or profits) the value of what they contribute. Neoclassical general equilibrium analysis, it is alleged, supports this claim: under certain conditions (including perfect competition, the absence of economies of scale and externalities, and homogeneous production functions), all factors of production—both

capital and labour—are paid the value of the extra production that they contribute, their marginal product (e.g. Mankiw, 2013, p. 32).

Off the bat, it is unclear why this should be a fair distribution of rewards: where production functions are concave, i.e. where the marginal product decreases as more of a factor is employed, a worker's marginal product is less than her average product. Under capitalism, this difference between average and marginal product is pocketed by the owners of the firm in question; but insofar as these are pure returns to ownership, i.e. not the implicit wages of management or entrepreneurship, it is deeply unclear why the owners, as opposed to the workers, should have a legitimate claim to this surplus.¹⁴ This particular distribution is not required for efficiency reasons: as long as workers are capable of Kant-optimizing (see Roemer, 2019, for a definition and contrast with Nash-optimizing), paying workers their full average product can achieve the same standard of Pareto efficiency as the capitalist arrangement in which workers are paid their marginal product.

Further, even if payment of marginal product were considered to be just, where production is organized into sizeable firms an individual worker's marginal product cannot be determined objectively. It is impossible to attribute objectively certain types of costs to particular workers or business units (A. L. Thomas, 1969, 1974; for an accessible summary, see Robert P Wolff, 2019; Robert Paul Wolff, 2019).¹⁵ This makes it

¹⁴ I thank John Roemer for rescuing me from letting this ideological claim stand unopposed.

¹⁵ For example, where two or more business units in a firm share the same real estate, there is no objective way of allocating the associated rent or mortgage costs across the units: should they be divided according to the square footage occupied by each unit, by the revenue generated by each, by their respective headcounts, by the cost it would take each unit to rent the space they require on the open market, or perhaps yet another method? The same is true where support staff, say in IT or customer service, support multiple business units:

impossible to determine objectively what fraction of total profit, i.e. value created,¹⁶ comes from particular business units or individual workers. If profits cannot be attributed objectively, then neither can marginal productivity, for marginal product is defined as the value, i.e. the excess of price over cost, of the additional units produced. “Market merit”, if it has any moral valence at all, thus applies only at the level of market agents, which in contemporary capitalism tend to be firms rather than people.¹⁷ Whether working harder, investing in education, or having clever ideas will lead to higher rewards, and, if so, to what extent, thus depends on a range of factors—in particular firm-internal accountancy practices, but also bargaining power balances, the presence or absence of externalities or economies of scale, and others—whose correlation with fairness and individual merit is, at best, disputable.

should those costs be attributed according to revenue, according to uptake (and if so, on what measure of uptake?), and if uptake, at which price (and at the same price for each business unit?)? What if support staff clearly make a greater difference to some units than to others? Should the ‘shadow price’ then be higher where the support’s value is greater? The division of costs implied by each answer may vary drastically. Given there is no objective reason to prefer one accounting method over the other, it is impossible to calculate worker- or business-unit-level marginal costs objectively. Even if we could figure out the additional physical quantity or monetary revenue generated by a particular worker or unit—challenging in its own right—it would then still be impossible to calculate objectively the profitability, i.e. *value*, of those additional units, because the cost figure that we must subtract from revenue to generate marginal profit cannot be calculated objectively. Determining firm-internal marginal products is therefore an irreducibly political decision: where there is discretion, there is politics.

¹⁶ On the subjective utilitarian definition of value, which, I repeat, is a contested and contestable theory of value.

¹⁷ In the US, around two thirds of all workers work in firms with more than 100 employees, forty percent of all workers work in firms with more than 1000 employees. Only ten percent work in firms with fewer than ten employees, where an identification of the relevant market agent with actual individuals seems credible (U.S. Bureau of Labor Statistics, 2019b).

But let us leave these issues aside for now. Granting, for the sake of argument, that workers are paid the value of what they produce, a second problem emerges. Is this pay merited? The answer is once again unclear, at best. What we produce is always a mixture of the *effort* we exert and the *endowment* we were given.¹⁸ Hayek and Rawls, who agreed on little else, concurred that “neither [nature nor nurture] has anything to do with moral merit. Though either may greatly affect the value which an individual has for his fellows, no more credit belongs to him for having been born with desirable qualities than for having grown up under favourable circumstances” (Hayek, 1960, p. 89, see also p. 94 and Chapter 6).¹⁹

To respond to this observation, defenders of capitalism may wish to draw a distinction between merited earnings (the part secured through effort) and unmerited earnings (the part due to natural talent, upbringing, and inheritance). But this distinction is unstable: “it seems clear that the effort a person is willing to make is influenced by his natural abilities and skills and the alternatives open to him” (Rawls, 1971, p. 312). This does not necessarily negate the *principle* that autonomous effort may justify reward. Nor does it imply that, because of the birth lottery, there is no such thing as autonomous effort.

¹⁸ With endowment understood to include talents (nature), upbringing (nurture), and material inheritance.

¹⁹ Rawls formulated the same point as: “no one deserves his place in the distribution of native endowments, any more than one deserves one’s initial starting place in society.” In other words, “the initial endowment of natural assets and the contingencies of their growth and nurture in early life are arbitrary from a moral point of view” (Rawls, 1971, pp. 104, 311-312). Marx, incidentally, made a very similar observation when pointing out that even the socialist (or for him, lower stage communist) principle of ‘to each according to their contribution’ “tacitly recognizes unequal individual endowment, and thus productive capacity, as a natural privilege” (Marx & Engels, 1972 [1875], p. 387). In other words, even if, under certain ideal conditions, a worker receives the full return to his ‘natural privilege’, this does nothing to diminish the arbitrary nature of that privilege.

It does imply, however, that we cannot easily tell which proportion of effort is autonomous, and which proportion is determined by one's morally arbitrary endowment. As a result, we do not know, in general, the extent to which markets reward autonomous effort.

Finally, even if we could identify the proportion of someone's output that is due to autonomous effort, the value of this product will depend heavily on the wider structure of demand and supply—which, from the perspective of the individual producer, is again external and due to luck, not effort. Depending on popular tastes and other people's talents and choices, even two workers applying the same level of effort, making qualitatively similar choices about investing in their skills and education, and having approximately the same endowments and hence attaining similar levels of practice- or career-specific achievement can end up with drastically different market income. Consider, for example, British professional footballer and former England captain Wayne Rooney and British professional boxer and former world champion Amir Khan. Born within a year of each other, both reached the peak of their respective sports towards the end of the two thousands, no doubt due to a mixture of natural talent, hard work, and good decision-making. But while Wayne Rooney earned around ten to twenty million pounds annually at the peak of his career, Amir Khan earned around one to two million pounds per year, i.e. “only” a tenth of Mr Rooney's earnings. To drive home the arbitrariness of this discrepancy, note that, aged fourteen, Mr Rooney very nearly decided to become a professional boxer (Rooney & Davies, 2006). Had his football coach not convinced him to abandon boxing, his lifetime earnings would have dropped by a factor of ten, even holding

constant both effort (autonomous and endowment-driven) *and* attainment (i.e. rising to the top of the sport).

Of course, career choices can be made knowingly. Insofar as Mr Rooney knew that becoming a footballer would result in higher earnings, his choice of football over boxing (and the consequent ten-fold multiplication of his earnings) was not a matter of pure luck, but a shrewd choice, one might argue. Setting aside whether this is descriptively true, we may observe the following. As recently as 1970, the distribution of earnings between Mr Khan and Mr Rooney would have been the reverse: boxers' purses in the nineteen seventies were in the area of multiple hundreds of thousands of dollars (rising to multiple millions at the peak of the sport) while the average annual earnings of players in the highest English football division were in the tens of thousands of pounds (Harris, 2011). Within less than a generation, in virtue of a shift in tastes, technologies, and the income distribution (over which neither Mr Rooney nor Mr Khan had any control, and which cannot, in general, be known in advance), the expected earnings of their respective careers traded places. Due to capitalism's inherent dynamism, this eventuality can never be ruled out. Choices that look shrewd at the time can always turn out financially suboptimal in retrospect, or vice versa, due to unpredictable shifts in tastes, technologies, the distribution of purchasing power, or natural resource availability.

It is very difficult to argue, then, that market incomes are fair because they reward effort or personal responsibility. First, due to inevitably subjective accounting decisions within firms, due to the impact of bargaining power on earnings, and due to the existence of externalities and economies of scale, markets do not in general pay workers the value of

their marginal product. Further, even if workers *were* paid the value of their marginal product, it is unclear if this is merited: what one is capable of producing is heavily influenced by factors beyond one's control, including both one's genetic make-up, i.e. nature, and one's childhood and socialization, i.e. nurture. In addition, the value of this product is determined by the social structure of supply and demand, which is just as far beyond individual control as one's familial endowment.

D. A further variant also fails

When looking closely at the functioning of the price mechanism, it becomes clear that the independence of earnings from merit is intrinsic to capitalism, indeed to any form of laissez-faire market system. As Hayek pointed out, markets are not geared towards recognizing past achievement, but towards communicating the relationship between current and future (expected) demand and supply.²⁰ Market prices stand in the present and face the future; toward the past, their back is turned. Merit, a concept linking past behaviour to present reward, therefore runs orthogonal to the functioning of laissez-faire markets.

Nevertheless, one last argument for capitalism from justice remains to be considered. A variant of the fairness or merit argument, it argues market earnings are fair not because they reflect effort or personal merit, but because they reflect one's contribution to the well-being of others.

²⁰ In his tin example (see footnote 69 at p. 110 above), the price of tin increases not because tin producers have been especially meritorious, but because an unforeseen event renders current and future expected demand greater than current and future expected supply.

Hayek can be read as having argued along these lines: “It is of the essence of a free society that a man’s value and remuneration depend not on capacity in the abstract but on success in [...] concrete service which is useful to others” (Hayek, 1960, pp. 80-1). Hayek implies that there is a different kind of fairness in laissez-faire market outcomes, Hayek implied. This fairness is not about Wayne Rooney or Steve Jobs and how hard they worked to develop their talents, but rather about how *everyone else*, to whom their performances and products brought use and pleasure, gained from their actions. In other words, people deserve what the market gives them, not because they have an ownership claim to their endowment (Nozick), or because the market rewards effort or responsibility (Brooks, Brennan), but because market earnings reflect how much we do *for others*.

This argument, too, is *prima facie* attractive. It justifies not only the earnings-side of a market transaction, but also the purchasing-side. Not only is the salary of a worker or the income of a shopkeeper fair and just, but it is also just and fair that the employer pay this amount of salary, or that the consumer pay the price in question. For just as, on the supply- or sale-side, income (Hayek assert) represents the value we provide to others, on the demand- or purchasing-side, the price we pay (Dworkin, 1981a, 1981b argues)

represents the costs that our life- and consumption choices have in terms of resources no longer available to others.^{21, 22}

Moreover, the responsiveness of wages and prices to demand and supply – the very mechanism underpinning Hayek’s argument for laissez-faire and the epistemological efficiency of markets – shows, indeed constitutes, the pecuniary democracy inherent to capitalism: every dollar spent acts as a vote that implores society to accommodate one’s preferences, bidding up the relative wages and prices of those workers and products that cater to these preferences, and lowering those of everyone else. As discussed in section B above, the de-centralised responsiveness of a market system – which relies on freely moving prices to transmit signals and hence requires that individual earnings be subject to what is experienced as chance by individual workers and firms (see also footnote 12 above, p. 420) – is a virtue insofar as it allows demand and supply to be coordinated with comparatively little coercion.

²¹ “[S]uppose there’s a power outage. You rush to the store for ice to keep your beer cold. But when you get to the store, you find the now scarce ice is selling for \$12 a bag. You’ll probably decide it’s not worth buying ice for your beer. What you don’t realize, though, is that by choosing not to buy the ice, you thereby leave it for the diabetic who needs it to cool his insulin” (Brennan, 2014, pp. 14-5). In other words, the price of the ice communicates to the buyer the sacrifice that others must make so he rather than someone else can have the ice at his disposal.

²² Note also, somewhat more ambivalently, that this introduces the politics of recognition into the market. A seller satisfied with the price that her goods or services command may feel the warm glow of recognition, because she knows that the buyer had to make a corresponding sacrifice in order to acquire the relevant good or service. This sacrifice signals to the seller that whatever she makes is *worth* the relevant price to the buyer. Conversely, a seller disappointed with the price that her goods command may feel the anguish of rejection, in virtue of the same cognitive process operating in reverse. This parallels, in part, Albert Hirschman’s observation that, perversely, repressive societies make possible certain speech acts (“costly signals”) that are impossible to make in a democracy (because there are not the same costs attached to them).

However, upon closer consideration this argument, too, fails to convince. First, the responsiveness of markets, and their reflection of the service we render to others, are valuable features; but they are not the same as justice. It remains the case that under capitalism some are materially punished, other lavishly rewarded, for features and events far beyond their control. The sense that there is something unfair in this arrangement is difficult to shake.

Second, insofar as this argument claims that rewards that represent our service to the public constitute just rewards, the argument assumes what it sets out to prove. Even if one's remuneration did depend closely on the value provided to the public,²³ the public in question is the *market* public. It is not a democratic public in which all count for one, none for more, none for less. Instead, it is a compound entity in whose composition, in the American case, members of the top one per cent count for twenty each, members of the top ten per cent for five, members of the middle class for one, and members of the working class for one quarter each.²⁴ Unless this highly skewed distribution of purchasing power is already known to be just—which is what the argument must prove, and hence cannot simply assume—it is unclear why the rewards of service to *this* entity should constitute distributive justice.

²³ Recall, again, that the attribution of profits (and hence value) to the different workers and units of a large firms is a political decision (see footnote 15, p. 424 above), and that externalities, bargaining power, and economies of scale are pervasive. As a result, individual earnings have no necessary relationship to value produced, and hence to the value produced for the community at large.

²⁴ In 2014, the top one per cent received 20.2% of pre-tax US income, the top ten per cent 47%, the middle 40% 40.4%, the bottom 50% 12.6% (*World Inequal. Database*, 2019). Prior to redistribution, a member of the top 1% thus had 80 times the purchasing power of a member of the bottom 50%.

Finally, taking a comparative perspective, capitalism is not the only social order in which markets play an important role. Market socialism, a property-owning democracy, or a mixed economy with significant public ownership all have important market sectors. The connection between personal earnings and value provided to the market – whose normative value is unclear at best, given the distinction between the market public and a democratic public – will not be as tight in these social orders as under capitalism. The correlation between personal earnings and value provided to the *democratic* public may well be tighter, however. Further, the informational value of prices is preserved, both as a reflection of the costs that our consumption choices have for our co-citizens, and as a means of coordinating the division of labour with little coercion. In comparative perspective, then, the Hayekian variant of the desert argument, too, looks less than convincing.

I conclude that considerations of rights and justice do not provide a convincing justification of capitalism. Arguments from natural rights founder on the instability of their foundations. Arguments from merit or desert fail because market rewards are heavily influenced by factors beyond one's control, including both one's familial endowment and the wider social structure of supply and demand. The Hayekian variant of the desert argument fails, finally, because it confuses justice with responsiveness, and because it assumes what it sets out to prove, namely that the heavily skewed distribution of purchasing power under capitalism, service to whom the market rewards, is just.

Empirically speaking, and of relevance to both variants of the desert argument, it bears repeating that markets do not, outside of special circumstances, pay people their marginal contribution: the vagaries of firm-internal accounting practices, market power,

externalities, and economies of scale weaken the link between marginal productivity and earnings. This connection being a foundational assumption of both variants of the desert or merit argument, its weakness further undermines the case that capitalism constitutes justice. Justice does not, then, demand capitalism.

E. A first wrong of capitalism: exploitation

Showing the shortfalls of justice arguments for capitalism does not prove that capitalism is unjust. Private property, competition, and a capitalist ethos may after all be neither here nor there; neither demanded by justice, nor condemned by it. To see if this is the case, I now turn to critiques of capitalism.

Perhaps the canonical critique of capitalism is that under capitalism workers are exploited by the bourgeoisie (Marx, 1992 [1867]).²⁵ Although they meet as free and equal participants in the market place, in the sphere of production capitalists extract surplus labour from workers. Though free juridically and in appearance, workers are thus exploited in a way that resembles the direct exploitation of slaves or serfs under feudalism. If correct, this would constitute a strong condemnation of capitalism as a social order.

Marx's critique in *Capital*²⁶ was levelled not under the ordinary language use of the term, but with exploitation defined as a precise and technical concept: the extraction of

²⁵ “There are several features of capitalism which may be worth” critiquing, Philippe van Parijs argued, “for example inefficiency or irrationality, domination or alienation. But there is one which looks more promising than any other: Exploitation” (Van Parijs, 1984, p. 86).

²⁶ There are hints for a different kind of exploitation critique in the early Marx (see for example J. Wolff, 1999, pp. 115–116) – though not in *Capital* – which reads exploitation not as an extraction of surplus value (i.e. implicitly a violation of some kind of fairness norm or norms of desert), but as a transaction in the course of which the parties reduce themselves to lesser forms of what they could be. Here, in a somewhat unusual

surplus value from workers by capitalists with the meaning and magnitude of value derived from the Labour Theory of Value.²⁷ At first glance, problems with the Labour Theory of Value (see for example Nozick, 1974, pp. 256-60) appear fatal to this technical conception of exploitation. However, Roemer (1982) gives an account of exploitation that does not rely on the Labour Theory of Value as a theory of prices (Roemer, 1982, p. 208, see also 1988). This account demonstrates that where there is differential ownership of capital, markets are used, and capital is scarce, workers are exploited and capitalists exploit, in the following precise sense: for workers, “the amount of labor embodied in the goods which the worker can purchase with his income [...] is less than the amount of labor he expended to earn that income” (Roemer, 1985, p. 30). Capitalists on the other hand “can command with their income more labor embodied in goods than the labor they performed” (Roemer, 1985, p. 30).

In other words, without relying on the Labour Theory of Value, Roemer demonstrated that, under assumptions that are met under ideal-typical capitalism, and certainly in the United States since the nineteen seventies, workers perform more labour than they receive (as embodied in their consumption bundle), while capitalists receive more labour (as embodied in their consumption bundle) than they perform. This suggests that there is a family resemblance between, say, a feudal lord who exploits his serfs through

use of the word, exploitation refers to a form of undermining human flourishing. This kind of exploitation critique, centred around a conception of the good life rather than justice, will be dealt with under the lens of capitalism and corruption, covered in section G below, rather than under the lens of capitalism and exploitation.

²⁷ See Cohen (G. A. Cohen, 1979, 1988, Chapter 11) for a concise statement and critique of Marx’s theory of exploitation.

corvée labour on his estate, and a capitalist who exploits workers to get a consumption bundle bigger than what his own labour would entitle him to.

This finding is powerful, in at least two ways: first, the model is entirely classical. All agents in this model have the same preferences and all markets operate in perfect competition. The driver of differential behaviour is differential asset ownership, with no need to introduce greed, cheating, or market imperfections (Roemer, 1982, pp. 80-1). The link to ideal-typical capitalism is therefore tight. Second, the model is resilient: even where we assume away a labour market and allow for trade only in goods and capital, the same result obtains: those who start off with more assets exploit, those who start with fewer are exploited (Roemer, 1982, Chapter 3). This suggests that the link is likely to operate across a variety of institutional instantiations of capitalism. It also highlights, again, that the merit of market incomes, whether the markets in question are labour markets, product markets or capital markets, is questionable at best.

Despite its robustness and its tight link to ideal-typical capitalism, however, exploitation so defined—as an unequal exchange of labour time—does not always constitute injustice. For example, what is wrong when an artist sells her art for considerably more frozen labour time—i.e. money—than it took her to produce it? The transaction is transparent, voluntary, and does not involve either side unfairly taking advantage of the other. Even though it is an unequal transaction (when measured in terms of the labour embodied in the objects being exchanged), it is not, to the best of my judgement, an unfair one.

This example, one may object, still involves a person, the artist, *working* for the (higher-than-given) return she receives. Perhaps capitalists benefit unfairly from the unequal exchange of labour time that their ownership of capital enables them to engage in, because qua capitalist they do not work at all. In the simplest of terms: capitalists get something for nothing, and that is unfair.

But here, too, an example shows that exploitation, technically defined, is not always unjust. Consider the following:²⁸ there are two people, Adam and Karl, each of whom owns some capital: Karl owns \$200,000 and Adam \$400,000.²⁹ Assume that each of them has the entrepreneurial spirit and the opportunities to earn a twenty-five per cent return if they decide to work with their capital over the course of a year (e.g. by launching a start-up).³⁰ Further assume that Karl is a man of intellectual pursuits and modest material needs, so that he prefers an annual income of \$30,000 and much time at his disposal, rather than an annual income of \$50,000 and little time at his disposal. Assume also that Adam is an avid shopper, who enjoys extra consumption and does not mind working for it; specifically, he prefers annual consumption of \$120,000 and hard work to annual consumption of \$100,000 and no work.

²⁸ The example is taken from Roemer (1985), altered for exposition but structurally and mathematically isomorphic.

²⁹ These are large but reasonable numbers in the American context: average (though not median) wealth per capita in the US was around \$300,000 in 2015 (Piketty, Saez, and Zucman, 2018, using a Euro to US Dollar exchange rate of around \$1.20 per €1).

³⁰ A high, but not unrealistic rate of return for fully worked capital. According to Forbes, top-performing Silicon Valley venture capital firms, which are very active workers of capital (in that they do not merely make passive investments but take an active role in searching for investment opportunities and supporting the firms that they have invested in) earn an annual rate of return of around twenty per cent (D. Hansen, 2012).

Now, suppose that Karl lends his \$200,000 in capital to Adam. Adam uses this, together with his own \$400,000, to go into business, and after a year increases his \$600,000 of capital to \$750,000. Being a prudent entrepreneur, he does not touch the \$400,000 that make up his original capital, leaving him with \$350,000 to dispose of. He pays Karl back the \$200,000 he borrowed, plus \$30,000 in interest, the going market rate for the loan.³¹ Adam is then left with \$120,000 to spend at will. Karl, in the meantime, did not have to work at all, and can consume the \$30,000 he received in interest without eating into his capital. Since the original capital endowments are preserved, this deal could be repeated for an indefinite number of years.

Karl prefers this arrangement because he gets to enjoy the good life, for which \$30,000 suffice, rather than working with his own capital and earning \$50,000. Adam also prefers this arrangement because he doesn't mind working harder, and that is worth the extra \$20,000 in consumption for him. But now note that, in this equilibrium – which both prefer to the “each works their own capital” scenario – *Karl*, the poorer of the two, is technically exploiting *Adam*, the richer of the two. After all, Karl gets to consume \$30,000

³¹ To derive this interest rate, assume that the only opportunities for those who do not own any capital in this economy is to work in the service sector for \$19,000 per year (low, but not unreasonably so: \$19,000 is approximately the annual income of an entry-level worker at Wal-Mart. For comparison, an annual income on the 2017 US federal minimum wage, \$7.25, comes to around \$15,000). Recall that an entrepreneur is assumed to earn a 25% annual return on the capital that she puts to work. Lenders of capital – in this case Karl – are aware of these facts, and hence charge an interest (in this case, \$30,000 for a loan of \$200,000 for a year) that leaves the borrower with enough return (in this case \$20,000) to make it worth for the borrower to borrow the capital and engage in entrepreneurial activity (for a gross payoff of \$50,000 and a net payoff of \$20,000) rather than not borrow and work in the service sector (for a payoff of \$19,000).

worth of goods and services, while not having laboured at all; Adam gets to consume “only” \$120,000 worth of goods and services, while having laboured for \$150,000.

It would seem odd to call this arrangement unjust: Both sides gain from it, and under reasonable contextual assumptions both sides freely chose to enter it. Even if we are moved to call this example unjust, it would be bizarre to call it unjust *because of the* (technically defined) *exploitation* going on, which after all benefits the poorer cousin at the expense of the richer one. A better candidate for what, if anything, is morally wrong in this example is the unequal ownership of capital that characterises it: were both of them to work equally hard with the capital they started out with, Adam would earn \$100,000 and Karl only \$50,000, for what may be approximately the same amount of effort.³² And were Karl to start out without any capital at all, as the majority of Americans do,³³ he may well be unable to borrow, and could not offer Adam anything other than his labour power. The potential wrong, in other words, must be traced to the justice or injustice of the distribution of wealth—considered in the next section—not to the fact that wage labour under capitalism constitutes an unequal exchange of labour time.

³² Note that these particular forms of unfairness, though assuaged where capitalism has well-functioning credit markets, do not disappear with the availability of lending. Where credit markets exist, the income differential between Adam and Karl, were they both to work equally hard, would be smaller, because Karl could borrow additional capital to work with, but it might still be significant. In quantitative terms, if both work up \$400,000 of capital (Adam’s original endowment, and Karl’s \$200,000 plus \$200,000 of borrowed capital), their net earnings would be \$100,000 for Adam and \$70,000 for Karl, a significant difference of \$30,000.

³³ The net worth of the bottom half of the US wealth distribution is approximately zero (*World Inequal. Database*, 2019).

These examples show that exploitation, technically defined, is not always wrong, even where one side receives a gain without making any labour contribution whatsoever. Where preferences diverge (Adam preferring material consumption, Karl preferring disposable time), a mutually beneficial exchange is likely to be unequal regarding the amount of labour that is exchanged. But as long as that exchange is freely willed, with no fraud or coercion involved, it seems wrong to call it unjust. It follows that demonstrating that an exchange was unequal along the dimension of labour exchanged is not the same as showing that it is unfair or unjust.

Does this show that capitalist exploitation, defined as unequal exchange of labour time, is always unproblematic? Not so. While unequal exchange may not be wrong when abstracted from its social context, there may be other contextual features specific to capitalism that render it unjust.

The most promising argument along these lines revolves around the potentially *forced nature* of unequal labour time exchange under capitalism. This argument, formulated by G.A. Cohen (Cohen, 1995, Chapter 8), runs as follows: just like a robbery is wrong because it is a forced (and unequal) transfer, so exploitation defined as unequal exchange of labour time is wrong because it, too, is forced (Cohen, 1995, p. 199). In particular, the argument continues, workers do not have an ‘exit’ option (Hirschman, 1970): workers can choose *which* capitalist to work for, but the option *not* to work for a capitalist is unavailable, at least for workers taken collectively (Cohen, 1988, Chapter 13). This line of argument appears promising: if the premises can be shown to be correct—in particular that technical exploitation under capitalism is a forced transfer—then the conclusion that

it is unjust seems to follow, even if unequal exchange, as was shown, is largely unproblematic when freely willed.

Are workers in capitalism forced to work for a capitalist? Outside of company towns and very rural settings, few are forced to work for one capitalist in particular. In addition, in the capitalist core many workers have the option of entering into public service, or striking out on a venture of their own. And in many recognisably capitalist countries, though not in the United States, there is a safety net that provides minimal food and shelter for those not working.³⁴

Yet, having multiple options does not rule out the possibility of being forced into one of them. A robbery, after all, also involves options: from telling the robber to kindly mind his own business, to attempting to reason with him, to running away, to complying with his demands. If, reasonably, one chooses to comply, this does not negate the fact that a robbery—a forced and unequal exchange—took place (Cohen, 1988, Chapter 12). The question of whether or not workers are forced into unequal exchange relations therefore is a question about the precise nature of workers' option sets, not about whether more than a single course of action is open to a worker.

Once the concept of “being forced” is parsed in terms of reasonable alternatives and overall option sets, it is no longer a binary question. An alternative option may be *almost*

³⁴ Note, however, that where they are available, unemployment insurance or subsistence payments often come with stigma and onerous conditions (for the British case, see for example the film *I, Daniel Blake*). In addition, being unemployed is correlated with bad outcomes for health, self-esteem, and happiness. Finally, as highlighted in Chapter 8, Section C (in particular pp. 370-375) above, capitalist labour markets appear to require these subsistence payments to be stingy. The option of “not working” is thus, in the vast majority of cases, deeply unattractive.

reasonable:³⁵ what about a worker whose cousin successfully set up a shop a few years ago, perhaps in a neighbouring town, and who could walk the worker through the steps required to also set up shop: finding a location, applying for a bank credit, managing stock and employees, and so on? Given trustworthy and reliable guidance, this may indeed be a reasonable alternative to working for someone else. But then again, it might not: the person's credit rating, her skill set, her personality and experiences, the competitive landscape in her town, all of these will influence whether opening shop is a realistic and reasonable alternative.

It follows: when we adopt the lens of option sets to judge whether a person is indeed forced, it becomes difficult to speak of workers, in the abstract, being forced to work for capitalists. Some, even many workers surely are – those who find themselves with small and constricted option sets – while others are not. Whether or not capitalist exploitation is wrong (separately from the justice or injustice of the distribution of wealth under capitalism), then, depends on contingent, context-specific features. Depending on how restricted a specific worker's option set is, exploitation under capitalism can indeed be the equivalent of robbery; and the uneven distribution of opportunities combined with the absence of unconditional rights to sustenance and shelter (in the United States) means that at least some workers are wrongfully exploited due to the forced nature of their employment. The precise extent and incident of this wrong, however, is an empirical

³⁵ Returning to the robbery example: what if the robber is portly, has a knife rather than a pistol, and (somewhat unprofessionally) reveals his intent before you cross to his side of the road? Are you then forced to hand over your money? Perhaps not: making a run for it could be a reasonable alternative. But what if the street is deserted, you don't know the neighbourhood, and you have trouble running? It all depends.

question that is difficult to answer. Given the salience of individual option sets, there is no easy way of distinguishing those technically exploited workers who are wrongly exploited (because they had no other reasonable option) from those technically exploited workers who are technically exploited without any moral wrong taking place (like Adam in the example above). While exploitation is thus one of the wrongs of capitalism, it is a wrong whose normative weight is difficult to estimate. Taken on its own, it is unlikely to be a decisive consideration when capitalism is evaluated in comparison with feasible alternative social orders.

F. A second wrong of capitalism: inequality

As became clear in discussing the exploitation critique, the distribution of income and wealth under capitalism plays an important role in assessing whether it is a just social order. A common criticism, related to but distinct from the exploitation critique, argues that the distribution of benefits and burdens is not just under capitalism: capitalism produces and reinforces unjust inequalities, whether in income, wealth, social standing, or along other dimensions.

There is little doubt that capitalism produces inequality. Not all kinds of inequality, however, are unjust. Humans differ along many dimensions – hair colour and height, tone of voice and language spoken, number of friends and kinds of hobbies, preferences for food and religion, to name but a few – without this necessarily being a concern of justice (Walzer, 1983). It is not self-evident, then, why differences in income, wealth, or social standing should be unjust; this claim must be argued for, and cannot simply be asserted.

A first argument why the distributive outcomes produced by capitalism are unjust highlights its interaction with pre-existing unjust inequalities: under capitalism, this argument goes, returns accrue to capital that was originally ill-gotten. The reasoning is simple: where an original gain was fraudulent, stolen, or otherwise extracted by force (e.g. Marx, 1992 [1867], Part VIII), the fruits that fall from it are ill-gotten, too. Insofar as ideal-typical capitalism rewards *all* forms of capital, regardless of their history – *pecunia non olet*³⁶ – it perpetuates profitable injustice into the future.

This argument has force. It applies, however, only to “capitalisms with dirty histories” (Cohen, 1995, p. 16). And while much capital has come into the world “dripping from head to toe, from every pore, with blood and dirt” (Marx, 1992 [1867], p. 926),³⁷ and while ‘dirty history’ is certainly not limited to the distant past,³⁸ it is very difficult to determine what proportion of wealth and income owned and earned today stems from ill-gotten gains. Present levels of inequality cannot decide this question either way: as both Nozick (1974, pp. 160-4) and Piketty (2014, *passim*) point out, free markets, even when all participants start with equal endowments, tend towards inequality

³⁶ “Money does not stink.” See also Marx (1992 [1867], p. 205).

³⁷ The creation of labour markets in particular has rarely, if indeed ever, proceeded peacefully (Marx, 1992, Part VIII; Meiksins Wood, 2002, Part III; K. Polanyi, 1944).

³⁸ Profits derived from addiction—whether tobacco, gambling, or painkillers—corruption, natural resource theft (Nili, 2018; Wenar, 2015), tax evasion (Zucman, 2015), or forced labour are all glaring example of dirty history in the present. Concerning the last, according to the ILO, around 40 million men and women work as modern slaves, of which around twenty-five million work as forced labourers—half of which under debt bondage—and fifteen million as domestic workers in forced marriages. These figures skew heavily by age and gender: one in four victims of modern slavery are children and 71% are women (rising to 99% in the area of forced sex work) (ILO, 2017, pp. 5, 18).

over time. High inequality today can thus be the result of ‘clean’ history, dirty history, or a mixture of the two.

Moreover, it is not clear that pointing out dirty histories, whose material rewards capitalism then reinforces and reproduces, condemns capitalism as a social order. Just as it is not obvious whether socialism can be condemned by pointing to the USSR, so it is not obvious whether capitalism can be condemned by pointing to primitive accumulation. A legitimate critique of either social order has to show that the link between the injustices and the social order in question is necessary, not contingent. And while tight links have been established between the rise of capitalism and a number of glaring historical injustices, in particular the dispossession of the British agricultural population (Polanyi 1944), slavery in the American South and the Caribbean, and colonialism in South Asia (Baptist, 2014; S. Beckert, 2015; Inikori, 2002; Wallerstein, 1974, 1980, 1989, 2011; E. E. Williams, 1944), it remains unclear whether these links were necessary or contingent. A strong argument for intrinsic links can be made concerning the creation of capitalist labour markets, both in the core and the periphery (K. Polanyi, 1944, Chapter 14),³⁹ but the case

³⁹ Polanyi points out that in order to create labour markets both in England and in “colonial regions [...] their traditional institutions *must* be destroyed, and prevented from reforming, since, as a rule, the individual in primitive society is not threatened by starvation unless the community as a whole is in a like predicament. [...]. Ironically the white man’s initial contribution to the black man’s world mainly consisted in introducing him to the uses of the scourge of hunger. Thus the colonists may decide to cut the breadfruit trees down in order to create an artificial food scarcity or may impose a hut tax on the native to force him to barter away his labor. In either case the effect is similar to that of Tudor enclosures with their wake of vagrant hordes” (K. Polanyi, 1944, pp. 171-2, italics added). While this does not suggest that capitalism in the *core* was intrinsically dependent on historic injustice in the periphery, it does suggest that capitalism in the *periphery* was intrinsically dependent on historic injustice in the periphery, and capitalism in the core on historic injustice in the core.

looks more complicated for other historic injustices (Clegg, 2015, pp. 295–299).⁴⁰ As a result, considerations of historic injustice speak against capitalism, but, as with the exploitation critique, their weight is difficult to evaluate: capitalism perpetuates profitable past injustices into the future, and the creation of labour markets, at least, appears to necessitate historic injustices, but it is difficult to judge how important historical injustices are in the distribution of wealth and income today.

A second critique related to distributive justice is that, against what many of its supporters argue, capitalism does not recognize merit: market earnings are not fair or just. As I showed above, market rewards do not track any substantive conception of merit: a person's earnings may increase by a factor of ten, for example, on the basis of shifting tastes or technologies, without them having done anything to deserve the fortune of a ten-fold increase; or they may decrease by 90%, for the same reasons, without them having done anything to deserve the adversity of doing with but a tenth of previous income. Due to the price system's forward-looking nature, merit, as a relationship between past attainment and present reward, runs orthogonal to it and is at best incidentally rewarded.

While this observation is descriptively correct, it is not yet obvious whether it constitutes a strong normative critique. For what this observation shows is that market

⁴⁰ Concerning the specific linkage of British textile industrialists and slavery in the American South there is no doubt that the former *did in fact* depend on the latter. It is unclear, however, whether they *had* to do so, i.e. whether the dependence was contingent or necessary. For example, “Beckert himself shows that Britain’s cotton industry was capable of doing without slave-grown cotton during and after the American Civil War” and “It is also questionable whether the Northern US economy was ever “dependent” on slave-produced cotton, either as an input to manufacturing or as a revenue generating export” (Clegg, 2015, p. 296).

outcomes are normatively arbitrary; to show that they are unjust, a theory of justice is required against which to judge them.

The literature around distributive justice is vast,⁴¹ particularly since John Rawls' *Theory of Justice*. Disagreement is endemic at multiple levels: does justice require equality (Cohen, Roemer, Dworkin), sufficiency (Frankfurt, 2015), a more complicated set of patterned principles (Rawls, Walzer), or simply historical principles and side constraints (Nozick)? Does it obtain primarily between members of a polity (D. Miller, 2007; Rawls, 1999), or at the global level (Beitz, 1975; Caney, 2005; Pogge, 1994)? If justice demands equality, does it demand equality of outcomes (Carens, 1981) or of opportunities (Roemer, 2017)? Equality in welfare (Arneson), resources (Dworkin), capabilities (Sen, Nussbaum), advantage (Cohen), or social standing (Anderson, Scheffler)?

It is not possible to settle these disputes here. This complicates my evaluation of capitalism from the perspective of justice, for it means that there is no undisputed theory of justice against which to hold it up. Reducing this complication, however, contemporary capitalism in the United States appears as unjust against practically all the theories of justice that have been withstood critical attention in the literature.

First, the rise in income inequality seen in the United States since the nineteen seventies⁴² is normatively problematic when held up to luck egalitarianism: it has been

⁴¹ Starting from Rawls (1971), some of the canonical contributions include Nozick (1974), Sen (1980, 1992), Dworkin (1981a, 1981b), Carens (1981), Rae (1983), Walzer (1983), Cohen (1989, 2008), Arneson (1989), Roemer (1993, 1998), Anderson (1999), and Scheffler (2003).

⁴² US income inequality has increased dramatically since the nineteen seventies, with the share of total income going to the top decile increasing from just below 35% to close to 50% of national income. This is mostly driven by rising *wage* inequality (Piketty, 2014, pp. 298-9), and by the increase in the total income (both

accompanied by a decline in wage mobility over the course of individual careers (Kopczuk, Saez, & Song, 2010) and coexists with low inter-generational social mobility (Jäntti et al., 2006; Jäntti & Jenkins, 2013; see also Mitnik, Bryant, Weber, & Grusky, 2015).⁴³ Unless we believe that children of low-income families have become more content with being low-income earners themselves, so that the decline in intra-generational wage mobility reflects choice, this suggests that the influence of luck on earnings has increased, against what luck egalitarian justice demands. Indeed, recent research by Peichl et al. (2015) has shown that in the United States inequality of opportunity accounts for nearly half of all income inequality.

This increase in income inequality has been accompanied and further augmented by a “Great Risk Shift” (Hacker, 2006): risks that were previously carried collectively (whether by the state or large companies), such as pension risks or the risk of sudden loss of income, have been shifted onto individuals. This means that fewer options exist for insuring against bad outcomes in inequality of opportunity lotteries. Instead of reflecting a choice not to insure, unpredicted adversity, itself produced by mechanisms intrinsic to capitalism (e.g. sudden shifts in relative prices, periodic recessions leading to unemployment, or financial crises impacting pensions portfolios), thus becomes an

labour and capital income) of the top one per cent. The rise in top one per cent incomes explains approximately ten percentage points of the thirteen percentage points of national income that the top ten per cent as a whole have gained since 1970; i.e. more than three quarters of the gain to the top ten per cent went to the top one per cent; (Piketty, 2014, figures 8.7 and 8.8, pp. 299-300).

⁴³ Mitnik et al. draw on high quality administrative data and conclude that their “estimates are at the high end of the range of estimates reported in the existing literature on economic persistence,” i.e. that intergenerational mobility is on the low end of the estimates reported in the literature (Mitnik et al., 2015, p. 70). See also footnote 25 in Chapter 5 above, at p. 256.

unjustified stroke of misfortune, which American society could shoulder collectively, but has decided – unjustly – not to.

In other words, capitalism as it actually exists in the United States today systematically produces injustices when held up against a luck egalitarian theory of justice: on average, roughly half of all income inequality is driven by inequality of opportunity, i.e. brute luck, not choice; intra-generational wage mobility appears to have declined; and deliberate risk-shifting has subjected Americans to life risks, such as old-age poverty or unemployment, that, again being due to luck not choice, could and should be carried collectively. Seen against a theory of justice that maintains “inequalities in the advantages that people enjoy are acceptable if they derive from the choices that people have voluntarily made, but [...] inequalities deriving from unchosen features of people's circumstances are unjust” (Scheffler, 2003, p. 5), this constitutes unacceptable injustice. Injustice, moreover, for which remedies are readily available, whether via the tax system, social insurance, reforms to the education system, or deeper transformations such as the socialization of capital income.

Second, the rise in US income inequality since the nineteen seventies, driven by a return to a purer form of capitalism, also registers as injustice against a Rawlsian theory of justice. Piketty, Saez, & Stantcheva (2014) calculate what tax rates, based on effort elasticities, would maximize public revenue. They estimate top marginal tax rates between 57% and 83% for high incomes (p. 267, table 5). Based on their findings, the low tax regime of the post-Reagan US is not to the greatest benefit of the worst-off: the post-tax income of the worst-off could be boosted significantly through greater socialization of

income through the tax system. Moreover, since high taxes tend to equalize the distribution of market incomes (Piketty, Saez, & Stantcheva, 2014, pp. 251-5), while having negligible effects on growth (ibid., pp. 255-8), the pre-tax income distribution itself would in all likelihood become more equal, too, without overall incomes dropping.⁴⁴ A return to the high top marginal tax rates that obtained for most of the twentieth century would thus likely lead to improvements in social standing, self-esteem, and other correlates of market income for the worst off.⁴⁵ Measured against Rawls' *Theory of Justice*, then, the post-nineteen seventies rise in income inequality and decline in top marginal tax rates in the US is unjust: it did not benefit the worst off. Moreover, as with the distributive injustice visible against a luck egalitarian standard, here too remedies are readily available, most obviously in the tax code.

Third, seen against relational egalitarianism (e.g. Anderson, 1999 or Scheffler, 2003), the social consequences of capitalism's unleashing have been particularly unjust: when analysed qualitatively, the rise of inequality charted by Piketty and others constitutes not so much the stretching of a social fabric, where material inequality widens but social

⁴⁴ Piketty, Saez, & Stantcheva (2014) find "no evidence of a correlation between growth in real GDP per capita and the drop in the top marginal tax rate in the period 1960 to the present" (Piketty et al., 2014, p. 232). This creates a presupposition that increases in top marginal tax rates would not harm average GDP per capita growth. Moreover, Leonhardt and Quealy (2014) observe that the rise in US inequality has failed to produce higher growth rates specifically in the incomes of the least advantaged groups in society. Until reliable evidence is produced to the contrary, the presumption must therefore be that the lot of the worst-off can be improved through straightforward redistributive taxation in the US, that this would not harm overall GDP growth rates, and that this would not harm income growth rates of the worst-off in particular.

⁴⁵ The top marginal US federal income tax rate exceeded 60% in 54 years in the twentieth century, ranging from 67% to 73% from 1917 to 1921, and from 63% to 94% between 1932 and 1981. The simple average for the twentieth century is 54%, or 62% if the years prior to 1913 are excluded (a federal income tax was constitutionally prohibited prior to the Sixteenth Amendment, ratified in 1913).

links remain, but the *dissolution* of precisely this fabric, particularly at the lower end of the socio-economic spectrum. Recent ethnographic research on the most formative years of American life, childhood, makes this point vividly.⁴⁶ Consider the following description of how a wealthy boy in the nineteen fifties related to his peers.

“Frank’s parents were the wealthiest, best educated, and most socially prominent parents of the class of 1959. Nevertheless, the social distance between Frank’s family and those at the bottom of the socioeconomic ladder was much shorter than is common in America (even in Port Clinton) today. [...] Despite his family’s affluence, Frank worked summers at the family restaurant, starting at fifteen, scraping paint and doing cleanup work with his high school buddies. And his family carefully downplayed their social status. ‘If you’re in Port Clinton with a group of boys who can afford a Coke, that’s what you are to order.’ [...] In high school, Frank interacted with his classmates as a social equal” (Putnam, 2015, p. 5).

This description conspicuously features a boy. No doubt, relations of social equality did not obtain between men and women, nor between white residents and residents of colour. Nevertheless, the social fabric of Port Clinton in the nineteen fifties was broadly speaking egalitarian across class lines.

In contrast, children and young adults born in the nineteen nineties face a world of stark social polarisation along class lines: (i) social networks,⁴⁷ (ii) the availability of

⁴⁶ It should be born in mind that this ethnographic evidence is of relatively small scale, consisting of interviews with a total of only 107 young adults and their parents (Putnam 2015, p. 265). Whether it generalizes to American society at large is therefore still an open question. Nevertheless, until evidence to the contrary is found, Putnam’s findings stand as a first guide to the wider picture.

⁴⁷ Richer parents have more close friends (Putnam, 2015, figure 5.1, p. 208), and more ‘weak ties’ (figure 5.2, p. 209), which are particularly important for finding jobs and other opportunities (M. S. Granovetter, 1973). One might think that the internet is a levelling factor here, erasing such informational asymmetries, but this appears not to be the case: “After talking with scores of teenagers nationwide about how they use the Internet, the ethnographer Danah Boyds concludes that offline inequalities carry over online” (Putnam,

mentors and general life ‘savvy’,⁴⁸ (iii) neighbourhoods,⁴⁹ (iv) schooling,⁵⁰ and (v) religious community⁵¹ all skew heavily by social class. While relations between men and women as well as, to a lesser extent, between different ethnicities have grown more egalitarian, chasms of social hierarchy have opened up between classes. Seen against relational egalitarianism, the unleashing of capitalism in America since the nineteen seventies thus correlates with a grave injustice: even while more and more of those who

2015, p. 212). The mechanism appears to be that, because information as such is no longer the binding constraint, instead the binding constraints become filtering (of opportunities) and signalling (of competence), for both of which access to helpful people is more important than access to (sending or receiving) information over the internet.

⁴⁸ “Affluent kids get substantially more and better informal mentoring” (Putnam, 2015, p. 215). While the growth of formal mentoring programmes helps children who would otherwise not have informal mentors, the size of formal mentoring programmes is too small to fully offset inequalities in informal mentoring: American children receive eight times as much informal as formal mentoring (pp. 214-5). This discrepancy in mentoring, as well as other inequalities in access to information mean that “[poor] kids are baffled about school practices, two- and four-year colleges, financial affairs, occupational opportunities, and even programs (both public and private) specifically designed to assist kids like them. [...] One poignant example from our fieldwork arose when a working-class dad asked if he could bring along a younger daughter to our interview with his son, just so she could meet an actual college graduate” (p. 216).

⁴⁹ Neighbourhoods have become more homogeneous by income and class (Murray, 2012, Chapter 3). They drive education outcomes and thereby life prospects. Houses near good public schools cost \$200,000 more than comparable houses near bad public schools. Hence even the American *public* school system is implicitly privatised, via residency-based access to schools (Putnam, 2015, p. 164).

⁵⁰ On average, Putnam concludes that schooling neither contributes greatly to, nor alleviates, the opportunity gap that is created by the other factors listed above (Putnam, 2015, pp. 162-3). However, a clear exception to this statement is the role and development of extracurricular activities: participation (and especially leadership) appears to affect life outcomes: “Jocks turn out to be brainy too” (p. 175; though it is unclear if this is causal or correlational). There is a class gap in participation (p. 177, figure 4.3), which has widened since 1980 as lower class participation has dropped from 75-80% to 65% (in 2005). The gap is explained by a lack of transport, lack of encouragement, as well as a lack of available activities in lower class high schools (p. 178). Income inequality also enters the picture directly, via the shift to “pay to play” funding modalities. These pushed out *one third* of children from families with yearly incomes below \$60,000 but only ten per cent of children from families with incomes above \$60,000 (pp. 180-1).

⁵¹ Church attendance is positively correlated to parental income. Both rich people and their children go to church more, and thus have stronger access to yet another support and informational network (Putnam, 2015, pp. 223-5 and figure 5.7).

were excluded from the (relatively) egalitarian social fabric that obtained after World War II were gradually included in it, the fabric itself has frayed into a stratified and socially unequal society.

Whether this dissolution of the social fabric was directly caused by the return to a purer form of capitalism remains an open question. But until evidence is presented to the contrary, the striking temporal coincidence as well as the alignment of social polarization along class lines, rather than lines of race or gender create a presumption that the return of capitalism played an important role in this injustice.⁵²

Finally, against sufficientarian standards of justice, too, American capitalism looks unjust, and has become more so since the nineteen seventies. While the American aggregate poverty rate was falling rapidly during the nineteen sixties, declining from more than twenty per cent in 1960 to around twelve percent in 1970, it has hovered between ten and fifteen percent since then, increasing cyclically with major recessions and declining in recoveries (Fontenot, Semega, & Kollar, 2018, p. 11, figure 4). The number of people in severe poverty – at or below 50% of the federal poverty level – did not just hover, but in fact increased from around three to four per cent in the nineteen seventies to around six per cent today (U.S. Census Bureau, 2019). In comparative perspective, moreover, poverty is more than twice as pervasive in the US as it is in continental Europe, where six to eight per

⁵² “In the 1970s, the two-tier family structure was closely correlated with race, but since that time it has become increasingly associated with the parents’ social class more than their race”; “By the opening of the twenty-first century, the class gap among students entering kindergarten was two to three times greater than the racial gap”; and “upper-middle-class kids – even across differences of race, gender, and region – look and sound remarkably similar across the nation. The same goes for working-class kids” (Putnam, 2015, pp. 72, 162, 273).

cent of the population are in relative, and one to five per cent in absolute, poverty (Iceland, 2013, figs. 9, 10, pp. 85, 87). While the American transition to a purer form of capitalism in the seventies thus did not increase the total number of poor, it coincided with a levelling off of a previously falling poverty rate, an increase in severe poverty, and a poverty rate that remains stubbornly higher than in Western Europe. Lastly, and perhaps most strikingly, between 1980 and 2010 life expectancy in the US has fallen for the poorest quintile of men, and for the poorest *two* quintiles – i.e. a full forty percent – of women (Alan Smith & Cocco, 2017, figure 2). The fall was particularly dramatic for poor women: the lowest-earning quintile lost approximately three years of life expectancy over this period. In a time where average per capita health spending has increased from around \$1,000 to \$8,000 dollars per person and average life expectancy from around 74 to 78 years (Alan Smith & Cocco, figure 1), this is truly remarkable.⁵³

Whether evaluated against luck egalitarianism, a Rawlsian theory of justice, relational egalitarianism, or sufficientarianism, then, American capitalism exhibits severe injustices. While precise causal connections are (and always will be) disputed, the alignment of many of the trends covered above with the unleashing of American capitalism after the nineteen seventies is striking. Of course, what injustices are most glaring, what

⁵³ Increase in average per capita healthcare spending from 1980 to 2010, in inflation-adjusted 2010 dollars (Alan Smith & Cocco, 2017, figure 1). Per capita spending is again a misleading average. The lowest-spending half of the population, in terms of healthcare expenditure, accounts for only 2.8% of total spending (Alan Smith & Cocco, 2017, figure 3). This percentage is difficult to interpret, however: it could be that this is mostly a reflection of poor people not receiving the healthcare they need, or it could be a reflection that 50% of the population is so healthy as to not need much healthcare. I have not found the data needed to separate out these two explanations.

precisely should be done about them, and by whom, are questions on which no philosopher or theorist can (or indeed should) offer conclusive pronouncements. Nevertheless, this section shows that, in addition to capitalism not being a demand of justice, a wide range of theories of justice show capitalism to be unjust. Justice demands deviations from capitalism and pure private sovereignty over the division of labour.

Having said this, even given that justice does condemn capitalism, once again it is not obvious that this is a conclusive consideration. Bringing distribution in line with luck egalitarian requirements, for example, may have sufficiently negative consequences for prosperity and/or freedom as to be undesirable, all things considered, for those who place very high value on freedom and prosperity. I strongly doubt this, but whether this is so depends both on judgements about the relative importance of justice, freedom, and prosperity as values, and on judgements about the “exchange rates” at which these values are de facto traded off between different social orders. While considerations of justice make for a stronger case against capitalism than exploitation, it therefore remains unclear whether this case is conclusive.

G. A third wrong of capitalism: (moral) corruption

Before discussing what, if anything, can be said about capitalism all things considered, a final critique remains to be analysed: the corruption critique. A long line of writers and thinkers from across the political spectrum have criticized capitalism for its corrupting effects on human habits, beliefs, and social practices. Instead of focusing on the material and distributive effects of capitalism, critiques along this line foreground its alienating,

commodifying, stunting, community- and character-corroding, or otherwise morally corrupting effects.

These critiques build on two insights: ideal-typical capitalism encourages what is profitable and erodes what is loss-making, in blindness to what is good or right, virtuous or proper. Wherever the former and the latter conflict, moreover, what is profitable dominates what is moral.

Further, ideal-typical capitalism is without limit. There is nothing in it that restricts what is to be commodified, that caps accumulation, or that allows an answer to the question: “How much is enough?” (Skidelsky & Skidelsky, 2012).

This results, critics in this vein assert, in capitalism forging an “iron encasing,” in which “the material goods of this world hold an increasing and finally inescapable power over man, as never before in history.”⁵⁴ Character is corrupted, the meaning of practices, including work, is hollowed out, and some of the core concepts at the heart of democracy and politics are warped beyond recognition where capitalism becomes dominant in a society.

Taking these assertions in turn, first, capitalism is said to lead to the corruption of character due to its reliance on, and fostering of, fear and greed as the characteristic motivations for productive activity (Cohen, 2009, pp. 39-41). Since everyone under

⁵⁴ Translation my own. Due to Talcott Parson’s 1930 translation, the original German, *stahlhartes Gehäuse*, is usually rendered as “iron cage.” However, the literal translation of *Gehäuse* is encasing, chassis, or casing of steel. Cage corresponds to the German word *Käfig*, a word that Weber chose not to use. Note that, in the same passage, Weber presciently speculated that capitalism’s grip on humanity is likely to “last until the final ton of fossil fuel is burnt” (Weber, 2004 [1920], p. 201).

capitalism is also a consumer, it is also said to erode self-control and to inflame our baser desires, in particular through ever-more intrusive advertising and behavioural modification (Bell, 1975; Zuboff, 2019). As a result, “Man is dominated by the making of money, by acquisition as the ultimate purpose of his life” (Weber, 1992 [1905], p. 18).

These assertions are difficult to evaluate. Indicators of disinhibited behaviour have generally declined rather than increased in recent decades, even as capitalism has become more dominant in US society: consumption rates of alcohol and cigarettes, cocaine and heroin, LSD and MDMA, and other illicit drugs have declined among teenagers.⁵⁵ Rates of crime have declined from previous peaks, although unevenly and not to their previous lows.⁵⁶ Americans have started having sex later in life, with decreasing frequency and more

⁵⁵ Johnston et al (2019), show declines in teenage use of non-marijuana drugs (p. 10), inhalants (e.g. glue) (p. 16), LSD (p. 18), cocaine (p. 20), crack (p. 22), amphetamines (p. 24), crystal meth (p. 26), heroin (p. 28), and MDMA (p. 36). Declines are also visible in alcohol consumption (p. 38), cigarettes (p. 40), and smokeless tobacco (snuff and chewing tobacco, p. 42), though vaping has increased significantly over the four years for which data is available (2014-8, p. 44).

⁵⁶ The overall violent crime rate (incidents of murder, rape, robbery, and aggravated assault per 100,000 Americans per year) has declined from a peak of 758 in 1991 to 394 in 2017. Its previous low was 158 in 1961. The property crime rate (incidents of burglary, larceny-theft, and motor vehicle theft) has declined from a peak of 5,353 in 1980, and a second peak of 5140 in 1991 to 2362 in 2017. Its previous low was 1726 in 1960 (data from FBI, 2018, 2019).

diligent use of contraception and protection.⁵⁷ Marriage and divorce rates, finally, have both declined, though again unevenly.⁵⁸

It is unclear, however, whether all of these trends are to be welcomed; the demise of “sex, drugs, and rock’n’roll” appears to be driven, at least in part, by a transformation of childhood and adolescence into an intensely supervised period increasingly optimised for human capital formation (Putnam, 2015; Markovits, 2019) (see also Chua, 2011). In addition, averages may well be misleading here: among the poorest Americans, who are excluded from high-income opportunities and for whom the inculcation of striving and self-controlled behaviour may hence bring only limited rewards, certain forms of disinhibited behaviour have in fact increased.⁵⁹ Among the bourgeoisie, on the other hand,

⁵⁷ Abma and Martinez (2017) document declines in the percentage of fifteen to nineteen year old Americans who have had sex (from 51% for women and 60% for men in 1988 to 42% for women and 44% for men in 2011-15, figure 1, p. 4), while the use of contraception has increased (from 80% among women and 84% among men in 1988 to 90% among women and 95% among men in 2011-15, figure 6, p.9). According to Twenge et al. (2017, p. 2389), “American adults had sex about nine fewer times per year in the early 2010s compared to the late 1990s.” However, while no reliable data is available concerning pornography consumption, this appears to be an potential outlier from the otherwise declining patterns. Hald and Malamuth (2015) have found “consumption rates in the range of 50–99% amongst men and 30–86% amongst women”, though these numbers are not US-specific and subject to high uncertainty. Reliable historical data is not available.

⁵⁸ The marriage rate has declined from around ten marriages per 1000 people per year (1980) to around seven (2016). The divorce rate has declined from around five per 1000 people per year (1985) to around three (2016) (OECD, 2019). The decline in marriage skews heavily by education: whereas in 1990 the gap between those with high school or less education and those with bachelor’s or more was six per cent (63% of the former being married at age 25 or older, 69% of the latter), by 2015 the gap had risen to fifteen per cent (50% versus 65%) (Parket & Stepler, 2017). Divorce rates, too, skew by education: 78% of first marriages among those with at least a bachelor’s degree last twenty years or more, but only 40% among those with high school or less (Wang, 2015)

⁵⁹ Kochanek, Arias, and Bastian (2016) find that increases in suicide, alcohol poisoning, and drug overdoses have led to falling life expectancy among the non-Hispanic American white population aged 25-44. Case and Deaton (2017) document a wider increase in “deaths of despair” among Americans aged 50-54 (figure 5) as well as across the age distribution (figure 7), and show that this “triggered by progressively worsening

the transformation of childhood into a drill yard for market-conformity has gone to extremes: “In fact, looking at the idealized middle-class family of today, one is tempted to speak of the rise of a new protestant ethic leading to ever more detailed rationalization of everyday life” (Streck, 2016, p. 220).⁶⁰ Gently declining averages in disinhibited behaviour may therefore mask a polarisation of childhood practices and socialization more generally across American society, in which neither of the two extremes that underline the (gently declining) average may be conducive to reasonable conceptions of the good life.

Second, capitalism is said to hollow out the meaning of practices. By a practice I mean, following Alasdair MacIntyre’s definition, “any coherent and complex form of socially established cooperative human activity,” including both activities ordinarily classified as work and ordinarily classified as leisure. Practices in this sense are key components to any substantive conception of the good life, or indeed any form of Aristotelian, perfectionist ethics.

A crucial feature of MacIntyre’s definition is that practices seek to realise goods that are defined *internal* to the practice in question, through trying to achieve “standards of excellence which are appropriate to, and partially definitive of” the activity of the relevant

labor market opportunities at the time of entry for whites with low levels of education” (p. 397).

⁶⁰ Perhaps the most colourful example of this transformation of childhood is the emergence of early education consulting. This industry includes the improbable role of ‘nursery consultant,’ (£290 per hour) whose job it is to “get the infant on the right track,” because “a good nursery is viewed as the first step in an educational chain, ending in a top university” (E. Jacobs, 2015), as well as that of “playdate coaches” (\$450 per hour) whose task it is to hone the social skills of four year olds in order to prepare them “for admission to New York’s elite kindergartens” (E. Jacobs, 2013). Similar patterns can be traced in the transformation of high school and college, with the growth in career counselling and the strategic optimisation of extracurricular activities as leading indicators. See also Markovits (2019, *passim*).

practice.⁶¹ Capitalism tends to hollow out practices, the criticism then goes, because it replaces practice-internal standards of excellence and attainment with a single practice-external standard: profitability. A professional chess player who relies on chess to pay the bills, for example, can ill-afford to focus on the beauty of the game if this comes at the expense of winning. Nor can a carpenter afford to beautify the hidden parts of the furniture she is crafting, if the costs of doing so are greater than the additional sales value created. To the extent that beautiful strategies are also winning strategies, this need not be a problem. However, insofar as beautiful strategies, practice-internal goals, or other features of cherished practices are profit-reducing, market competition places erosive pressures on them.

Changes in technology or preferences can convert profit-neutral practices into profit-inhibiting, and hence threatened, practices. Privacy serves as a case in point, while simultaneously exhibiting a limitation of the argument. Invading privacy used to be marginally, if at all, profitable, so that pressure for the erosion of privacy, where it came at all, came from political actors, rather than profit-seeking firms. However, the rise of cheap data gathering and processing technologies has made it possible to turn data and attention into profit, placing privacy under severe pressure from profit-seeking firms (Wu, 2016; Zuboff, 2019). Tellingly, however, while it has led to an erosion of privacy, it has not

⁶¹ In the full definition, a practice is “cooperative human activity through which goods internal to that form of activity are realized in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity, with the result that human powers to achieve excellence, and human conceptions of the ends and goods involved, are systematically extended” (MacIntyre, 1981, p. 187).

eliminated it: in the European Union, privacy advocates have won important victories against commercial interests,⁶² and even in the United States a backlash is underway.

While the hollowing out of practices appears to be an intrinsic feature of capitalism, we cannot, therefore, conclude that it will always proceed unopposed and successfully. Moreover, not all practices are worth preserving: tradition and history may sanctify exploitative or unjust practices, just as they may give meaning to morally neutral or valuable ones.

Finally, critics argue that capitalism warps and corrupts some of the core concepts at the heart of politics, and particularly democratic politics, including our understanding of the nature and purpose of the state and what it means to be a person and a citizen (Brown, 2015). Harking back to the dynamic of water and oil, this form of corruption is not just morally concerning, but it also constitutes an additional way in which capitalism tends to desiccate and hollow out democracy over time. In particular, where capitalism triumphs and its table of values prevails, Brown asserts, the state's purpose becomes re-defined as guarantor of economic prosperity. The yardstick by which success and legitimacy are measured then "becomes bound exclusively to economic growth, global competitiveness, and maintenance of a strong credit rating" (Brown, 2015, p. 40). Further, "the expressly and intentionally antipolitical language of governance [...]"

⁶² See for example Max Schrems's privacy complaints against Facebook, which succeeded in bringing down the "Safe Harbour" agreement that had previously regulated data privacy for American firms operating in Europe. As a direct result, the European Union passed the General Data Protection Regulation (GDPR, adopted in 2016, effective as of 2018), which considerably strengthened privacy and tightened data management requirements.

becomes the lingua franca of the state, [...] indeed, of all public and private enterprise” (Brown 2015, p. 77). Although politics in the sense of non-market struggle over power persists, insofar as it is then measured against the paradigm of “governance” it becomes perceived as false and tainted, “full of ranting and posturing, emptied of intellectual seriousness, pandering to an uneducated and manipulable electorate and a celebrity-and-scandal hungry corporate media” (Brown, 2015, p. 39) (see also Streeck, 2014, 2016).

Similar re-interpretations are visible, Brown argues, for the concept of the citizen: when capitalism in its neoliberal form prevails, the human is no longer seen as a social or political animal, but as a bearer of human capital. At the most general level, the end or purpose of life then becomes the maximisation of the value of one’s human capital, and “no longer is there an open question of how to craft the self or what paths to travel” (Brown, 2015, p. 41). The maximisation of one’s human capital, understood as an investment portfolio, becomes the only acceptable end, and any deviation from it is costly.⁶³ At the level of daily life, “This is one of the many reasons why institutions of higher education cannot now recruit students with the promise of discovering one’s passion through a liberal arts education” (p. 41). Once the “humans as bearers of human capital” view becomes pervasive, it is reflected in “every college and job application, every package of study strategies, every internship, every new exercise and diet program” (p. 36). All of these

⁶³ “Indeed, no capital, save a suicidal one, can freely choose its activities and life course or be indifferent to the innovations of its competitors or parameters of success in a world of scarcity and inequality” (Brown, 2015, p. 41).

become oriented towards the achievement of “value,” and structured in a recognisably “investment-return maximisation” fashion.

These claims are made at a high level of generality and abstraction. It is possible, however, to identify specific mechanisms through which these redefinitions occur. These include administrative policy changes, often originating in the private sector before being imported into the public sector,⁶⁴ for example the devolution of large-scale problems on smaller, weaker entities;⁶⁵ the introduction of ‘responsabilization’ alongside devolution;⁶⁶ or the spreading of best practices and benchmarking⁶⁷ (Brown, 2015, Chapter 4). The role

⁶⁴ New Public Management is a classic example: introduced in the UK in the nineteen eighties, its “explicit aim was to transfer private-sector management methods to public services and to employ economic techniques such as incentivization, entrepreneurialism, outsourcing, and competition for public goods and services” (Brown, 2015, p. 124). This can be seen as an example of the erosion of territorial truces discussed in Chapter 2, section H above (p. 117).

⁶⁵ “Devolution frequently means that large-scale problems, such as recessions, finance-capital crises, unemployment, or environmental problems, as well as fiscal crises of the state, are sent down the pipeline to small and weak units unable to cope with them technically, politically, or financially” (Brown, 2015, pp. 131-2). In particular, devolution is a powerful tool to create race-to-the-bottom dynamics (see for example Brown’s example of devolving responsibility for paying employee benefits to individual academic departments, with the consequence of strongly incentivising the hiring of part-time teaching staff—who do not cost the department any benefits—without having to promulgate this as a conscious goal. Brown, 2015, p. 132), an arrangement “at once muscular in its normative enforcement and diffuse in its organization.” Note the similarities between the causal mechanism here and that at play in commercial federations (as discussed in Chapter 3, Section D, and Chapter 4 above).

⁶⁶ “Responsibilization tasks the worker, student, consumer, or indigent person with discerning and undertaking the correct strategies of self-investment and entrepreneurship for thriving and surviving” (Brown, 2015, pp. 132-3). In other words, it places the expectation on workers/students/consumers etc. that they will act as “rational economic agents.” Alongside this expectation, which already encourages people to perform this particular role of “homo oeconomicus,” come behavioural incentives, such as tying welfare payments to the active search for jobs (or the symbolic act of renaming “Unemployment benefit” into “Jobseeker’s Allowance”). This reveals that humans must actively be brought in line with what neoclassical economic theory claims, falsely, is the “natural” structure of human motivation.

⁶⁷ The mechanism of Best Practices is particularly insidious. Because these are “practices” rather than purposes or missions, they are formally non-normative. But as Brown points out, “this is only the surface of the matter” (Brown, 2015, p. 136): Best Practices presume a separation between practice and “product” (or goal), which allows them to travel from industry to industry and from the private sector to the public sectors.

of courts and legal judgements in economizing new spheres and practices (e.g. political speech, as mentioned above) has also been prominent, in particular in the US (see Brown, 2015, chapter 5, and Chapter 3, section D above). Lastly, particularly concerning the re-definition of citizenship and humanity, it is above all the transformation in higher education that is responsible for the dissemination of neoliberal, capitalist mental models (Brown 2015, Chapter 6).

Nevertheless, despite identifying clear mechanisms, in particular the contrast between capitalism's instrumental rationality and any form of substantive, non-utilitarian morality, the overall normative weight of this critique is difficult to estimate. This is not necessarily because a comprehensive theory of the good life must first be defended, against which corruption can then be understood and measured. As both Polanyi and Weber have shown, it is possible to criticize the instrumental rationality of capitalism by showing how it conflicts with *any* non-market conforming conception of the good life (Rogan 2017, Chapter 2, Conclusion). Demonstrating that it conflicts with *one* such conception in particular is therefore unnecessary and supererogatory.

Instead, the critique is difficult to evaluate because the social and interpretive-linguistic consequences of capitalism are complex and difficult to ascertain. Counterbalancing some of the effects outlined above, defenders of capitalism argue that it

In doing so, they work against the idea that there are specific norms or practices necessarily specific to a particular sector or activity (e.g. a "civil service ethos"). In virtue of their very structure, Best Practices push the idea of "achieving competitive advantage" as a master-goal, and thus subtly displace any other goals. In sum, "it is through carrying market values while claiming only to be techniques that best practices promulgate certain norms and foreclose arguments about norms and ends" (Brown, 2015, p. 141).

systematically encourages virtues like diligence, honesty, friendliness, and openness (Brennan, 2014, esp. pp. 32-4; McCloskey, 2006; Mill, 1909 [1848]).⁶⁸ This need not involve denying that “the butcher, the brewer or the baker” serve us “from regard to their own interest” (Adam Smith, 1976 [1776], p. 27); but an apologist may then add, harking back to Hayek’s variant of the desert argument, that the butcher serves us because it is *through* turning a profit that she knows that she is making a productive contribution to society, that she is serving her fellow citizens. Indeed, it is often highlighted that capitalism “places individuals into relationships with each other, because it is a regime that makes sense only if its subjects relate to one another”; capitalism “remains, all in all, a factor promoting socialization, a means of connecting human beings, even of creating fraternity or, in any case, mutual recognition” (Lévy, 2008, p. 15).

Once we adopt a comparative perspective, this empirically-driven response to the corruption critique gains further force: John Maynard Keynes, no friend of the ethos of capitalism, observed that not only “are [there] valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition”, but also that “dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth

⁶⁸ J.S. Mill: “The economical [sic] advantages of commerce are surpassed in importance by those of its effects which are intellectual and moral. It is hardly possible to overrate the value, in the present low state of human improvement, of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar. [...] And it may be said without exaggeration that the great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race” (Mill, 1909 [1848], pp. 581-2, Book III, Chapter 17, §5.)

[...]. It is better that a man should tyrannise over his bank balance than over his fellow-citizens; and whilst the former is sometimes denounced as being but a means to the latter, sometimes at least it is an alternative” (Keynes, 2015 [1936], p. 254). Finally, there is some evidence that an extension of the market does not always erode non-market activities, and that it does not always work against widely accepted ideas of the good life. In developing countries, for example, the integration of agriculture and rural life into larger markets has sometimes boosted school attendance,⁶⁹ and has supported rather than undermined gender equality.⁷⁰

To a significant extent, then, the success or failure of the corruption critique turns on empirical questions: there is little doubt that capitalism encourages behaviour and characteristics that are profit-maximizing; but whereas apologists then argue that honesty, effort, and ethical behaviour are generally profit maximizing, critics argue that, to the contrary, it is greed, dishonesty, and immoral behaviour that is generally profit maximizing. The former cite studies showing greater generalized trust where markets are

⁶⁹ “[M]any believed that poor peasants would respond to the greater economic opportunities presented by globalization by taking their children out of school and putting them to work. [...] But I found that the opposite was true. It turned out that in many instances, the higher incomes realized as a result of globalization – the rising earnings of rice growers in Vietnam, for example – spurred parents to keep their children in school. After all, they no longer needed the meager income that an additional child’s labor could provide” (Bhagwati, 2008, p. 2).

⁷⁰ “[I]ndustries that produce traded goods and services face intensified international competition. This competition has reduced the yawning gap in many developing countries between the compensation paid to equally qualified male and female workers. Why? Because firms competing globally soon find that they cannot afford to indulge their pro-male prejudices. Under pressure to reduce costs and operate more efficiently, they shift increasingly from more expensive male labor to cheaper female labor, thus increasing female wages and reducing male wages. Globalization hasn’t produced wage equality yet, but it has certainly narrowed the gap” (Bhagwati, 2008, p. 2). Schumpeter, incidentally, called feminism “an essentially capitalist phenomenon” (Schumpeter, 1942, p. 127).

prevalent (e.g. Henrich et al., 2010; Zak & Knack, 2001),⁷¹ the latter cite research showing that the study of neoclassical economics increases selfishness (e.g. Frank, Gilovich, & Regan, 1993; Ifcher & Zarghamee, 2018; Marwell & Ames, 1981),⁷² as well as pointing towards the violence and forced ethical transformation that was and is required to create and sustain capitalist labour markets (Weber, 1981 [1927], p. 355; see also section C in Chapter 8, esp. pp. 370-375).⁷³

On balance, I believe that the evidence favours the corruption critique, not ethical defenders of capitalism.⁷⁴ At the same time, I recognise that the formation of human character, the interpretation and re-interpretation of social concepts, and the evolution of social practices over time are complex processes, at best imperfectly understood. Similar to

⁷¹ Though this suggests, specifically, links between market exchange and trust, not capitalism and trust; and more generally, the malleability of human attitudes rather than their fixed-ness. It is not clear that either of these two serve well as a defence of capitalism.

⁷² Though certain studies (e.g. Carter & Irons, 1991; Gandal, Roccas, Sagiv, & Wrzesniewski, 2005) find that the majority of the difference in selfishness comes from selection (i.e. selfish people study economics; economics does not make students selfish), in which case capitalism does not so much corrupt character, as to legitimate and accentuate characteristics that are already present in the population.

⁷³ Tellingly, too, “The image of man as a congenital idler, stirred to action only by the prospect of gain, is unique to the modern age” (Skidelsky & Skidelsky, 2012, p. 10). The idea that capitalism is virtue-promoting because it elicits effort and initiative may therefore be a case of fixing a problem that it itself creates in the first place.

⁷⁴ It is notable that Brennan, one of the ethical defenders of capitalism, poses the corruption/moral question as follows: “whether the working of a capitalist society would reinforce, or rather, undermine, the cooperative, trustful, and respectful preferences that are *required* for capitalism’s stability” (Brennan, 2014, p. 40). Note the slippage here: one of the essential facts of capitalism is that “cooperative, trustful, and respectful preferences” are *not* required for it to work. Historically, one of the most prominent arguments for capitalism’s was precisely its alleged capacity to turn “private vice” into “public virtue” (Hirschman, 1977; Mandeville, 1988 [1714]). Properly phrased, Brennan’s question should thus be “whether the working of a capitalist society would reinforce, or rather, undermine the cooperative, trustful, and respectful preferences that are *not* required for capitalism’s stability.”

the exploitation critique, then, the corruption critique identifies an important wrong with capitalism, but leaves it uncertain what the precise weight of this wrong is.

H. What is conclusively wrong with capitalism: its tendency to undermine democracy

Having canvassed the most important arguments both in favour and against capitalism, it is time to take stock.

Capitalism is intrinsically linked to certain forms of prosperity and freedom. These are valuable, but they do not constitute conclusive arguments in its favour. Without entering into conceptual disputes, which themselves suffice to destabilize the strength of the argument from prosperity, we may observe that other forms of social order may deliver as much, perhaps even more, freedom and prosperity, and in a more evenly distributed manner. Next, I showed that capitalism cannot be justified through considerations of natural rights or justice. Natural rights form a language of morality, not a justification of capitalism; their content is, and always has been, contested. The argument for capitalism from fairness, in turn, fails for multiple reasons: it is unclear why rewards according to marginal, as opposed to average, productivity should be fair; how, even if they were fair, wages could correspond to marginal productivity, given the inherently subjective nature of firm-internal accounting practices; and why, even if that difficulty could be solved, we should deserve rewards for morally arbitrary features like inborn talents and early childhood upbringing. The Hayekian variant of the fairness argument fails, finally, because it assumes what it needs to justify: that the inherently unequal distribution of market incomes, service to which markets reward, is just.

Turning to critiques of capitalism, I showed that exploitation, injustice (distributional and relational), and corruption (of character, practices, and concepts) are all important wrongs of capitalism. However, in large part due to empirical uncertainties, and in smaller part due to uncertainties about how to interpret and rank the values at stake, the weight of these critiques remained unclear. According to my own judgement, these wrongs, taken together, are convincing and conclusive; but I recognize that I cannot demonstrate this conclusively to a reasonable but sceptical interlocutor.

In opening this chapter, I outlined the three difficulties that make it hard to reach a conclusive judgement: the essentially contested nature of the values grounding evaluations; the difficulty of demonstrating that the evaluatively relevant features are intrinsic to capitalism; and the difficulty of identifying the set of feasible alternative social orders, in comparison to which any action-guiding evaluation must ultimately be made. These three difficulties make it challenging to defend a conclusive judgement. Depending on the perspective taken, a reasonable reader could agree with everything that has been said so far, and yet judge that capitalism, warts and all, is an acceptable social order, desirable relative to the going alternatives.

The situation is different, I now argue, concerning a final wrong of capitalism: its tendency to undermine democracy. Unlike with the previous wrongs discussed above, I claim that the weight of this consideration is conclusive. *The argument from democracy shows why capitalism is not normatively acceptable as a social order*, all things considered, to any reasonable observer that shares the following two premises.

First, the crucial normative premise is what I call the premise of moral equality: this is the thesis that, concerning the table of values that is to govern our common life, nobody's view carries more intrinsic weight than anybody else's. One way to argue for this premise is to observe that some may be wiser or have better judgement than others, while others may suffer from short-sightedness; but, crucially, there is no universally agreed-upon, let alone a universally valid, method of identifying wisdom or judgement, virtue or understanding. If there is no such method, then we can put aside all arguments for unequal moral authority or standing that turn on these qualities. Even if superior wisdom (Plato), virtue (Aristotle), expertise and ability (Bentham), or any other such feature justified a person or group's claim to rule – which I am sceptical of – if we cannot clearly *identify* those features, then each individual has the same claim to authority.⁷⁵ As a result, moral authority, for those who endorse the premise of moral equality, is a fragile thing: it cannot be gained unless freely given.

This has an important corollary. Insofar as children and the unborn cannot freely give assent and bestow their trust, this premise implies that we cannot rightfully bind future generations: “no society can make a perpetual constitution, or even a perpetual law. The earth belongs always to the living generation [...] They are masters too of their own persons, & consequently may govern them as they please” (Thomas Jefferson in Madison, 1979, p. 385; Paine, 2012 [1791]).

⁷⁵ There are other ways to argue for this premise, in particular the Kantian argument from reason and autonomy (Kant, 1996a [1785]), or the republican argument from non-domination (Shapiro, 1994, 2016). Since it is belief in the premise that matters for the critique from democracy, not the grounds offered in its support, I do not present those here.

Next is a premise that I believe to be uncontroversial: the fact of reasonable disagreement.⁷⁶ By this I mean that reasonable thinkers will always and inevitably disagree over how society should be ordered. This fact has two causes: the essentially contested nature of (tables of) values, and the essentially contested nature of knowledge about society (J. Reiss, 2019). Each of these is individually sufficient: even where thinkers agree on what the feasible set of social orders looks like, disagreement concerning what values are important and at which ratios values are to be traded off against each other suffices to produce disagreement over which social order is most desirable. Correspondingly, even where there is deep agreement on a set of values, including the ratios at which different values are to be traded off against each other, disagreement on what the material, cultural, and social consequences of particular (feasible) social orders are suffices to produce disagreement over which social order is most desirable.

The scope of reasonable disagreement includes the question of where to draw the line between public and private (Shapiro, 1994, pp. 5-10; see also Chapter 2, Section B above, at p. 77), and how to structure the social division of labour. Because, as Hayek and many others have observed, “Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends” (Hayek, 2007 [1944], p. 127), there cannot be a pre-political division between economic

⁷⁶ Note that this is similar to, but not identical with, Rawls’ fact of reasonable pluralism (Rawls, 1993, p. 36). Rawls’ fact is the observation that “the diversity of reasonable comprehensive religious, philosophical, and moral doctrines found in modern democratic societies is not a mere historical condition that may soon pass away; it is a permanent feature of the public culture of democracy.” In other words, it *assumes* democracy, and then observes that under democracy there will be reasonable pluralism. My argument, insofar as it is an argument *for* democracy, cannot simply assume the presence of democracy.

and political questions. As I have argued at various points in this dissertation, while there are better and worse ways of coordinating the division of labour, the set of reasonable choices is not a singleton. Even under restrictive assumption, e.g. even taking subjective utilitarianism for granted, there are multiple equilibria, and therefore reasonable disagreement over how to coordinate the division of labour.

Given the premise of moral equality and the fact of reasonable disagreement, “no aristocrat, monarch, philosopher, bureaucrat, expert, or religious leader” (Shapiro, 1994, p. 29) has the authority to decide unilaterally how the division of labour is to be arranged. There is neither moral agreement, nor factual agreement, neither a justified moral nor a demonstrable epistemological hierarchy that could justify permanently taking authority out of the people’s hands.

Now, the people are of course free to delegate decision-making power, to adopt particular social technologies – such as markets, the rule of law, or an independent central bank – in the pursuit of collectively agreed ends. What the people are *not* free to do, however, is to abdicate in perpetuity or for an unknown period of time the power to make foundational decisions. This amounts to binding future generations to an outcome they may well, in virtue of the fact of reasonable disagreement, disagree with; and in virtue of the premise of moral equality, this is unacceptable.

Insofar as capitalism tends to undermine democracy, it takes power to decide and revise the basic structure of society out of the hands of the majority. And insofar as capitalism does not tend towards its own self-destruction, it removes this power for an unknown and potentially long period of time.

If it were merely a question of capitalism's pervasive effects on our social order, the question of whether or not to adopt capitalism would be, perhaps, an open one: considerations of freedom and prosperity would speak in its favour, considerations of justice, exploitation, and corruption would speak against it. Given our epistemological limitations, the outcome of this debate cannot be known in advance, nor can it be, again, decided by philosophers, experts, aristocrats, monarchs, or religious leaders. But because capitalism undermines democracy, it deprives the majority of the power to act on a wide range of conclusions that this debate may feasibly result in. This is wrong and cannot be justified.

I. A close reading of Cohen and Brennan supports the argument made in this chapter

As a concluding thought, I offer a close reading of two parallel passages from G.A. Cohen's (2009) *Why Not Socialism?* and Jason Brennan's (2014) *Why Not Capitalism?* These two books constitute recent contributions by leading philosophers to the debate this chapter engages in. In particular, Cohen's book makes a case for socialism and critiques capitalism, while Brennan's response makes a case for capitalism and critiques socialism. A close reading of central passages supports, I will now show, the argument made in this chapter: we can glimpse there, subtly, why the decisive wrong of capitalism is that it undermines democracy.

Cohen studies an example of socialism in the small – a camping trip – and teases out the organizational principles that are implicit in it: socialist equality of opportunity, and an ethos of community (Cohen, 2009, Chapter 2). He then argues that a society organised according to the same principles, socialism on Cohen's reading, is both desirable

(Chapter 3) and feasible (Chapter 4). Brennan responds to this in parallel structure and style:⁷⁷ he studies an example of capitalism in the small—the fictional village of the TV show *Mickey Mouse Clubhouse* (Brennan 2014, Chapter, Part I)—and teases out five principles he believes to be implicit in it: voluntary community, respect, reciprocity, social justice, and beneficence (Chapter 2, Part II). He then argues that a society organized along capitalist lines is both desirable (Chapter 2, Part III) and feasible (Chapter 2, Part IV).

Consider now the following passage from Cohen:

“Some might say that the camping trip is itself unattractive, that, as a matter of principle, there should be *scope* for much greater inequality and instrumental treatment of other people, even in small-scale interaction, than the ethos of the camping trip permits. [...] The opponents in question do not say that there *should* be more inequality and treating of people as mere means on a camping trip, but just that people have a *right* to make personal choices, even if the result is inequality and/or instrumental treatment of people, and, so they say, that right is not honored on the camping trip” (Cohen, 2009, pp. 46-7, italics original).

Cohen is here reacting to a critique of socialism that mirrors the argument (for capitalism) from natural rights covered above. In particular, he reconstructs the criticism that “people have a *right* to make personal choices, even if the result is inequality and/or instrumental treatment of people.” Cohen then continues:

“But this criticism seems to me to be misplaced. For there *is* a right to personal choice on the camping trip, and there are plenty of private choices on it, in leisure, and in labor (where there is more than one reasonable way of distributing it),

⁷⁷ Indeed, at the start of the chapter from the quote below is drawn, Brennan says “I will closely follow Cohen’s writing style, diction, tone, phrasing, format, and argumentative structure. Much of the time, I will be paraphrasing or quoting Cohen directly” (Brennan, 2016, p. 22).

under the voluntarily accepted constraint that those choices must blend fairly with the personal choices of others” (Cohen, 2009, pp. 47-8, italics original).

Having reconstructed the critique, he then rebuts it: “there is a right to personal choice on the camping trip, and there are plenty of private choices on it,” etc. His rebuttal, in other words, is to show that the right to personal choice may be as well realized under socialism as under capitalism, and perhaps even more so.

Now consider the parallel passage from Brennan:

“Some might say that the Mickey Mouse Clubhouse Village is itself unattractive, and that, as a matter of principle, there should be *scope* for much greater political control of other people, even in this small-scale village, than what the village permits. Now, these opponents are unlikely to say that there *should* be less community, mutual respect, reciprocity, social justice, or beneficence. Rather, they assert that the collective should have a right to make choices for the individuals that form part of that collective. These people might say that, in capitalist societies, each individual’s choices are already constrained by others’ choices. The choices available to each of us are a consequence of everyone else’s individual choices. These opponents simply prefer that the restrictions we face result from the conscious deliberation of the collective—or whoever speaks for that collective—rather than be the by-product of everyone’s individual choices” (Brennan, 2014, pp. 36-7, italics original).

Paralleling Cohen, Brennan is here reacting to a critique of his idealized example of capitalism. Indeed, the reader will have noticed that the critique that Brennan summarizes has a family resemblance to the democracy critique of capitalism presented in the previous section of this chapter. Brennan then continues:

“*These opponents aside*, many others would instead say that while it is all right for the Mickey Mouse Clubhouse Village to be run on capitalist lines, there are features special to the Clubhouse Village that distinguish it from the normal life in a modern society and that consequently cast doubt on the desirability and/or

feasibility of realizing Mickey Mouse Clubhouse principles in a modern society” (Brennan, 2014, pp. 36-7, italics added).

Unlike Cohen, who follows his reconstruction of the critique with a rebuttal, Brennan *sets aside* the principled critique, and moves on to the question of feasibility. He does not offer a rebuttal of the critique that he, paralleling Cohen, just presented.

I believe that this is not coincidental but deeply revealing. When, earlier in his book, Cohen asserts that capitalism means an ethos of fear and greed (Cohen, 2009, pp. 39-41), Brennan can respond that capitalism encourages trust, fairness and reciprocity (Brennan, 2014, pp. 66-8). As I showed above, the evidence is complicated, and while I have my own reading of that evidence, reasonable people can disagree on what it says. Equally, when Cohen asserts that socialism can realise high levels of prosperity (Cohen, 2009, pp. 62-76), Brennan can respond that “even in utopian conditions, market-societies will outperform socialist societies in economic terms” (Brennan, 2014, pp. 87). As I showed in Chapters 2 and 3 above, this claim is questionable, particularly because it is unclear how we should measure prosperity, but, again, reasonable people can disagree.

However, when a critic of capitalism points out that, “in capitalist societies, each individual’s choices are already constrained by others’ choices,” Brennan simply moves on. When this critic adds that capitalism deprives majorities of the “right to make choices for the individuals that form part of that collective”, Brennan has no answer. The stylistic and structural parallel to Cohen, scrupulously kept up throughout that chapter of his book, breaks down: instead of rebutting the reconstructed critique, as Cohen does in the parallel passage, Brennan silently moves on.

Analytically, this is no coincidence. Unlike the social texture brought about by capitalism, or the prosperity that can be achieved under socialism, both of which are the subject of legitimate disagreement, the structure of decision-making under capitalism is not up for debate. Capitalism is private control over the division of labour. This means, exactly as Brennan says, that the “choices available to each of us are a consequence of everyone else’s individual choices,” and, crucially, that the pattern of restrictions that each of us faces is neither decided upon nor justified collectively. It is to Brennan’s credit that he lays out clearly the democratic critique that flows from this fact. It is revealing that he cannot here, unlike everywhere else, follow Cohen’s structure and offer a rebuttal.

Subtly, then, and when read in conjunction, Cohen and Brennan’s contributions reveal what is wrong with capitalism, fundamentally and conclusively. It privatises control over the division of labour. Given that majority support for this arrangement is not assured, its preservation requires the limitation and erosion of democracy. For those who are committed to the moral equality of all humans, this is unacceptable. Tellingly, and perhaps because he was writing for an audience that strongly endorses the idea of democracy, Brennan chose not to voice the only kind of response that is possible to this critique of capitalism: a defence of hierarchy.

J. Conclusion

Returning to the three difficulties of evaluation that frame this chapter – contested values, contested descriptions of capitalism, and a contested set of alternatives – unlike the considerations discussed above, the argument from democracy survives confrontation with them. Concerning the first, it does not assume the authority to decide whether a society

should be judged according to how equal it is, how free, how just, or how prosperous. The argument's central normative premise revolves around moderate ignorance and moral equality, both of which I believe to be beyond reasonable dispute.⁷⁸ Second, the argument presupposes that the undermining of democracy is intrinsic to capitalism. In describing the dynamic of water and oil, I believe that I have shown this. Finally, the argument assumes that democracy can coexist, durably, with other ways of arranging the division of labour. I have presented arguments to support this claim, in particular in Chapter 3; but the existence of feasible alternatives cannot be demonstrated conclusively other than by their realisation. The proof of the pudding must lie in the eating. Nevertheless, I will give further reasons for hope, as well as a sketch of what I believe to be one specific feasible alternative (commercially closed market democracy), in the conclusion of this dissertation, so that I consider the democracy critique to meet, as best as possible, this third challenge, too.

Unlike the various other arguments in favour or against capitalism, the argument from democracy against capitalism therefore comes as close as possible to being conclusive. In this chapter, I hope to have shown that, for any reasonable person, i.e. for anyone other than those who are convinced they have *both* the moral authority *and* the descriptive expertise to speak authoritatively for others, what is fundamentally wrong with capitalism is not necessarily the exploitation it produces, nor the injustice that it causes, nor the

⁷⁸ Given that I put forward my own reading of capitalism, both normatively (in this chapter) and descriptively (throughout the dissertation), I clearly do not believe that our ignorance is total. In denying claims to higher truth, I do not argue for universal ignorance. We are capable of investigating and debating both social reality and values, and we can come to shared understandings thereof, if only temporarily. The crucial premise is that none of us has a direct line to the truth, descriptive or moral. Any claim to superior knowledge or moral authority must be earned, through persuasion and reasoning, in conversation with our fellow citizens.

corruption that it is conducive to, though these are all important wrongs; instead, what is wrong with capitalism, decisively and fatally so, is that it undermines democracy. Because there are genuine choices to be made, and because both the authority and the expertise to make these choices reside exclusively in the demos as a whole, this cannot be tolerated.

Conclusion

Open Commercial Republic or Commercially Closed Market Democracy

A. The modern predicament recapitulated

Politics in modernity takes place under two constraints: due to the loss of traditional justifications of authority (e.g. MacIntyre, 1981; Nietzsche, 2006 [1883]; Weber, 1946 [1919]), the elder two children of the French Revolution—freedom and equality—constitute the moral compass of our time. Correspondingly, no form of government is as legitimate, “now and around here” (B. Williams, 2005, p. 8), as democracy.

At the same time, politics in modernity must fit around an extended division of labour: if a polity fails to organize itself accordingly and the division of labour remains inchoate or breaks down, the state in question will be too poor to be legitimate at home, too backwards to defend itself internationally. As described in the introduction, an extended division of labour can only be coordinated sustainably via market exchange. Therefore, politics in modernity must contend with, and fit around, commercial society; after the industrial revolution, this is very close to saying it must fit around capitalism.

This yields the modern predicament: Only democratic politics can be lastingly legitimate; but only a state whose politics fit around commercial society can last.

Throughout this dissertation, I argued that the modern predicament cannot be resolved through squaring capitalism and democracy (Part I, Chapters 1-4); nor can it be resolved through pushing through modernity, or through counting on a dialectic of history or capitalism to solve it for us (Part II, Chapter 5-8). The modern predicament therefore

appears to be a permanent problem, at least, drawing again on Bernard Williams's realism, seen from "now and around here," i.e. for thinkers and citizens situated like us.

What, then, shall we do? In concluding this dissertation, I consider two possible responses: a first answer, explored in section B below, consists in accepting capitalism or at least commercial society, and doing our best to make it work. In its best form, this amounts to what one might call, following István Hont, the *open commercial republic*. This answer could involve, in a Rawlsian procedure, iterating between our moral compass and the facts and constraints of capitalism, revising both as far as possible until we arrive at a reconciliation we can reflectively endorse. This, I believe, is the project of classical liberalism and neoliberalism.

There is, I believe, a better answer, unproven as of yet, but also not disproven, which refuses to accept capitalism as an immovable fact of modernity. In line with the normative arguments made in the dissertation's final chapter, Chapter 9, this answer prioritizes democracy. It drives a wedge between markets and capitalism, through commercial closure and through taking seriously the third child of the French Revolution: solidarity. In its best form, it amounts to what one might call, following Fichte, *commercially closed market democracy*. The majority of this conclusion is dedicated to exploring the shape and conditions of possibility of this answer.

I close, finally, with brief remarks on how the arguments developed over the course of this dissertation may bear on political theory after the Rawlsian moment.

B. The modern predicament and the open commercial republic

Politics in modernity must fit around commercial society. There is no getting away from this fact. “[S]hould we presume,” then, “that a plurality of political visions might suit the integration of politics and the market economy, or should we accept the idea that there is just one privileged state form [...] that has an elective affinity with markets?” (Hont, 2005, p. 4). One resolution to the modern predicament consists in taking Hont’s question rhetorically, and asserting that, indeed, only one social order is compatible with the modern predicament (e.g. Sagar, 2018): the open commercial republic.

This answer would stress the various constraints that arise from having to mould politics around commercial society: among these constraints are, arguably, the need for the rule of law, to stabilize expectations; a minimum degree of liberal tolerance, to permit the cooperation of many people who, in virtue of sheer numbers and the different positions they occupy geographically and in the division of labour, believe in diverse world views and religions, belong to different cultures and traditions, and speak different languages and dialects; and, of course, the use of markets to coordinate economic activity.

This answer would entail, inevitably, the growth of inequality. Together with the instability, exploitation, and the corruption of valued practices caused by free-wheeling commerce, this would produce popular pressures to reshape the division of labour, to share its fruits more equitably and to protect men, women, and children from the “ravages of market competition” (Sagar, 2018, p. 480). In the face of these pressures, apologists for this answer can and do attempt to convince majorities to steady their hands, to refrain from

such reshaping;¹ but, as I showed at various places above (esp. Chapters 2 and 9), none of the arguments to this end, neither individually nor taken together, look strong enough reliably to convince majorities to steady their hands. In light of this, in order to protect the commercial, competitive core of a capitalist society, this answer to the modern predicament would have to place limits on popular sovereignty and majority rule. The dynamic of water and oil (Chapter 2) would drive democracy and capitalism apart in this social order, and capitalism would, here, rise to the top.

In a best case,² the replacement of democracy is republican government,³ defined as the rule of law, a degree of political competition, and, in T.H. Marshall's distinction (Marshall, 1950), universal civil citizenship, though without universal political citizenship—for this would give the many the means to control the division of labour—and social citizenship—for this would undermine the functioning of various markets, most importantly labour markets.

¹ Indeed, Sagar's article does just that: it prominently presents the freedom argument, producing liberalism as the ideology of the open commercial republic. Framed against neo- or civic republicanism, Sagar asserts that "the modern republic emerges on Hont's reading as being just as concerned with liberty as the old – but with liberty now conceived of in terms of the *Rechtsstaat* and the guarantees provided by law and state institutions," i.e. liberty as civic and commercial liberty, not political freedom (Sagar, 2018, p. 494). An additional argument, considered more extensively in the main text below, is about the lower bellicosity of open commercial republics compared to other social orders under modernity (Sagar, 2018, *passim*, esp. p. 493). I disagree with Sagar's implied conclusion that these arguments justify the open commercial republic as the most legitimate regime form in modernity.

² The cases of China or Saudi Arabia show that commercial society can successfully be embedded in an autocratic polity. The replacement of democracy with republican government is therefore, at least from a certain normative perspective, a best case. Worse regimes are always possible.

³ Of relevance to this, there has been a fight brewing in US education policy over whether the American polity is best described as a democracy or a republic. Partisans of minority rule have succeeded in de-emphasising the former and emphasising the latter in Texas in 2010 (Birnbbaum, 2010). A similar attempt was rebuked in Michigan in 2019 (Goldstein, 2019).

As explored throughout this dissertation, and particularly in Chapter 3, Section D and Chapter 4, it is also highly advantageous for this answer to the modern predicament to insist on the commercially open nature of the polity. Else there is a perpetual risk of the polity “degenerating” into a “mercantile system” – whether egalitarian or elitist – in which majority or minority interests succeed in “using the power of the state to secure [their] own economic interests” (Sagar, 2018, p. 482). Commercial openness also has the twin advantages of reducing the option set from which a government may choose, further reducing the danger of interference in the division of labour emanating from any remaining democratic institutions or elements, and rendering less urgent the creation of state instruments for the preservation of competition – inherently “dual use” instruments – since a larger market will put competitive pressure even on firms that might otherwise be monopolists.

Taken together, I therefore refer to this first possible answer to the modern predicament as the open commercial republic: a republic, rather than a democracy, insofar as equal civil rights coexist with unequal political and social rights. A *commercial* republic, insofar as the core of this social order is private sovereignty over a market-coordinated division of labour, and insofar as an ethos of fear and greed, of restlessness and initiative animates the citizenry. And an *open* commercial republic, insofar as commercial openness is greatly useful for resisting domestic pressures in the direction of democracy and for preventing domestically successful businesses or interests from capturing the state.

One of the main arguments of this dissertation has been to show that this response to the modern predicament deserves to be taken seriously. While discussed primarily in the

vocabulary of capitalism, I have argued that it is indeed a viable social order for modernity, at least in the capitalist core (Chapters 5-8). Despite its inherent crisis tendencies, I argued that it appears neither necessarily self-destructive, nor does it, in spite of the numerous and grave ills that it reliably produces, necessarily generate its own revolutionary overthrow. We cannot therefore – again, despite the misery, injustice, corruption and suffering that it creates – prospectively consign it to the dustbin of history, whether through a stage theory of history, a theory of revolutions, or millenarian predictions of social apocalypse.

Concerning its conditions of possibility, in virtue of the de-democratization that an open commercial republic necessitates, it is only possible where suppressing the popular unrest likely to accompany it is not prohibitively costly. With the gradual fading of mass warfare and mass production, of trade unions and militant labour politics, this possibility has arisen: the outright veto power of the masses that characterized the mid-twentieth century in particular has been eroded, rendering the material basis for the preservation of democracy brittle (Chapter 8). Where warfare is primarily capital-intensive or geopolitical competition can be attenuated; where economic activity can be organized without at the same time facilitating proletarian or precarian collective action; and where organic attempts by the many to organize themselves can be repressed, the open commercial republic is a viable social order in modernity: neither certain to self-destruct domestically, nor falling to insufficient prosperity.

Finally, the open commercial republic deserves to be taken seriously, too, because it does, its ills notwithstanding, have certain normatively attractive features. A minimal amelioration of the worst ills of capitalism remains possible in such a regime, likely in

proportion to the threats of disruption that the precariat and other negatively affected groups can issue, and in proportion to the depth of the democratic tradition peculiar to the individual state in question. Nor is all freedom destroyed when a polity gradually morphs from democratic capitalism to an open commercial republic: civil citizenship, even in the absence of full political and social citizenship, is meaningful. Relative to many other social orders known from history or contemporary experience, the open commercial republic is therefore attractive. While it cannot fully satisfy the legitimation demand arising from the first essential fact of modernity, it violates it less than many other regime forms, all the while satisfying the constraint arising from modernity's second essential fact.

Nevertheless, it remains the case that the open commercial republic is not a democracy. This, I argued in Chapter 9, is unacceptable – as long as a viable, democratic alternative exists.

C. An alternative to the open commercial republic: commercially closed market democracy

Such an alternative, I believe, does indeed exist; or rather, its possibility cannot be ruled out, and so there is a duty to explore it further, both theoretically and practically. This alternative consists in driving a wedge between markets and capitalism, through commercial closure and through taking seriously the third child of the French Revolution: solidarity. It amounts, in its best form, to what I call, following Fichte (2012 [1800]), commercially closed market democracy.

Two insights render the idea of a market democracy feasible and attractive: multiple equilibria are possible in market coordination; and markets are compatible with different kinds of ethea. These features explain why market democracy is normatively superior to an

open commercial republic, while—due to the prominent role it leaves to market exchange—being a *prima facie* viable order in modernity. To sustain market democracy over time, however, it cannot be embedded in a commercial federation or allow free trade in commodities and capital. This explains why it must be commercially closed.

The first claim, the abundance of multiple equilibria, was demonstrated in Chapter 3 (Section B): macroeconomic policy, for example, can be run closer to full employment, with consequently higher bargaining power for labour, higher and more equal wages, and a beneficial tendency to corrode unequal and exploitative work and social arrangements throughout society; or it can be used to induce slack and unemployment, higher profits and inequality, and steeper hierarchies. Through investments in transport infrastructure, housing, production, state administration, or research and education facilities, the geography of economic activity can be deliberately concentrated, deliberately dispersed, or let to follow historical patterns. The qualitative and distributive consequences of these decisions are significant. Further, innovation can be directed, through state investment, towards socially desired purposes, whether this be space technology, green energy and materials, or cures for cancer, malaria, and AIDS, durably shifting cost curves and hence future market equilibria; or it can be let to follow where market processes lead it, likely skewing innovation towards products and services demanded by the rich. In addition, as the example described in detail at pp. 147-151 above demonstrated, through an appropriately designed tax system investments can be coordinated privately, without the need to yield consumption claims to rentiers. There are, in sum, an abundance of different equilibria compatible with coordinating the division of labour through markets. Unless the

division of labour is embedded in a democratic polity, however, the choices between these equilibria will be made by the rich, or – unclear if better or worse – by no one at all.

Second, markets do not require an ethos of fear and greed, of competition and the ‘Protestant’ work ethic to function. As Roemer (2019) has shown, markets can coordinate decentralised production, consumption, and investment decisions with Pareto efficient outcomes, *without* relying on a capitalist ethos. In particular, in a wide range of cases, a Kantian method of decision-making⁴ will produce Pareto efficient outcomes through decentralised decision making with light information requirements⁵ – as long as there is solidarity and trust among market participants. Nash optimization, emblematic of the ethos of capitalism, is not a necessary feature of market coordination. A market democracy, if it can sustain an ethos of solidarity and a trusting citizenry, can therefore choose to dispense with fear and greed, the valorisation of competition and financial gain, without thereby giving up on the use of markets to coordinate the division of labour.

The normative significance of this point is difficult to overstate: first, it means that the presence of markets – necessitated by the second essential fact of modernity – need not undermine democracy through the meaning-corrupting influences charted by Wendy Brown (2015). While the skeleton of market exchange remains, of necessity, at the heart of a market democracy, its social significance, the interpretation we give it, can be radically changed: Kantian optimization makes it reasonable to picture markets as a means for

⁴ Approximately: act on the maxim that you wish (for your own good) everyone acted on; or, in the language of game theory, “What is the strategy I would like all of us to play?” (Roemer, 2019, p. viii).

⁵ In particular, workers need only know their own preferences and, depending on the particular model used, the production function.

structuring social *collaboration*, not competition, and market agents' characteristic motivation as collaborative, not competitive.

Second, Kantian optimization dissolves the equity-efficiency trade-off that characterizes market economies in which agents Nash-optimize. This renders feasible an even wider set of multiple equilibria than outlined above, both increasing the importance of democratic decision making and permitting outcomes that are more prosperous *and* more equal than under widespread Nash optimization. As a generalization of this, the two biggest pathologies of market coordination, namely the under-provision of public goods (“free riding”) and the tragedy of the commons, can be avoided (Roemer, 2019, Part I). Besides the greater problem-solving capacity that this enables, it is another contribution to rendering markets long-term compatible with democracy, for, as has long been recognized, certain institutional features of democracy (most famously voting) have the structure of free-rider problems (Downs, 1957, Chapter 14).

Though the precise social outcomes of a commercially closed market democracy are unpredictable—an intrinsic feature of genuine democracy—we may highlight certain attractive attributes that follow: one, through the deliberate choice between multiple equilibria, market democracy allows polities to make the most of the fact that market orders are extraordinarily flexible. For almost precisely the opposite of what Hayek said is true: instead of any one intervention in a market order causing a gradual collapse into autocratic planning (Hayek, 2007 [1944], Chapter 7), what a market-coordinated division of labour allows is the execution of majority-willed projects—like the Moonshot, universal housing, universal healthcare, universal childcare, the interstate highway network, the Olympic

games, a transition to renewable energy, universal higher education, or a great many other such projects—while the rest of the division of labour adapts around them. In a market democracy, this feature can be harnessed for the pursuit of whatever mission or goal majorities deem most worthwhile, without the need for large-scale coercion that historically characterized ambitious collective projects in pre-modern societies.

Further, market democracy allows for the marriage of freedom and equality, if this is desired by majorities. It becomes possible, for example through a combination of full employment policies and a strongly redistributive tax system, to combine a largely equal distribution of purchasing power—across class, gender, ethnic, and other lines—with continued decentralised choice of profession, place of work, place of residence, and so on. In continuing to give markets a central place in the coordination of labour, there is every hope that the mechanisms that have led to greater gender equality and lesser discrimination along lines of race, ethnicity and sexual orientation over the last half-century will continue to operate in a commercially closed market democracy.⁶

Finally, through deliberately choosing between multiple equilibria, a market democracy can realise in deed and therefore more easily in thought that “The social system is not an unchangeable order beyond human control, but a pattern of human action”

⁶ These mechanisms are: the ability of those discriminated against to exit from undesirable arrangements, and the ability of those who do not harbour prejudice to profit at the expense of those who do harbour prejudice. A non-racist or non-sexist firm can make extra profits, for example, through employing women or minorities or those otherwise discriminated against who are not hired elsewhere. Though this will initially be at a lower wage (this is what permits the extra profit), as the non-discriminating firm grows (in virtue of its higher profits), it will hire more and more women and minorities until the point where wages and working conditions have risen to equal those of majority-ethnic men.

(Rawls, 1971, p. 102). This de-mystifies the process through which social interaction and human choices co-create and affect the outcomes that each of us works towards and experiences in our own lives. Though endowed with destabilizing potential,⁷ this process may boost participation and reduce alienation, and, over the long run, increase the legitimacy of a social order through making it appear as what it truly is: the outcome of human choices, collective and individual, and not a fact of nature.

Both conceptually and on the basis of mid-twentieth century historical experience, we therefore have reason to believe the following: given sufficient solidarity and trust, it is possible to combine markets with the pursuit of ambitious collective projects, without thereby embarking on the road to serfdom; it is possible that “men [and women] agree to share one another’s fate” (Rawls, 1971, p. 102), and yet leave each other the freedom that comes from market-coordination of the division of labour; it is possible to combine market exchange and the freedom it enables with a collaborative, humane ethos, for markets do not require the spirit of capitalism to function; and it is possible, lastly, for markets to coexist with a sense of control over our collective fate, through giving majorities the ability to choose between the multiple equilibria inherent in market coordination.

All of this is economically feasible but, as the later twentieth century showed, in conditions of commercial federation politically unstable. Where capital is mobile, it tends to have the upper hand in bargaining situations, whether economic, social, or political. Tax

⁷ In rendering clearer the man-made nature of social outcomes, commercially closed market democracy increases the pressure from citizens on politicians (and on each other) to justify the shape of the social order. It is easier to accept what we believe to be a fact of nature, harder to acquiesce (without appropriate justification) to what we know is man-made.

evasion, too, becomes a significant problem wherever borders are commercially open and trade and capital flows are large and complex enough.⁸ These factors create erosive pressures on the politics of internationally integrated market democracies.

The mid-twentieth century solution—fencing in capital while permitting trade in goods—turned out not to be a stable answer, either: as was shown in Chapter 4, where a polity runs a full employment economy, but its trading partners do not, imports will exceed exports, creating a permanent trade deficit, and investment will, to the extent possible, flow abroad. In a fixed currency regime, this will drain the central bank's gold and currency reserves; in a floating regime, it will lead to a permanently depreciating currency, with the twin effects of causing a dearth of investment⁹ and making any foreign debts eventually prohibitively expensive to service. This renders it politically costly to persevere with full employment and similar economic policies, and hence likely for these to be abandoned. Even if, on the basis of very high productivity, a trade imbalance and the accompanying currency effects could be avoided, trade integration renders the continued closure of the capital account challenging: large trade flows will lead trading firms to demand international financial products, for example exchange rate hedges or interest rate swaps, which can only be offered if banks can engage in largely unrestricted international capital

⁸ Recall that tax evasion is rampant at high incomes—the top 0.01% evade approximately a quarter of their taxes (Alstadsaeter et al., 2017). This is facilitated by the ease with which capital can be moved in and out of regular jurisdictions and tax havens.

⁹ Domestic investors will prefer investing abroad, since the movement of the currency will automatically increase the (domestic-currency denoted) value of their investments. Foreign investors, in turn, will refuse to do inwards investment because, in virtue of the same currency movement, the foreign currency value of the domestic investment will steadily fall.

movements. Pragmatically, too, where trade flows are large enough, capital flows can be disguised through fictitious or manipulated trade activity, so that the enforcement of capital account closure becomes difficult to maintain.

Further, where a country is deeply integrated into an international division of labour, relative price shifts abroad have major de-stabilizing impacts on the domestic social order. Hence, “when the boundaries of the economy on which a democratic state depends are greater than the boundaries of the state, then to that extent the *demos* loses control over its own fate” (Dahl, 1988, p. 21). Consider, for example, the effects on postcolonial states of the adverse terms-of-trade shift in the early nineteen seventies, amplified by their deep integration into an unequal and hierarchical international division of labour (Getachew, 2019, Chapter 5); or the impact on both postcolonial states and the capitalist core of the oil price shocks of the early and late nineteen seventies. This exposure to sudden and unpredictable relative price changes, plus a limited ability to offset these through extensive risk sharing (limited because of the integration into international markets), makes it hard to preserve the ethos of solidarity and trust that is required to maintain Kantian optimization and to prevent a slide into widespread Nash optimization.

Finally, at the most general level, the very reason that Lord Acton, Hayek, and other classical and neo-liberals cited in support of commercial federation (see above, at pp. 171-173), a democrat may cite in support of commercial closure. If “[i]n a federation, certain economic powers, which are now generally wielded by the national states, could be exercised neither by the federation nor by the individual states,” (Hayek 1948 [1939],

p. 266) then in a commercially closed market democracy, these economic powers can at least potentially be restored.

To maintain both the freedom of action that renders market democracy meaningful and the ethos of trust and solidarity that render it possible and desirable, commercial closure is hence required. It does not seem possible, in particular, to combine commercial openness with high levels of domestic redistribution over time, for compensation for uneven gains from free trades relies on a politics that free trade itself undermines over time.

It remains unclear whether full closure is necessary, i.e. if any and all trade and capital flows must be banned, or whether a baseline of closure suffices, against which politically regulated trade and capital flows can then be permitted. The latter strikes me as more likely, with pertinent distinctions including trade in goods versus trade in services and capital, outright closure versus barriers of degree (in particular tariffs), and actual closure versus retaining (but not necessarily exercising at all times) the sovereign right to alter the terms of international trade. These are important questions for further research. In any case, what this dissertation has shown is that international trade and capital movements cannot be left to individual initiative. Only in this manner can the option set of political choices extend to the full set of economically feasible equilibria, and only in this manner can a gradual but inexorable erosion of solidarity and trust, both of which are necessary for a commercial society to also be democratic, be prevented.

Taken together, then, commercially closed market democracy allows for more equality, hence more equally distributed individual freedom, and more collective agency than an open commercial republic, while retaining its market-related freedom-features.

Commercially closed market democracy can be egalitarian and inclusive, equal and free. If feasible as described, it is a normatively attractive social order.

D. The viability of commercially closed market democracy has not been disproven

The question remains, however, whether it is indeed politically and economically viable. It is not possible to prove the viability of a social order through thought and argument alone. The proof is in the pudding. Nevertheless, it is possible to consider the most significant problems associated with commercially closed market democracy, and give reasons why these do not seem fatal.

The first and most obvious risk to the viability of commercial closure arises because the benefits of an extended division of labour are real. As sketched out in the introduction of this dissertation, failure to maintain an extended division of labour has two consequences: an inability to defend the polity internationally, and an inability to justify and legitimate it domestically. Commercial closure, it follows, is only viable in a polity large enough to host an extended division of labour domestically.

What the minimum scale is at which commercial closure becomes sustainable is a question impossible to answer precisely, all the more so since changes in technology, tastes, and resources mean that different answers are accurate at different times. What seems clear, however, is that commercial closure *is* viable for states like China, India, or the USA; that it is *not* viable for states like Switzerland, Ecuador, or Ghana; and that the jury is out, though leaning negative, for mid-sized states like the UK, France, Germany, or Japan.

A distinction must be made, moreover, between commercial closure once an economy has reached the technological frontier, and commercial closure before then. For

large economies at the technological frontier, moving towards commercial closure need not involve large efficiency costs, if it is done gradually, and if the polity in question is sizeable enough to host the relevant supply chains (including raw materials) and to have a minimum degree of competition to prevent ossification.¹⁰ The gains from trade are larger, however, where polities are at different stages of development. This issue is addressed in section F below, where I show that commercially closed market democracies have both an interest in, and certain tools for, creating low levels of international inequality.

Moving from problems of scale and economic efficiency to problems of political constitution and sociology, the oldest and perhaps gravest problem associated with democracy is its alleged tendency to commit suicide.¹¹ Democracy leads to polarization, it is alleged (Crozier et al., 1975), and at a minimum to reasonable pluralism (Rawls, 1993, I.6.). Some argue that this inevitably culminates in the rise of demagoguery and thence tyranny (Plato, 2012, 564d-571a), others that it results in instability and indecisiveness (Schmitt, 1986 [1923]), as with the Weimar Republic, the French Fourth Republic or the

¹⁰ In particular, once a set of large economies is at the same level of prosperity, I believe the gains from trade between them to be small in general. Any specialisation that takes place *across* borders could, where the jurisdictions in question are large enough, be replicated *within* borders, given a transition period. To render this tangible, German BMWs are worth trading against US pharmaceuticals, but if the EU and the US were to move to commercial closure, General Motors would likely develop better luxury cars and Bayer would produce the relevant drugs. Even if General Motors were to fail at this, if the US market were closed to German luxury automobiles, US car company profits would be high on (by stipulation) mediocre products, creating a situation ripe for Schumpeterian creative destruction – in the automotive case, for example, in the form of Tesla.

¹¹ John Adams: “Remember democracy never lasts long. It soon wastes, exhausts, and murders itself. There never was a democracy yet, that did not commit suicide” (Adams, 1814). Madison: “democracies have ever been spectacles of turbulence and contention; have ever been found incompatible with personal security or the rights of property; and have in general been as short in their lives as they have been violent in their deaths” (Hamilton et al., 2008 [1788], p. 52, *Federalist 10*).

Occupy Wall Street Movement. The problem with commercially closed market democracies, in other words, may not lie in the element of commercial closure, but in the element of democracy.

As Rousseau (Rousseau, 1997a [1762], Book IV, Chapter 8) and Madison (2008 [1788], *Federalist 10*), among others, have pointed out, it is possible to ameliorate the causes of polarization and its accompanying evils, instability and indecisiveness. A universal service obligation, whether civil or military, can be used to instil shared experiences and shared frames of reference in the citizenry, facilitating empathy and counteracting division. Instruments of common truth production, such as mandatory public education, public media, and an ethos of truthfulness, can help limit the fragmentation of the public sphere that is conducive to strife. Broad social and economic equality can check the divergence between citizens' lifeworlds, rendering easier the maintenance of a democratic ethos of solidarity and trust, and a mutually empathetic citizenry. These institutions and others can render preferences and culture more coherent, reducing polarization and improving the chances of decisive decision making.

Internal to a liberal social order—which both the coordination of an extended division of labour and our contemporary normative compass render imperative—however, we cannot count on socially constructed consensus.¹² It simply will not happen, unless coercion is used to make it happen. Polarization and indecision can be ameliorated, but not

¹² For “Liberty is to faction what air is to fire [...] but it could not be less folly to abolish liberty [...] because it nourishes faction, than it would be to wish the annihilation of air” (Hamilton et al., 2008 [1788], p. 49, *Federalist 10*, Madison).

abolished in a commercially closed market democracy. We must ask, therefore, how democracy can work with and around these facts.

As Shapiro (2016) has argued, two institutional features, both part of the conception of commercially closed market democracy defended here, can be used to this end: first, majority rule. This evidently helps to overcome indecisiveness: whereas super-majority requirements tend to produce vetoes and indecision, majority voting, particularly when combined with institutions that whittle down multiple options to a binary choice, produces decisions. Less obviously, majority voting also helps to stabilize democracy in the face of polarization and faction, through giving the losers in any one iteration of political contestation hope that they may win in the next (Shapiro, 2016, Section 3.1). If “there’s always next year” (Shapiro, 2016, 50), the temptation to support a tyrant in pursuit of one’s end will be lower. Moreover, if “next year” does not work out for a number of years, and society is generally egalitarian, chances are that the desired change is a comparatively weakly held minority position.¹³ In an egalitarian society, the temptation to exit politics – i.e. take up arms – in pursuit of a weakly held minority position will then be low.¹⁴

Further, majority rule also legitimises curbs on tyrannical majority behaviour: maintaining majority rule over time necessitates protecting the continued participation of *minorities* in politics, because only through doing so can those future *majorities* be protected

¹³ A minority position, because repeatedly it did not win. Weakly held, because were the change in question strongly desired, the minority in question would be an attractive coalition partner, willing to make many concessions in pursuit of this change. This only obtains in an egalitarian society, for else repeated defeat might simply be a symptom of repression and entrenched discrimination.

¹⁴ Since the society is egalitarian, it is unlikely that the minority in question commands sufficient resources to win a civil conflict.

that are put over the top by the minorities in question (Ingham, 2019). If the composition of future majority coalitions is sufficiently uncertain—a likely scenario especially where discount rates are low, and citizens and politician think far into the future—this gives any majority today a strong incentive not to alienate durably any minority, for this minority may in the future be required to form a new winning coalition.

Second, in addition to majority rule, taking winner-takes-all issues off the table as far as possible can support the continued stability of a commercially closed market democracy (Shapiro, 2016, Chapter 3, esp. Section 3.1). A market-coordinated division of labour helps here: where resources are not exclusively directed through politics, a political loser will not fall too low, and be less tempted to pursue a coup or otherwise challenge the continued operation of democratic politics. De-correlating different dimensions of inequality—incidentally, a powerful way in which a society can be both liberal and egalitarian—further helps: where these dimensions have been de-correlated, low political success need not imply low social standing or low prosperity, nor will socially prominent or particularly wealthy citizens (with a possible temptation to move the polity away from commercial closure or popular control over the division of labour) be more likely to attain high political office.

While the possibility of democratic suicide cannot be ruled out conclusively, it can thus be limited. A universal service obligation, institutions of common truth production, and broad economic equality can limit the polarization and indecisiveness that often drives democratic suicide; majority rule, the removal of winner-takes-all-issues from politics (as far as possible and willed by majorities), and the de-correlation of different dimensions of

inequality in turn help to ameliorate the instability and indecisiveness effects of whatever polarization remains.

E. Commercial closure requires human opening to be sustainable

A second important problem that may assail commercially closed market democracies is that of gradual ossification, for example through a collusive bargain between existing successful businesses, including their workforces, and government. The comparison between how East and West responded to the economic exhaustion of Fordism (Chapter 6) was revealing here: populations in both regions were deeply unwilling to permit the transition from an industrial to a service economy, with all the deep and wrenching social changes this transition entailed. However, the very strategy—to delay adjustment through borrowing—that the Eastern bloc relied on to avoid making this adjustment turned out to bring down state socialism within less than two decades (Bartel, n.d.). In the West, even the French Socialists, despite a plethora of incentives to delay this adjustment or to avoid it altogether, ultimately pushed it through. France's integration into international markets made it painfully clear, through growing imports and shrinking exports, through higher inflation than its trade partners, and through capital leaving France, that the French economy was falling behind its capitalist neighbours and trading partners (Chapter 4). Though this was a wrenching process, and one that in the end destroyed the *Parti Socialiste* and placed France on a trajectory towards capitalism ascendant, it stabilised the French state: the Eastern Bloc experienced revolutions in 1989, 1990, and 1991, but the French state was spared a bicentennial event of its own.

In other words, in open commercial republics international trade integration forces governments to confront what, in the nineteen seventies, the state socialist regimes punted up the road. Commercial federation thus acts as a “beneficial constraint” (Streeck, 1997), preventing even powerful domestic coalitions from causing durable ossification. Commercially closed market democracies feature markets, so that major shifts in technologies, resources, or tastes will show up in relative price changes. It is not obvious, however, given majority rule and given the reluctance that majorities have historically (and understandably) displayed in the face of major and uncertain change, that, when faced with challenges akin to those of the nineteen seventies, they will do more than play for time. Ossification is thus an important problem.

I believe there is an answer that is both feasible and in line with the ethos of commercially closed market democracy. In particular, this regime form ought to include a different kind of “beneficial constraint:” open borders for people. While capital and commodities are not freely movable across the borders of a commercially closed market democracy—whence the name—no such barriers should exist for human beings.¹⁵ This constitutes the reverse of capital and labour mobility today, or indeed in an open commercial republic, where “legal persons [in particular corporations] can easily roam the globe and enrich their owners, and the holders of capital can search for the legal order that gives it the best protections [while] natural person are held up at borders and can cross only, if at all, with visas” (Pistor, 2019, p. 221).

¹⁵ The same, I want to make explicit, goes for ideas and culture.

Where this is the case, and where other states adopt similar migration regimes so that migration is a real option, political actors face beneficial pressures: if ossification takes root and ordinary democratic politics fail to dislodge it, people will vote with their feet.¹⁶ The constraint is not immediate nor hyper-responsive, since emigration is difficult, and particularly so in conditions of commercial closure.¹⁷ For its effect on government, though, this sluggish and delayed nature may be good: as Albert Hirschman pointed out, too easy an exit leads to the atrophy of voice, while too hard an exit may lead to a feeling of disempowerment (Hirschman, 1970, 1993). Costly but possible exit, as in the case of free migration, may thus be a good supporting institution for voice.

This policy also embodies the ethos of commercially closed market democracy, its very animating principle: the prioritization of human beings over capital, the subordination of the latter in pursuit of freedom and flourishing for the former. Crudely speaking, whereas under unbridled capitalism (and to a significant extent, too, in an open commercial republic) people serve the market, under market democracy markets are fenced in to serve people.

¹⁶ Incidentally, this also further reduces the likelihoods of outright tyranny or tyranny of the majority taking root: in both cases, those negatively affected can exit, thus levying pressure on the regime to change.

¹⁷ Commercial closure implies that capital movements in and out of the polity require permission. While those who choose to emigrate permanently could be allowed to take a certain amount of capital with them, in order to prevent this from becoming a loop-hole through which capital mobility re-emerges, it will likely be necessary to forbid the re-import of this capital, should the emigres in question choose to return later. This will raise the bar for the decision to emigrate in the first place.

F. Open borders for people require low international inequality to be politically sustainable

Granted that open borders are demanded by the ethos and ideal of commercially closed market democracy, and granted that the possibility of exit is sufficient and likely necessary to preventing their ossification – are open borders politically viable?

I believe the answer is yes, though only where open borders coexist with low flows across them: a common ethos, a minimal shared identity, and a shared public sphere are necessary prerequisites for the functioning of a democracy (Grimm, 1995); where migration exceeds a certain threshold, say more than twenty per cent of a polity's population has been born abroad, these prerequisites of democracy start to be endangered.

How can open borders be rendered compatible with comparatively low flows across them? Approximately equal living conditions must be achieved across the space of free movement. Since most people have locally specific family ties, networks of friendship, specific languages, religions, and memories, in brief, since people have a *home*,¹⁸ approximately equal living conditions very likely suffice for migration flows, in the presence of open borders, to remain permanently at a politically sustainable magnitude.

The question of open borders hence boils down to the question of how to reduce, vastly, the differences in prosperity that hold between the potential different commercially closed market democracies today. Is this a realistic prospect? Once more, I believe the answer is yes – or at least not no – since commercially closed market democracies have both

¹⁸ By “home” I mean what Germans call *Heimat*.

an interest in, and powerful instruments for, the reduction of international economic inequality.

The interest is both of a higher and of a lower order. Of a higher order, as I showed above it is in the enlightened self-interest of commercially closed market democracies to have open borders, to so put in place beneficial constraints on their own political actors. To render open borders politically viable, living conditions must be drastically more equal than they are today. The enlightened self-interest in a beneficial constraint thus translates into an interest in prosperity abroad.

Of a lower order, approximately equal living conditions are also required to render commercial closure democratically sustainable over time. Where some jurisdictions are considerably poorer than others, with wages correspondingly lower, it becomes easier to form a coalition against commercial closure: would-be capitalists, senior managers, and the financial sector could ally with consumers to demand commercial opening, with consumers brought into the alliance through the promise of cheap imports.¹⁹ Commercial closure is thus only viable for the long term—in a democracy—where wages and production costs abroad are approximately the same as at home; for in that case, the power-shift-effect of commercial opening (operating to the detriment of democracy and majority rule) will outweigh the consumer-gains-effect, rendering it more difficult to argue for commercial opening. The best means of achieving high wages abroad, in turn, is for both productivity

¹⁹ Once again, Marx's observation applies: "The cheap prices of [...] commodities are the heavy artillery with which it [in this case a coalition for commercial opening] batters down all Chinese walls" (Marx, 2000 [1848], p. 249).

and demand to be high abroad. Commercially closed market democracies thus have an interest in development and high and equal wages abroad, as a precondition for stabilizing domestic politics in support of commercial closure.

This explains the interest, but not yet the tools. A first tool that commercially closed market democracies can use in support of prosperity abroad is technology transfer. In virtue of commercial closure, the domestic resistance against technology transfer will be drastically lower than in open commercial republics. Given the active interest of political actors in equal living standards abroad, and the lesser resistance of market actors at home (since they do not compete with the potential recipients of technology transfer), commercially closed market democracies can feasibly engage in significant technology transfers.

Second, commercially closed market democracies can credibly propose a development model that has historically been effective in bringing countries up to the technological frontier: closing domestic markets through tariffs or other means, thus creating rents for domestic firms; then making sure those rents are used for investment rather than consumption or corruption, through state coordination of production and finance and by making them conditional on successfully exporting products abroad (Amsden, 2001; Chang, 2003; F. List, 1909 [1841]). This model can credibly be proposed by commercially closed market democracies because, again in virtue of commercial closure, there is little interest in foreign jurisdictions opening their markets. Further, the temporary acceptance of imports (against a baseline of commercial closure) from countries willing to sign up for this developmental model can be used as a double

enticement: on the one hand for the countries whose prosperity is desired, to move their domestic politics towards support of this model, and on the other hand for consumers at home, who benefit from the temporarily cheap imports that this entails.

Given both an interest in, and two powerful tools in support of, prosperity abroad, I believe that commercially closed market democracies can credibly work towards an equalization of living standards, first in their immediate neighbourhoods and eventually at the global level.

This links, incidentally, to Adom Getachew's recent work on the intellectual history of anti-colonial nationalism. Like "the universal aspirations of anticolonial nationalism" (Getachew, 2019, p. 28), commercially closed market democracy should not be understood as a "dangerous parochialism," but rather as "another universalism propelled by the effort to institutionalize the international conditions of self-government" (Getachew, 2019, p. 28). Far from a form of isolationism of thought, culture, or people, this ideal typical social order is an attempt to imagine how democracy can be universalised and sustained under the modern predicament. In doing so, it follows Keynes' injunction that "[i]deas, knowledge, science, hospitality, travel – these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible and, above all, let finance be primarily national" (Keynes, 2015 [1933], p. 86). It follows also in the footsteps of the tradition described by Getachew, forged by statesmen and thinkers of anti-colonial worldmaking like Kwame Nkrumah and Eric Williams, Michael Manley and Julius Nyerere: commercially closed market democracy is an attempt to embed state-level democracy in an appropriately structured, non-

hierarchical international order – an order of free movement for people, ideas, and culture, but politically controlled movements of commodities and capital.

G. Commercial closure need not lead to international war

This raises, finally, the problem of war and peace. Unlike the issues discussed above, this concern may arise from the success of commercially closed market democracy, rather than from its failure: will not states in such a world, precisely “because of their independency, [be] in continual jealousies, and in the state and posture of gladiators; having their weapons pointing, and their eyes fixed on one another” (Hobbes, 2010 [1651], p. 79; Rousseau, 1997b)? In other words, will not a world of commercial closed market democracies be a world of war, because each state must aim at further expansion, not in pursuit of *grandezza* and expansion, but to be secure against the uncertain motives of everyone else?²⁰

While this is not the place to offer a comprehensive response to this concern, I observe that Hobbes himself saw a solution to it that bears striking resemblance to the ideal of commercially closed market democracies outlined here: war between states could be prevented, Hobbes argued, through the psychologically transformative effects that a well-ordered, egalitarian state would have on its subjects (Grewal, 2016). Transformation at

²⁰ Note that that the open commercial republic, too, has this problem: this is what Hont, following David Hume, called the “jealousy of trade” (Hont, 2005). In answer to it, theorists of the open commercial republic have suggested that commercial federation, i.e. deepening international trade and financial integration, can pacify the bellicose instincts (for a recent take, see Gartzke, 2007; for older arguments, see Hirschman, 1977; Paine, 1894 [1776]; Schumpeter, 1951 [1919]). This answer has been intensely contested, however (for a contestation of Gartzke 2007, see Dafoe, 2011; for earlier arguments, see J. A. Hobson, 1965 [1902]; Lenin, 1934 [1917]; Luxemburg, 2003 [1913]).

home, in other words, would render obsolete the worry of war abroad.²¹ Similar views have been defended by philosophers and social theorists from Kant (1996c [1795]) to Keynes: “If nations can learn to provide themselves with full employment by their domestic policy [...], there need be no important economic forces calculated to set the interest of one country against that of its neighbours” (Keynes, 2015 [1936], p. 261). It is a reasonable hope, then, that the problem of inter-state war may be attenuated, if perhaps not solved, in a world of well-ordered, egalitarian, commercially closed market democracies.

What I have offered here are, clearly, highly preliminary remarks. Our ignorance about commercially closed market democracy vastly exceeds what little, if anything, we know about this social order. Questions of transition remain deeply unclear;²² the role and structure of firms – arguably another essential feature for an extended division of labour, around which politics in modernity must therefore fit – in this social order is not well

²¹ This links to democratic peace theory in international relations. For a recent review of the enormous literature on this topic, see Hayes (2011), for an older but comprehensive review, Ray (1998).

²² The minimum size constraint, for example, implies that in many regions existing states would have to come together to form a viable commercially closed market democracy. The process of state merger and state formation, however, is fraught with danger and has historically rarely proceeded democratically. Further, even if starting from an open commercial republic of minimum viable scale, what are the politics of transition? Who is the political agent that could feasibly push for this, given that, in virtue of the dynamic of water and oil, the institutions of democracy will likely be hollowed out?

understood;²³ and little is known about the political economy of non-capitalist markets.²⁴ More than a set of answers, the upshot of this dissertation is thus a new set of questions.

In closing, I turn towards the implications that the arguments developed here have for political theory going forwards. What sort of questions are worth asking, and what methods may be suitable for addressing them, if what was said here is, at least broadly speaking, on the right track?

H. Political Theory after the Rawlsian Moment

Since 1971, anglophone political theory has revolved around John Rawls' *Theory of Justice*, and the paradigm that it inaugurated.²⁵ We need not agree with D'Agostino's stark

²³ How ought firms to be structured in a commercially closed market democracy? While there is good theory around the economics of different ownership models in the context of capitalist markets (Hansmann, 1996), this does not answer the question of what forms of ownership are desirable, all things considered and in the context of a commercially closed market democracy in which agents operate with different expectations and behavioural algorithms, in particular Kant- rather than Nash-optimization. Preliminary inquiries rightly look towards firm democratization (Ferrerias, 2017), in particular since the efficiency costs of democratization does not seem fatal even under a capitalist ethos (see, for example, codetermination in Germany) (Hussain, 2009, 2012). However, the "democratize the firm model" most likely fails to apply, at least prima facie, in the single most important sector in any market economy: finance. How to democratise this sector remains an important and under-theorised question.

²⁴ By non-capitalist markets I refer to markets animated by a non-capitalist ethos, and with an understanding that private sovereignty over the division of labour is not assured. How can we reliably prevent such markets from becoming captured or un-competitive? How does investment function when private sovereignty is not guaranteed in the future? What does the political economy of migration look like, where borders are largely closed for commodities and capital but open for people?

²⁵ At the time of writing (May 2019), according to Google Scholar *A Theory of Justice* has been cited more than 80,000 times, *Political Liberalism* more than 21,000 times. Among post-WWII works by authors listed on the Yale Political Theory Comprehensive Exam List, only two works are broadly within the same league, though both of them perhaps boosted by their inter-disciplinary status (Michel Foucault's *Discipline and Punish*, with around 70,000 citations, and Judith Butler's *Gender Trouble*, with 60,000). The next two works have around one third (Hannah Arendt's *Human Condition* and Alasdair MacIntyre's *After Virtue*, both with around 26,000 citations) the citations of *A Theory of Justice*, and further works engaging with the Rawlsian tradition, broadly speaking, follow closely, with Robert Nozick's *Anarchy, State, and Utopia* at 21,000,

pronouncement, “the Rawlsian project has failed” (D’Agostino, 2018, p. 29), to see that the Rawlsian moment is coming to an end. In line with recent historical scholarship (Eich, 2019; Forrester, 2019), my dissertation gives reasons why this moment is ending, showing how the persuasiveness of the Rawlsian project depended on the specific time, place, and context of the post-World War II United States.

In particular, Rawls and most who followed in his wake assumed (implicitly or explicitly) a number of stylised facts: democracy is the best first-cut description of Western political regimes; reason-giving and reason-taking play an important, even if not exclusive, role in democratic politics; and capitalism, even in its globalised form, is compatible with democracy. These stylised facts gave the Rawlsian research program its coherence and drive: they made credible the implicit assumption that Western regimes, approximately as they already are, have the capacity to turn public reason into political reality. Given this assumption, and *only* given this assumption, debates about the content and nature of public reason made sense as the heart of political theorising, justification as its central concept, and the realm of the ideal as its main site.

These stylised facts may have held when and where Rawls was writing,²⁶ but they are not true either today or in modernity in general, this dissertation has argued. As the *trente glorieuses* fade deeper into history, stylised facts at once old and new are returning to

Ronald Dworkin’s *Taking Rights Seriously* at 18,000, and Iris Marion Young’s *Justice and the Politics of Difference* at 16,000.

²⁶ Perhaps this set of stylized facts also seemed credible due to the audience that evaluated them, and for whom Rawls was writing. Had the discipline been less white and male, it is not obvious that Rawls’ focus on reason giving and reason taking, as opposed to a focus on power and how it operates, would have been equally convincing.

the fore: modern politics must fit around an extended division of labour; capitalism is not compatible with democracy and corrodes it over time; and the open commercial republic, a more viable regime than is often appreciated, may well already be the best first-cut description of Western regimes, rather than democracy.²⁷

I cannot say with certainty what research programme – if indeed *one* programme, as opposed to an overlapping set of different ones – follows from this new and old set of stylized facts. It does appear to me, though, that something new and at least potentially coherent is already emerging in political theory and adjacent fields: in the history of thought, whether in the study of the eighteenth (Hont, 2005, 2015; Nakhimovsky, 2011) or the twentieth century (Slobodian, 2018), scholars are re-focussing their attention on the relationship between democracy and capitalism, the state and the division of labour. Similar questions are surfacing in analytical political theory (O’Neill, 2017), critical political theory (Fraser and Jaeggi, 2018), critical legal theory (Grewal & Purdy, 2017), sociology (Crouch, 2004, 2011; Streeck, 2011, 2014a, 2016), and economics (Piketty, 2014). Methodologically, too, a realist turn is taking place in political theory (Galston, 2010; Gaus, 2016; Mantena, 2012), and considerations of feasibility have begun to supplement ideal-theoretic analysis (Wiens, 2015a, 2015b). All this hints at a shared recognition that, if politics in modernity must fit around an extended division of

²⁷ If these stylized facts are true, and if they are true of modernity in general, then Sagar’s dramatic pronouncement, that “post-war Anglo-analytic political theory has largely failed to register the substance of modernity” (Sagar, 2018, p. 487), is perhaps not entirely hyperbolic.

labour, then political theory in modernity, too, must attend to questions of economics as well as politics, of feasibility as well as desirability.²⁸

This dissertation was one attempt at doing so, at doing political theory without ignoring the economy, of attending to concepts without losing sight of history. It argued that the modern predicament presents us with a perennial problem: only democratic politics can be lastingly legitimate; but only a state whose politics fit around commercial society can last. Given that capitalism and democracy are not compatible, and given that no dialectic of history or capitalism points beyond modernity, the modern predicament forces us, I concluded, into choosing between the open commercial republic and commercially closed market democracy. While I have made my preference clear, I believe the choice to be far from obvious: even if the latter is more attractive as an ideal-type, the former is the devil we know.

This line of argument sparks both a narrow and a wider research agenda. The narrow agenda departs from accepting, for now, the arguments made here, and points towards questions like those outlined in footnotes 22-24 above (pp. 508): what does a commercially closed market democracy look like, precisely? What are its conditions of possibility? What political agent could or should move us towards it? In addition, it renders the open commercial republic an object of serious analysis: questions like “What does the most attractive viable form of an open commercial republic look like?” or “How can peace

²⁸ Substantively, it has been argued, “[i]f modern politics cannot ignore the economy, neither should political theory” (Hont, 2005, p. 2). Methodologically, it has been argued, “political theory must engage with full-blooded historical analysis of social change, not (just) the history of political ideas” (Sagar, 2018). I agree on both counts.

be assured in a world of open commercial republics?” would also move to the fore. A wider research agenda would depart from the judgement that the problem is well-framed—the modern predicament is real—but that my analysis thereof is misguided. If the modern predicament does not imply, against what I argued here, a choice between open commercial republic and commercially closed market democracy, then a research agenda follows that aims to discover and describe other regime forms viable under modernity.²⁹

In either case, it is worth asking anew a long-prominent, but now strangely forgotten question: what, if anything, is the link between economic self-sufficiency and democracy? As Robert Dahl pointed out, both the Greeks and early modern theorists of democracy, particularly Montesquieu and Rousseau, were acutely concerned with the scope of the market relative to the polity, emphasizing the importance of frugality as a means for self-sufficiency (Dahl, 1988, pp. 20-1).³⁰ Much of eighteenth-century political thought revolved around variants of this question (Hont, 2005), and in Fichte’s *Closed Commercial State* (2012 [1800]) German idealism produced an obvious forerunner of the analysis given here (Nakhimovsky, 2011). Indeed, while the connections between economic self-

²⁹ O’Neill, for example, argues that “If we are to be as hopeful for our own future grandchildren as Keynes was able to be in 1930, then one task for political philosophy will be to imagine the possibility of a future in which we have the political institutions that allow democracy to regain control of capitalism” (O’Neill, 2017, pp. 370-1). While I personally believe this to be the pursuit of a mirage—since I have argued that democracy and capitalism cannot durably coexist—this is a good example of the wider research agenda implied by this dissertation.

³⁰ Dahl had the following to say: “frugality was necessary not only in order to avoid the corruption inevitably associated with opulence but, more relevant to the issue here, in order to insure self-sufficiency and thus independence from the control of others over their own affairs. Although the Athenians violated this axiom, and arguably by doing so confirmed its wisdom, it continued in democratic thought until American prosperity [...] caused it to be rejected. *Yet I am by no means certain that the original vision was mistaken*” (Dahl, 1988, p. 21, italics added).

sufficiency and democracy largely dropped from view in twentieth-century political theory, a number of twentieth-century *economists* kept their eyes firmly trained on them, whether in appreciation (Keynes, 1933; Myrdal, 1957, 1960 [1958]; Rodrik, 1997, 2011) or animosity (Hayek, 1948b [1939]).

Whether or not the reader thus agrees with my analysis of democracy and capitalism, the dynamic of water and oil, the (un)desirability and viability of capitalism, or the desirability and viability of commercially closed market democracy, I hope to have convinced him or her that these are questions worth tending to. When doing so, the modern predicament forces us to pay attention to what is feasible as well as to what is desirable. As realists have been at pains to point out, moving political theory forward after the Rawlsian moment depends on it. Yet, in doing so, we must never give in to what Fichte called the “incurable illness” of “regarding the accidental as necessary” (Fichte, 2012, p. 40): more is possible than we can know today, more imaginable than we can see from here.

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