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Vivek
Chibber

The ABCs
of Capitalism

Capitalism and the State

Catalyst

The ABCs of Capitalism

Understanding Capitalism

By Vivek Chibber

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Published by Jacobin Foundation
388 Atlantic Avenue, Brooklyn, NY 11217



Capitalism and the State

Capitalism is a system based on a fundamental economic inequality— a small proportion of the population controls the means of production, while most of the remaining population is forced to work for them. This inequality in *wealth* in turn generates massive inequalities in *income* — because they control the means of production, employers demand that they get to take home the lion’s share of the income that their firms produce. Capitalists rely on their property rights to grab most of the revenue that their establishments create. This is a kind of systematic extortion. Basically, capitalists tell workers, “If you want to work for us, you’ll have to accept our terms. If you don’t like it, try living without a job.”

For their part, the workers end up accepting the bargain because a bad job is better than no job at all. But they agree to much more than that. They also accept that, while they are at work, they will

hand over much of their personal liberty to the boss — to decide how fast they will work, when they will eat, how much they can move around, who they talk to, what clothes they wear, etc. The power over the terms of employment gives capitalists an enormous degree of control over workers' basic wellbeing. Their investment determines how many jobs are created, they choose who has those jobs and who doesn't; they set the pace of work; they control who gets promoted and who doesn't, etc. ... and it's the workers who have to adjust. Since they are forced to constantly adjust their priorities to decisions made by their bosses, workers' lives tend to revolve around one main issue — the job. All this is just another way of saying that, in our economic system, capitalists get to set the terms on which most everyone else lives.

The modern labor movement has used every possible channel to reduce employers' unchecked power, and also to find ways of counteracting it. One such avenue has been the democratic state. After all, the state is supposed to be the guardian of the general interest. So if capitalists call the shots in the economy, maybe governments can help to even the scales by coming down on the side of the workers — by passing laws that limit employer abuse, and taxing and spending in a way that improves workers' bargaining position. This expectation was why labor movements everywhere fought for poor people to have the right to vote. And it was also why capitalists and the wealthy more generally fought against it; both sides expected that if workers got the vote, they would use their numbers to elect politicians who would soak the rich.

In some ways, the workers' hope has been fulfilled. Democracy has been a definite boon to the poor. Democratic states do protect workers' interests more than oligarchies or dictatorships do. And yet, it remains true that poor people don't have real political power. Even though a Rockefeller has the same number of votes as anyone who works for him, and even though his workers have the numbers, somehow his political *influence* is infinitely greater than

that of his workers. Even though democracy has tamed the class bias of the state, the basic thrust of state policy is nevertheless decidedly in favor of the rich. It is still fundamentally *their* state. In the advanced industrial world, nowhere is this more apparent than in the United States, and never has it been clearer than over the past generation. We are living in a new Gilded Age, in which an immense concentration of wealth has grown together with the concentration of *political power*.

This pamphlet analyzes the sources of state bias. We need to understand why, far from *counteracting* the power of capital, states tend to *reinforce* it. We need to recognize the structural forces that bind it to capitalist interests, even though capitalists' small numbers should be a disadvantage in a democratic system.

A NEUTRAL STATE?

There is a basic and powerful intuition behind the view that in a capitalist democracy, even while the economy is under capitalist control, the state doesn't have to be. State policy is created by parties and politicians, and politicians are elected into office on the number of votes they can garner. The vote of the richest person isn't worth any more than that of the poorest. And better yet, the poor vastly outnumber the rich. Not only does this equalize the playing field between rich and poor, it might even tilt it in favor of the poor — because in a democracy, it is numbers that matter. A rational politician would be foolish to pander to capitalists since they can only amount to a few tens of thousands of votes, whereas workers number in the millions. So, if a party really wants to be a political force, the sensible thing for it would be to listen to the largest of the interest groups out there, which is not the capitalists.

The political theory that best embodies this view is called *pluralism*. Pluralism holds that in a democracy, the race for votes neutralizes the power of any particular group in society. If we assume

that politicians are basically interested in being elected — certainly a reasonable assumption — then they will bend to whichever group comes together to offer up the largest number of votes. So if workers can organize their votes into a cohesive bloc, they can exert decisive influence over politics. But not just workers, any interest group can exert power, as long as it can get its act together and prove that it can deliver votes: religious groups, ethnic minorities, the elderly, women, students, etc. All these are potential interest groups, and parties will slice and dice the voting public into whichever collection of interest groups can carry them to power.

Pluralism is and has been the most influential theory of the state for quite some time. Notice that it turns on two key premises: first, no group is more important than another in the influence game; and second, the state is *ex ante* neutral. We have already introduced the first of these two premises: when we say that any interest group can win in the influence game, it amounts to saying that no group has a necessary advantage over any other. Which group wins depends on the skills of the group's representatives in making their case, organizing others into a viable electoral or lobbying force, cobbling together a coalition with other groups, and, of course, making a case to the wider public. All these factors go into deciding which interest group wields influence. And the skills that go into this are generally

When the poor have policy preferences
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available to everyone. Hence, no particular interest group has an advantage over any other.

The second premise is also implicit in the story just told. If it is true that any interest group can potentially win the influence game, it implies that the state is also willing to *be* influenced by anyone. State managers — presidents, legislators, and high level bureaucrats — are open to suggestions. They listen to actors who are persuasive and, more importantly, seem to command real influence. This is rational for them because, again, politics is ultimately about numbers. If an interest group is able to really mobilize its members and base, if it is able to put together an effective electoral coalition, then any reasonable politician will pay attention, regardless of what the nature of that interest group is. Of course, once the influence is exerted and the state pays heed, it will pass legislation in the favor of the winning group. In this sense, it won't be neutral *ex post*. The point is, in being open to listening to all groups and willing to be pressured or influenced, the state is neutral in principle; it doesn't have *its own biases* for or against any particular part of the population. It doesn't favor any of them. In this sense, pluralists describe the state as being neutral.

A BIASED STATE

This description of politics is a very comforting one — but it seems that the American public never got the memo. If experience counts for anything, ordinary citizens have come away with the conviction that the game is rigged. Rather than seeing the state as broadly responsive to ordinary people, they view it as a remote entity that can't be trusted. Public confidence in government is at an all-time low, with only 20 percent reporting in 2017 that it could be trusted to shepherd their interests.¹ And this isn't a blip — the measure has

1 Pew Research Center, "Public Trust in Government Remains at Historic Lows as Partisan Attitudes Shift," May 2017.

managed to climb over 50 percent just once since 1972, and that was right after the 9–11 attacks. For close to two generations, the majority of the American public has felt that its government can't be trusted.

And the reason isn't hard to find. In the most recent poll, 82 percent of Americans say that the government is basically controlled by the wealthy, while 76 percent say that poor people have little influence.² This is just the most recent telling of the same story. For almost 50 years, most Americans have felt that the reason they can't trust government is because it is in the grip of "big" special interests — that is, rich people and corporations — while ordinary voters have little or no influence. None of these facts bode well for the pluralist understanding of a capitalist democracy.

Of course perceptions can be wrong. Maybe people are just frustrated and spinning stories to comfort themselves: conspiracy theories about state capture, morality tales about the "little guy" getting shafted, etc. But it turns out that these perceptions are backed up by scholarly research. In a series of landmark studies, American political scientists are validating what most working people have known all along — that state policy is in fact very strongly biased in favor of the wealthy. One way to measure the influence of different classes of people on the state is to ask people what kind of policy they'd like to see, and then check whether the policies actually passed match up with the expressed preferences. The results are sobering. Both political parties show a marked tendency to favor the desired policies of the rich over the poor. But more importantly, when the poor have policy preferences that conflict with those of the rich, the chances that the policies of the poor are passed go down to around zero. In other words, regardless of who is in power, the only time the poor have any influence on the policy process is when wealthy people agree with them. But when their demands go against the demands

2 AP-NORC Poll, June 2017.

of wealthy people, the poor have no impact whatsoever.³

These findings have been a kind of wake-up call for mainstream academics, who have had a stubborn attachment to a pluralist viewpoint for a long time. But for most of the public, especially working families, it is hardly news— as the polling data has shown for decades. For progressives, it is in fact common wisdom, because the class bias of the state is most visible when activists try to change policy in favor of working people. They experience the state’s class bias in its resistance to their demands, in its hostile and often punitive response. It has been this way for more than 200 years, and it continues to be so today. The challenge is to first understand what the sources of state bias are and then to devise a strategy to overcome or neutralize them. That is what this pamphlet sets out to do.

CAPITALISM UNDERMINES DEMOCRACY

The underlying premise of the pluralist vision is that democracy neutralizes the power differences created by capitalism. Sadly, that’s a false premise. The essence of the problem in modern societies is that capitalism overwhelms democracy, ensuring that the state is fundamentally biased toward capitalist interests. There are three basic channels through which this happens:

- The wealthy are more likely to *get into* office.
- The wealthy exercise greater influence *on* the people *in* office.
- Most importantly, the state’s dependence on capital ensures that politicians will favor capitalists *even if the first two mechanisms fail*.

3 The key work here is Martin Gilens, *Affluence and Influence: Economic Inequality and Political Power in America* (New Jersey: Princeton University Press, 2014). A good non-technical introduction is Benjamin Page and Martin Gilens, *Democracy in America: What Has Gone Wrong and What We Can Do to Fix It* (Oxford: Oxford University Press, 2018).

These three almost always work together. In some countries, for some periods, labor movements have found a way to neutralize the first or the second channel. Neutralizing the third is not possible as long as we are in capitalism; it's the fail-safe and also the deepest constraint of the three. This is why it's the most important. But before we come to it, let's examine the first two.

The Personnel

The promise of democracy is that anyone can run for office, and as long as they can mobilize the voters behind them, anyone can win. But the reality is that the people who win tend to come from one particular interest group—the wealthy. This holds true for all levels of government. An examination of presidential administrations shows that *two-thirds* of the members of *every cabinet* in the twentieth century were corporate managers, investment bankers, or corporate lawyers.⁴ This means that every cabinet in recent American history was basically run by capitalists or their chief supporters. If we turn to Congress, it isn't much better. The vast majority of House and Senate members in the US are themselves from the wealthiest sections of society. In 2014, the majority of those elected to the House were millionaires, with the median net worth being just under \$1 million and that of Senate members, \$2.7 million.⁵ Even if state managers aren't from the capitalist class themselves, they are typically from social and institutional milieus that orbit this class, such as high-level law firms, elite schools, and prestigious research institutes. These are people who spend their lives serving capital, even if they do not themselves own much of it.

Why does this matter? Most obviously, it is because the social

4 Dennis Gilbert, *The American Class Structure in an Age of Growing Inequality*, 9th edn (Sage Press, 2015), 183.

5 *Ibid.*, 184.

TABLE 1
VIEWS ON POLICY ISSUES (PERCENT IN FAVOR)

Jobs and Incomes

Government should see to food, clothing, and shelter

Minimum wage should be above the poverty line

Government should provide jobs for everyone able and willing to work who cannot find a job in private employment

Decent standard of living should be provided for the unemployed

Health Care

National health insurance should be financed by tax money

Retirement Pensions

Social security should be expanded

Education

Whatever is necessary should be spent for really good public schools

Government should make sure everyone can go to college

Taxes

Government should reduce differences between high and low incomes

Government should reduce inequality by heavy taxes on the rich

Source: EPI analysis of Bureau of Labor Statistics and Bureau of Economic Analysis data. Updated from Figure A in *Raising America's Pay: Why It's Our Central Economic Challenge*, Economic Policy Institute.

ALL CITIZENS	MULTIMILLIONAIRES	DIFFERENCE
68	43	-25
78	40	-38
53	8	-45
50	23	-27
61	32	-29
55	3	-52
87	35	-52
78	28	-50
46	17	-29
52	17	-35

background of people has a huge effect on how they see things. Table 1 summarizes the differing views of the very rich and ordinary people on a number of policy issues. Notice that the views of the wealthy are consistently more conservative on all the issues. Now, if their ideas of right and wrong on these matters are skewed in this fashion and if elected officials are selected from within this group, those officials' policy agenda will also tilt in this direction. It will result in a policy bias toward the wealthy.

There's also a less obvious way in which class location matters. Politicians' choices aren't just shaped by where they *came from* but also by where they try to *get to*. A substantial proportion of legislators use their time in office to enter the corporate community once they leave politics. They work as consultants, lobbyists, or intermediaries, or start businesses of their own. The contacts and insider knowledge that they accumulate while in office are invaluable for businesses trying to get access to policy makers. So a short stint in Congress or Parliament has the potential of paying huge dividends down the line. This pipeline connecting careers in government to jobs as lobbyists is so pervasive that they even have a name for it — the “revolving door.” And why does it matter? If a legislator plans to slide into the corporate community after her political career, she will strive to spend her time in office making connections with potential future employers or contacts, and showing them that she is reliable — that she can be counted on to do the right thing. This only reinforces the bias in her policy preferences toward capitalist interests.

The Influence Game

Pluralists will acknowledge that the government is stacked with wealthy people. How could they deny it? But they would argue that the instruments of modern democracy serve to counteract individual bias. Whatever a politician's own proclivities, if she ignores inputs

from her constituents, if she rides roughshod over their desires, she will lose credibility and, in the end, lose power. This is why the crux of the matter, for pluralists, isn't the facts about legislators' personal backgrounds but the weight of public opinion, which is expressed either in blocs of voters in elections or pressure from organized interest groups in the policy process. As long as interested parties are able to come together and exert influence on the state, the managers of the state have to pay heed to them, on pain of being booted out of office.

For now, let's assume that politicians really do have good reason to listen to public opinion and pressure groups. It should be clear that this still isn't enough to vindicate the pluralists' optimism. Politicians' willingness to be receptive will only generate democratic outcomes if the poor are in fact able to get access to policy makers. For the poor to have as much chance of having their interests represented as the rich, they will also have to have as much success in forming and using pressure groups as do the rich. But if the whole influence process is dominated by the wealthy, if they are the ones who have the state managers' ear, then, instead of the lobbying process serving to counteract the personal biases of politicians, it will in fact *reinforce* those biases. The lobbying success will be layered *on top* of the state managers' existing personal biases, making the state more securely tilted in favor of capital.

As it happens, there is very good data on who wins the influence game, and the results are weighted *overwhelmingly* toward capital. Take first the issue of lobbying, which is the most common means by which organized interests exert pressure on the state. In the United States, a great deal of influence peddling is carried out through registered associations stationed in Washington DC, which represent the interest groups that pluralists write about. These associations do the work of contacting legislators, writing policy briefs, making phone calls, meeting with policy makers and trying to bring them around to their constituency's point of

view, etc. In common parlance they are called lobbyists. These are political organizations that are supposed to have access to politicians to keep them honest. But in fact, the organizations representing business interests outweigh those working for labor — many times over.

In 2011, there were around 11,000 registered lobbying organizations in Washington DC. A major study of the lobbying process found that of these lobbying organizations, around 53 percent were exclusively devoted to representing business interests *and less than 1 percent* represented labor unions. Business lobbying groups outnumber labor groups *by more than 50:1*. If we look at organizations representing recipients of means-tested social welfare programs — like Medicaid or food stamps — there *wasn't a single registered organization* in Washington DC devoted exclusively to their interests. If we look at expenditure, it is even more lopsided. In 2017 the total amount of money officially spent by registered lobbying organizations in Washington DC was \$3.36 billion. Of this, business accounted for around \$2.6 billion, while labor spent \$46 million — so the ratio of business to labor spending was 56:1.⁶

Lobbying is just one form of exerting influence and by no means the most important. Equally significant is the role of money in elections. Running an electoral campaign, regardless of where and when, takes a great deal of money. In the United States, it takes a *huge* amount. In the 2016 electoral cycle, a total of almost \$6.5 *billion* was spent in the presidential and congressional elections: a bit more than \$4 billion in the latter and just under \$2.4 billion in the presidential race.⁷ Presidential campaigns now require war chests approaching a billion dollars. In 2016, winners of a House race spent an average

6 Total lobbying from “Lobbying Database,” <https://www.opensecrets.org/lobby/>; business total tabulated from “Alphabetical Listing of Industries,” https://www.opensecrets.org/lobby/list_indus.php (all sectors except “ideological,” “labor,” and “other”); labor total from *ibid*.

7 “Cost of Election,” <https://www.opensecrets.org/overview/cost.php>.

of \$1.5 million on their race, while the price tag on winning a Senate seat was \$12 million.⁸

All this money has to come from somewhere. Politicians like to boast about how many of their contributions come in small sums, suggesting that they are being fueled by the support of working- or middle-class families. But this is a trick. The *number* of donors is of course skewed toward smaller ones, since most people are not rich enough to donate large sums. But if we turn from the total number of donors to the relative weight of their contributions, we get a different picture. The fact is that a very small number among them account for the vast bulk of the funds flowing into elections. In the 2016 election cycle, *half of one percent* (0.52 percent) of the US population accounted for more than *two-thirds* (67.8 percent) of all the contributions made to political campaigns.⁹

One of the most astonishing discoveries came from a team of researchers from the *New York Times*. They found that just 158 families accounted for half of *all* the money that had been raised by the two parties in the early stages of the 2016 election cycle — around \$176 million between them.¹⁰ So even though small donors were the largest in number, they didn't matter that much in their economic weight. It was large donors who really pushed the needle. The flow of money into elections was, and continues to be, controlled by the capitalist class — the people who are economically in the top one percent of the population.

The fact that money matters so much means that those with the

8 “Election Trends,” <https://www.opensecrets.org/overview/election-trends.php?cycle=2016>.

9 “Donor Demographics,” <https://www.opensecrets.org/overview/donordemographics.php>.

10 Nicholas Cofessore, Sarah Cohen, and Karen Yourish, “The Families Funding the 2016 Presidential Election,” *New York Times*, October 10, 2015, <https://www.nytimes.com/interactive/2015/10/11/us/politics/2016-presidential-election-super-pac-donors.html>.

Two-thirds of the members of every cabinet in the twentieth century were corporate managers, investment bankers, or corporate lawyers.

most money wield the most *clout*. Aspiring candidates for office know that they have to raise a huge amount of money. Any rational candidate will also understand that it makes a lot more sense to approach those with more money to give, so as to save time and effort. Better to get a thousand dollars in one shot, as against getting ten dollars apiece from one hundred different donors.

This creates a very specific challenge for candidates. They have to be the kind of candidate capitalists would *want* to help out. If they aren't, then the money will flow to someone else, someone who capitalists think will better promote their interests. Candidates therefore create a personal profile and a political platform that, at the very least, won't alienate powerful funders, so they have a fighting chance of raising the money needed to be viable. They have to make their priorities acceptable to the super-rich; they have to promise to be available to the same people in case they demand an audience; and they have to craft a policy agenda that stays within the limits of what those moneyed people deem appropriate. They don't have to literally exchange special favors for money; the process doesn't have to be that corrupt. They just have to promise that they will be the kind of candidate rich donors can *trust*.

What this means is that in a money-driven electoral system, there are in fact *two* competitions in any electoral cycle — one behind the

scenes and the other out in the open. Behind the scenes, candidates first compete over donors; and then, later, there is the election we all see out in the open — the competition for votes. The crucial point is that the battle to attract donors decides which candidates are available in the second round, the battle for votes. Candidates who can't find donors are either weeded out before voters can even have a chance to weigh in, or become so marginal that they don't stand much of a chance of winning. They don't have the money to hire staff, they can't buy air time for advertisements, they can't run an effective campaign, etc. They either drop out or are pushed out. So the competition for money decides who gets to run in the competition for votes.

This entirely changes the role of public opinion in elections. Remember that two routes by which the public is assumed to discipline state managers is by organized lobbying and by the ballot box. In the mainstream view, a rational politician will align her policies with what the public wants, because public opinion will determine who wins in elections. According to that view, politicians' priorities will have to line up with the priorities of the general public. But this overlooks the impact of the competition for donors. The scramble for campaign finance forces candidates to place moneyed opinion above the priorities of the general public. They are compelled to align their policy agenda to the donors' agenda, because if they don't, they effectively count themselves out of the electoral competition.

As a result, elite opinion and general public opinion play different roles in the political process. Elite opinion is what candidates follow and *prioritize*, while general public opinion is something that they seek to *manage*. In other words, elite opinion *drives* the candidates' priorities, while mass opinion plays a more passive role, as a constraint which they try to negotiate. Now, managing public opinion is not the same thing as ignoring it. What it entails is a dual strategy, depending on how it aligns with capitalist interests. First, where it doesn't clash with what capitalists want, politicians are

happy to take it seriously, even pander to it. The best example here is non-economic issues, like religious conflicts, or social issues like sexual identity. These are often allowed to move to center stage because however they are resolved, they won't really touch the donors' economic interests. In fact, they are very useful as political lightning rods because letting them rise to the top of the agenda allows the policies closer to class interests be decided backstage, in negotiations between capital and state managers.

Second, in cases where public opinion does in fact clash with donor interests, it has to be neutralized in some way. The most typical is by either *deflecting* public demands into policies less threatening to elite interests, or by appealing to "pragmatism". The best example of this is how the parties in the US have handled public demands for national health care. For decades, popular opinion has clamored for some kind of national, public health care plan. Being unable to ignore it, both parties have tried to neutralize it. The Clintons deflected those demands in 1992, so that what the public got wasn't a European style national health care, but a monstrous, top-heavy system called "managed care," which, under the banner of "national policy," handed over health care to the insurance industry and private hospitals.

Twenty-four years later, when Bernie Sanders raised the call for a Canadian-style single-payer system, it was once again one of the Clintons who came to the status quo's rescue. Unable to do a bait-and-switch like she had in 1992 with Bill, Hillary resorted to deflating public expectations. Hillary was the "lower your expectations" candidate. Instead of taking public opinion as her cue, her strategy was to deflate it by charging that it was not realistic. The lesson here is that, as a favorite of the corporate community, Clinton's mandate came not from her voting public but from her donors. And her response to a demand that went against the donor interests was to do her best to neutralize the power of public opinion.

In sum, when we bring both of these dimensions of the influence

game together — the lobbying game and the electoral process — what emerges clearly is an overwhelming tilt in favor of capital. The implication is that the mainstream, pluralist view of a capitalist democracy is fatally flawed, even on its own assumptions. Pluralism holds that the state and its managers are not biased toward any particular section of society, and even if they are, they have to bend to public opinion, because they will be punished if they ignore it. What we have seen is that even if state managers take their cues from whoever wins in the influence game, they will still end up catering to the wealthy. In other words, even if they are neutral in their outlook, even if they aren't personally biased or are willing to ignore their biases, the state will still favor capitalists over the poor, *because capitalists' greater wealth gives them an enormous advantage over every other pressure group*. Far from neutralizing politicians' class biases, the political process ends up reinforcing them.

The Structural Connection

The two sources of state bias we have examined so far have this in common — they stem from capitalists' greater personal reach into the state. They are forms of *state capture*. The state ends up being biased because capitalists and their servants literally occupy the halls of power, or have influence over those who do. Now these mechanisms are no doubt important. Reversing them, or neutralizing them, would open up considerable space for more progressive policy, and experience teaches us that in those instances where they have been overturned, policy has tended to shift toward the interests of the poor. Most obviously, where working people have been able to form their own parties and elect candidates from more modest backgrounds, there has been a shift in the overall orientation of the state.

The best example of this is labor or social democratic parties in Europe and also in parts of the Global South. In these cases, it isn't just that policy makers have come from poorer backgrounds, but the

fact that the organizations have been able to free themselves from relying on the patronage of wealthy people. They've been able to raise their own funds, and just as importantly, as mass parties, they have mobilized the one resource they have in plenty — the commitment and energy of their members. They also have generated their own experts, so they are less dependent on policy advice from lobbyists; and they have direct experience in the lives of working people, so they have well-developed policy agendas. All of these qualities combine to significantly overturn the systematic advantage that capitalists otherwise have in the policy process.

But while blocking the various kinds of state capture goes some distance in correcting its bias toward capital, it does not by itself *overturn* that bias. That is because the state's class character isn't *fundamentally* based on the fact that capitalists have more and better access to policy makers. Powerful as these are, these are in fact secondary mechanisms. This is evident in the fact that even in countries where state capture has been partially neutralized — like the social democratic countries on the European continent — the prioritization of capitalist interests has not been shaken. Policy makers still have to respect the basic integrity of private property and the social priority of the profit motive. This is because there is a deeper, more powerful force that keeps the state tethered to the interests of the capitalist class, even when the other sources of influence are weakened. And the reason it is effective is that it is the one constraint that can't be neutralized or overturned as long as we remain in a capitalist system.

The fundamental source of bias is that the state is *structurally dependent* on private investment for its very reproduction. Whatever else it does, whichever policies it seeks to promote, it has to first ensure that the profit-making opportunities of capitalists are secure. And a central element of securing those opportunities is the responsibility of creating a political environment that owners of capital find friendly to their needs and designs. This obliges state representatives

Elite opinion is what candidates follow and prioritize, while general public opinion is something that they seek to manage.

to respect capitalist interests, regardless of what their own programmatic goals are, whatever their political ideology happens to be.

Let's examine this more carefully. In a capitalist economy, the production of goods and services is in the hands of those who own the means of production, the capitalist class. This is true by definition. Another way of putting this is that, in capitalism, the means of production are not controlled by the state — they are privately owned. Hence, there is a clear division between political institutions and economic ones. Economic transactions are carried out under the direction of capitalists, while public affairs like law-making and enforcing the peace are the responsibility of the state. Capitalists rely on public institutions to provide the background conditions that make their profit-seeking activities possible. The state, for its part, relies on the investment by capitalists to generate new income and wealth.

The fact that the state doesn't itself own the means of production is of critical importance. Like any institution that endures over time, it needs a steady stream of revenue to fund its operations. It has to pay for the civil servants that it employs, purchase the supplies it uses in its daily activities, etc. All of this is paid out of the state budget. But the budget doesn't magically create its own funds. They have to come from somewhere, and since the state doesn't own its own productive assets, they have to be acquired from other sources. The

main such source is *taxation*. State revenues come primarily from its taxing of the general public. These taxes are either levied directly on personal or corporate income or as various indirect charges like sales tax, excise tax, and value added tax. Whatever the form, these taxes comprise the main source of revenue for the modern state. They are what keep the state running.

Taxes are a claim that government makes on *income*. So if state managers wish to keep a steady stream of revenue coming in, the incomes on which they are making a claim also need to grow steadily. But we know, of course, that incomes in a capitalist economy depend on the investment decisions of capitalists. If capitalist employers open new establishments or simply expand their current operations, it means new jobs and more money for workers. As those new investments generate the sale of new goods and services, capitalists' profits expand and their personal income also grows. So the growth of income for capital and labor depends on a prior expansion of investment. And that means, in turn, that buoyant tax revenues for the state depend on an expanding economy, which in turn rests on expanding investment by capitalists.

This brings us to the crucial point. If capitalists could be programmed to keep up their investment activity no matter what policy makers did, then the state could pass whatever policies it wanted

Power to make social change
within capitalism takes more
than getting the right party
or the right people into office.

without much worry. The revenues would keep coming in and politicians' favored programs would be fully funded. The problem, of course, is that capitalists are under no such compulsion to invest. If they choose, they can slow down the pace of expansion; they might decide not to invest at all; they can even shift their money overseas and park it in financial instruments. What they do with their profits is entirely up to them.

For state managers, this creates a massive problem. If investors do choose to slow down the pace of investment, then it means that suddenly the budget begins to dry up, policy initiatives become uncertain, and social programs lose their funding. But just as importantly, as economic growth slows down, job growth also becomes anemic. Unemployment starts to creep up, poverty levels deepen, and the quality of life begins to deteriorate. In a democratic set-up, all of this means that the political party or president overseeing the decline in economic fortunes has to pay the price. Typically, they are pushed out of office in the next elections, since they are the ones the public holds responsible for its declining condition. So any slow-down in economic activity punishes policy makers in two ways — it deprives them of the resources they need to carry out their political agenda, and it undermines their electoral popularity.

The upshot of this is that state managers are typically very careful to avoid doing anything that might antagonize capitalists. This reluctance is an index of the fact that, in a capitalist system, the state is structurally dependent on capital as part of its very essence. Regardless of what the local or political specificities happen to be, this dependence is built into the fundamental architecture of a state in a capitalist society. It obtains regardless of how well capitalists are organized as a pressure group or how densely they populate the halls of power themselves. This is why, even if the other two channels of capitalist influence fail, the state remains a class organ — an institution that has to respect and prioritize the interests of capital.

Indeed, the importance of the structural dependence is that

it amplifies and strengthens the power of the other two channels of influence. Policy makers understand that their success in office fundamentally depends on the health of the economy: if people are losing jobs, they will typically vote the ruling party out of office. That being the case, political elites try their best to build investor confidence by being sensitive to investor priorities. This is why, in most cabinets, the key economic posts are given to well-known and trusted representatives from the business community. The finance ministry or treasury is typically headed by a banker; commerce is led by a leading businessperson, and so on. In matters of economic legislation, state managers don't wait for lobbyists to approach them with advice. Very often they reach out to industry representatives and actively seek their input, to ensure that the new laws are acceptable to industry.

In other words, because state managers are aware that their own security depends on investor confidence, they typically seek to build that confidence by inviting capitalists into the halls of power, granting them the access that other groups have to scratch and claw to get. Its structural dependence on capital induces the state to create interpersonal networks with individuals from that class. So even if political institutions are set up to neutralize all the advantages capitalists have in the influence game, the state has good reason to seek out that influence because of capitalists' privileged position in the system as a whole.

REAL POWER IS IN THE ECONOMY

There is a very important implication of the preceding argument. It suggests that in capitalism, real power doesn't reside in the state, it resides in the economy. This means, in turn, that *to achieve governmental office is not the same as having real power*. One might say that there is a big difference between *holding office* and *having power*. Time and time again, we have seen left-wing parties make

grand promises, get elected into office, and within a short time they betray their voters. Having promised ambitious programs of social reform, they end up delivering little of it — or worse, they impose even harsher measures of economic austerity than conservative parties might do. This happens because governments, even the most radical ones, can be brought to their knees by capital without ever firing a gun. All that capital has to do is to slow down the tempo of economic activity, slow down the pace of investment, and political leaders have little choice but to change their priorities so that placating investors pushes every other priority off the table.

Real power to make social change within capitalism takes more than getting the right party or the right people into office. It requires finding a way to counter the *economic* power of capitalists. The only way to do so is by building an alternative source of power, not just in the state, but in the economy itself, by the agent best positioned to achieve it. How this happens is the focus of the next section.

WHERE DO REFORMS COME FROM?

What the preceding analysis shows is that the popular perception about government isn't mistaken — the state *is* captured by the wealthy, and it *does* fundamentally cater to their interests. What's more, it doesn't favor them due to aberrations like corruption or politicians' moral weakness. The tilt toward capital is built into the system: first, because of the immensely greater resources that capitalists can mobilize to influence politicians, but more importantly, because of the state's structural dependence on capital. This means that, if left to its own, the state cannot be relied upon as a counterbalance to the power of the capitalist class. It won't step in to bolster labor's ability to negotiate a better bargain for itself, to protect workers from employers' power, or to help working people acquire basic necessities. Indeed, the state's most baseline tendency will be to *protect* the privileges acquired by the wealthy, not dilute them.

This raises an important question. If state managers will not typically pass progressive policies on their own, then where does progressive legislation come from? After all, every advanced capitalist nation, and many in the Global South, have a welfare state. And whatever else they might do, welfare states blunt the impact of market forces, sometimes redistributing income toward the working class, and at other times providing basic services at no immediate cost to them. These are clearly policies working people have themselves demanded and, more importantly, which capitalists have opposed. How could they have been promulgated if the state always and everywhere takes its cues from capital? What made this possible?

We should begin by noting that the preceding analysis doesn't imply that the state will never pass progressive reforms, but that it won't do so *if left to its own*. What we have described so far is a number of mechanisms that incline the state to prioritize the interests of capital over labor. This is the normal state of affairs, the status quo, in capitalism. The mechanisms we have described exert a *gravitational pull* on the state, making it orbit the interests of the capitalist class. But just as with gravity, it is possible to construct mechanisms that can, within limits, loosen the grip that capital exerts on state policy. It requires the creation of countervailing forces that endow the state with a degree of independence from capital, so that it might pass policies friendlier to working people.

The most important of these forces is pressure from an organized working class. Historically, it is when workers have threatened real economic disruption that states have moved in a more progressive direction.

How Class Struggle Counteracts State Bias

Recall that the deepest, most powerful constraint on the state is the fact that it is structurally dependent on capital. This basic fact ensures that the state's priorities are forced to align with the

priorities of capital. Now, it follows that if capital's priorities were to change so that they were willing to accommodate labor's interests, then this would open up a space for progressive reforms. This is why the labor movement matters. For, if capitalists have political power because they control the flow of investment, it is labor that creates the investable profits in the first place. A mobilized labor movement can force a choice on employers — agree to allow more progressive social policy, or face the prospect of ongoing disruption of production and hence of profit-making.

In situations where workers can impose real costs on employers through strikes, slowdowns, or other forms of disruption, it dramatically weakens the normal constraints on the state. Change can now come from two different directions. First of all, policy makers who are sympathetic to labor can use the economic disruption to call on their capitalist patrons. They can make the case that employers, who have hitherto been blocking progressive reforms, need to change their position, because it is *in their interest* to do so. Politicians normally too timid to fight for labor now can appeal to employers' own interests to suggest that the only way for employers to get profits flowing again is to accommodate labor's demands. Conversely, the momentum can also come from capitalists themselves. In situations of intense strike activity and disruption by labor, there have been times when segments of the capitalist class have realized that the only way to restore stability is to concede some of labor's demands. In these instances, labor creates a split within the class, bringing segments of the class over to the progressive coalition and becoming part of the movement pressing for reform.

Thus, reforms are made possible because employers are *forced* to concede them. And they are forced to do so because economic disruption makes it too costly for them to continue blocking the reforms. And the disruption, finally, is possible only if the social agent that creates the flow of revenue for employers decides that it is no longer willing to do so. This is why radicals have always insisted

on the centrality of class struggle for progressive reforms. No social agent has the ability to as effectively counter the structural power of capital, because capital doesn't *depend* on any other social actor in such a dramatic fashion.

But does this mean that every time we want anything positive from the state, it requires a national labor mobilization? One would hope not, because that isn't going to happen! People aren't going to join in strike waves or pour into the streets on a weekly or monthly basis, year after year, in order to pressure the state. So how do workers maintain some pressure on the state, if they are not going to be poised to unleash economic disruption at the first sign of elite resistance?

The most effective way is to establish a presence within the political system and within the state through a political party that fights for their interests — a labor party of some kind. The presence of such a political party, which is embedded in the working class and which runs for elections, creates a permanent advocate for labor's interests. Its presence ensures that labor doesn't have to flex its economic muscle every time a policy debate comes up. Instead, its power is institutionalized within the state and made part of the normal negotiating process between state managers. One might even say that having a dedicated party in the legislature creates a *multiplier effect* for whatever power labor is able to develop in the workplace. Parties are able to squeeze every bit of leverage they can out of every instance of mobilization or strike action. There is a force within the state that is committed to pushing as far as it can toward labor's interests.

There is an important caveat here. The existence of a labor party relieves the working class from having to hit the streets every time a policy debate comes up. The party fights for them instead. But, while the party might not require *actual* economic disruption every time it negotiates around policy, it does require that there be an effective *threat* of such disruption. A party in power, or in the legislature, can

only negotiate effectively for working people if there is an organized movement behind it, which could, if needed, shut down production. This is the counterpart to the threat that capital is able to wield, through its power to withhold investment if the state moves in a direction harmful to its interests. Labor party representatives have to be able to warn of a similar power from their side. So having a party can never be a substitute for building an organized and militant working class movement. Its political power in fact depends on having this movement behind it.

The Limits to Reforms

How far can class organizing and class pressure go in democratizing the state? Can it fully neutralize the power of capital? While we have seen tremendous progress in the countries with the most organized working classes, there are real limits to democracy in a capitalist system. Remember that as long as investment remains in private hands, the state simply has to prioritize their interests. And private control over investment is the very definition of capitalism. Even the most radical socialist parties, even the most powerful union movements, have to bend to this. As long as governing parties choose to respect the rights and prerogatives of those who own the means of production — capitalists, bankers, agribusinesses, financiers — they have to also respect their private and social power. And even when labor manages to chip away at this power by deepening political and economic democracy, the fact remains that they can't equalize the influence of ordinary people and the wealthy — because respecting private property means respecting the greater say that the wealthy have over economic decisions.

This is what it means, after all, when we say that in capitalism real power doesn't reside in the state but in the economy. We can democratize the state and through it substantially weaken the arbitrary power that capitalists have over the economic decisions that

affect everyone's lives — investment, employment, wages, work time, and so forth. And we can also loosen their grip over politics. But as long as we are in a capitalist system, the state will have to respect the structural power of capital. And as long as it does that, there will be a limit to democratization. For real democracy to be possible, we would have to open up those decisions to a much greater degree of social debate and decision-making. But the level of social control over the economy needed to achieve real democracy is simply not possible in capitalism. The implication is clear-cut — while a mobilized and organized labor movement can substantially democratize social life and demand concessions from the state, capitalism imposes real limits on how far political power can be equalized between the rich and the poor. To truly enable full participation in the decisions that affect us all, it will be necessary to go beyond capitalism.

The Roots of Decline

What the preceding section established is that Left political parties need to have an organized and mobilized working class movement to provide them with political leverage in the state. What we need to examine now is what happens if this partnership between the two is absent. This issue is important because it explains why parties that proclaim a socialist commitment have, in recent years, not only abandoned their radical programs, but have gone to the other extreme — of imposing harsh austerity measures on their own supporters.

It shouldn't be a surprise that if Socialist or Left parties come to power without organized class power, or find that power waning, they have to scale back their goals *to what the balance of power allows them to achieve*. This is because when they try to pass their policies in Parliament or Congress, their political opponents don't have much reason to agree to it. In these situations, conservative parties know that the Left doesn't have the "boots on the ground" to give them political leverage, and this weakens the Left parties' hand

in political negotiations. More conservative elements within the party itself can now make a case for scaling back radical ambitions in the name of “realism” — and they will be right, because policy agendas that were realistic when backed up with real working class power will now *in fact* be out of reach. Left parties in this situation find that the pressure coming from business is now far more menacing because business itself has less to fear from a backlash by organized labor. Gradually, these parties have to adjust their agendas to bring them closer in line with business preferences — because that’s what the balance of power demands.

There are two distinct routes to this rightwards drift of labor parties. One is when, due to economic shifts or political attacks, their working class base is eroded. An example would be if, due to deindustrialization, parties whose class support came from workers in the manufacturing sector found that their most ardent and militant union members became unemployed or shifted into sectors that were unorganized. In this case, a labor party might be very ambitious, but would find that it has lost a lot of the muscle that would have enabled it to fight for reforms. But the loss of a working class base can also come from old-fashioned class struggle, as in the United States during the 1980s, when union membership dropped through the floor in a matter of a few years under political attacks from employers. The political results were predictable. The conservative wing of the Democratic Party, under the leadership of Bill Clinton and others, pulled its agenda in a clearly corporate direction and was able to silence its more progressive critics, mainly under the banner of political realism.

The second route has been that of many European social democracies, in which economic transformation also played a role. But in this case, its effect was amplified by a growing conservatism within the political leadership, both in the parties and in the unions. The establishment of welfare states in these countries had been carried out under pressure from very militant and highly mobilized labor

movements in the 1930s and 40s. But already in the early years after World War II, unions in Europe were coming under the sway of more conservative leaders, who were concerned with maintaining industrial peace after years of bloody warfare and economic hardship. This conservatism from unions was reinforced by their party allies within the state, who not only listened to union leaders, but also were under pressure from capitalists to restore the basis for economic growth. The result was that the biggest union federations and largest political parties of the Left adopted a program of guarded cooperation with employers through the 1950s and 60s.

While this was rejected by the European working class for a brief spell at the end of the 1960s, the conservative agenda came back to the fore by the time of Reagan and Thatcher. By the 1980s, labor parties had largely lost or forgotten the tradition of militant unionism. Meanwhile, the ability of unions to even fight back was rapidly eroding, as the unionized sections of the working class were shrinking rapidly. Not surprisingly, these parties shifted rapidly to the Right, so that, by the 2000s, even though they still had a working class base, their political agendas had moved very close to the mainstream center parties.

We can see, then, that there are four possible scenarios in capitalism with regard to the state.

The box numbered 1 in Table 2 describes a situation when there is no labor movement and no labor party. This is the worst combination for progressive reform, because neither of the two enabling conditions for pressuring the state exists. We should expect countries that fit into this box to have the most conservative policy agendas, and governments least receptive to the demands of the poor. In the advanced industrial world, this describes the United States.

The box numbered 2 describes a situation when there is a labor movement pressuring the state from the outside, but with no help from a party inside the state. The historical case embodying this would again be the United States, but in the late 1930s, when a

TABLE 2.
POSSIBLE
SCENARIOS IN
CAPITALISM

		Labor Movement	
		NO	YES
Labor Party	NO	1 US: Today	2 US: 1930s
	YES	3 Europe: 1990s	4 Europe: 1930s

massive and organized labor movement exploded on the scene and pushed the Democratic Party to pass social welfare reforms. Notice that while this labor explosion pushed the state in a more progressive direction, the impulse was also weaker than it would have been had a labor party been in place to take advantage of the class balance in society. Whereas a labor party would have worked to extract maximum leverage from the power of the organized working class, the Democratic Party was dragged in a more radical direction against its will and did only what it absolutely had to. Indeed, the Southern wing of the party in Congress worked actively to undermine the demands coming from labor and was quite successful in this effort. And by 1947, when the most radical edge of the labor movement was subdued, Congress was able to launch the first and most significant policy package aimed at rolling back the New Deal, in the form of

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The most important such force is the working class, because of its location in the very heart of the system.

the Taft–Hartley Act, which took away from labor many of the legal protections that the earlier Wagner Act had been able to provide. This rapid decline in influence was a direct result of the fact that the Democrats were never transformed into a labor party. They remained a party of business, which gave some space to labor but always in a subordinate position. As soon as the immediate threat of disruption subsided after 1938, business-backed policy makers began to chip away at the gains acquired during the 1930s.

The disadvantages of the situation embodied in the box numbered 2 are clearer when we compare it with the box numbered 4, when there is both a labor movement *and* a labor party. This describes the political balance in Europe in the 1930s and 40s, when a model of social democracy was created that was far more ambitious than Roosevelt’s New Deal. Starting with the years right after the Great Depression and stretching into the period after World War II, European labor movements grew in strength, but also had their own parties winning elections and taking office. Unlike the Democrats in America, who did as little as they could get away with, the European Left parties — Labour, Socialists, and Communists — maximized the leverage that the working class movement was able to generate. The result was that Western Europe was able build welfare states that were deeper, more generous, and more enduring than the American one.

The situation in the box numbered 3 captures the political scene in Europe after the 1980s. By this time, the organized labor movement was in retreat across much of the Continent, union density was declining, and established unions were moving to a very narrow and defensive stance. Their disruptive potential was severely weakened, which meant that the Left parties attached to them had very little pressure from the working class. *All the pressure now came from capital.* And not surprisingly, this is when the slow dismantling of the European welfare state began. It began slowly, because even though the unions were getting weaker, they still were a force. And even though the Left parties were becoming more conservative, they still had a strong social democratic tradition. But by the early 2000s, the shift was very clear and moved at an increasing speed. By this time, it wasn't a case of Left parties finding themselves without the power base to defend the welfare state; their internal culture had moved substantially toward the ethos of the mainstream parties.

The challenge for the Left today is to engineer a shift toward the scenario represented in the box numbered 4. In the United States, this seems a very tall order. European labor movements at least have some semblance of Left parties which they can contemplate reforming — as in the case of Labour in Britain. Jeremy Corbyn and his supporters can envision not only taking hold of the party but also revitalizing the connection with the unions and energizing the militant sections of the working class. And conversely, radical labor organizers can at least think about how to work with a reformed Labour party to push through a progressive policy agenda. But in the United States, in the short term, the most likely scenario is to move from box 1 to box 2. It is not impossible that they might leap into box 4 and might generate the first real mass socialist or labor party, as a component or an offshoot of a revitalized labor movement. That would of course be the most desirable scenario. But the conditions for that to happen are more remote.

CONCLUSION

The state in capitalism is not and *cannot* be politically neutral. It can't embody the famous image of Lady Justice, who weighs the demands from various quarters on a finely tuned moral scale, free of all bias. Rather, its very structure ensures that the state will always be strongly biased toward the holders of wealth and capital. This bias, built into the very structure of the state, carries a very important political implication. Unless some countervailing force is present, government in a capitalist country will tend to reinforce the existing inequalities, rather than try to reduce them; it will protect power and privilege, rather than try to neutralize it; and it will place obstacles in the way of social reform, instead of easing its path.

This means that if state power is to be harnessed to progressive ends, it will require a countervailing force to the power of capital. The most important such force is the working class, because of its location in the very heart of the system. But, we might also ask, does this mean that, short of a mobilized labor movement, nothing can move the state in a more progressive direction? What about other forms of pressure, mass movements that are large, but in which labor might not be a central actor? This is an important question because in the recent past we've seen quite significant mobilizations around electoral campaigns — the Bernie Sanders phenomenon in the US and Jeremy Corbyn in Britain. These generated enormous enthusiasm and unleashed a great deal of energy, which wasn't just confined to the narrow electoral arena.

The answer is that these mobilizations do in fact have great potential in two ways. The first is that, even though they are not labor-based, they have to be reckoned with by political elites, because they can impose costs. They can shake up the complacency of policy makers, who now have to worry about electoral challenges more than they would otherwise. Legislators who typically ignore their constituencies have to consider the possibility that they might lose their

seats. And maverick politicians who don't normally stand a chance of being elected might find their viability suddenly increased, if they can capitalize on the changing mood. So these electoral mobilizations are certainly important, because they share a similarity with activated labor movements — they impose some degree of costs on elites who refuse to listen.

But of course, just how *far* they can push the needle is a different matter. At the end of the day, mobilizations of this kind — if they can't reach into the labor movement — face severe limits. Their focus is on getting better people elected, which is important, but the people who they elect simply step into the same institutional constraints that trapped their predecessors. The newly elected now have to deal with the pressure and power that moneyed people have. And precisely because the mass campaigns don't really disrupt the economy, capitalist power and leverage isn't really touched. They continue to put pressure on legislators maybe with a little more caution, but with enough force to severely limit the scope for reform. So the ability of these mass mobilizations to push public policy is confined to those areas where capitalists won't object very much, leaving many of the really significant issues off the table.

Still, this isn't a reason to denigrate electoral mobilizations. And this brings us to the second great potential. In an era like ours, in which the labor movement is so weak and demoralized, a radical and highly energetic electoral mobilization can have the effect of catalyzing the labor movement itself. By bringing so many people out into politics, by energizing the population around progressive issues, it can help reverse the sense of isolation and demoralization within labor. Unions can feel that they have the public standing with them, demanding the same sorts of things that progressive unions have long been fighting for, and in this changed political culture bosses might be more willing to negotiate — or at a minimum, less inclined to take a very hard line. This is especially the case in the service sector, in which employers have traditionally stoked public opinion

to make the unions appear as narrow special interests, looking out for themselves at the public expense — think of teachers, transportation workers, postal workers, and so on. But when the public itself begins to demand, say, more funding for schools or better trains, etc. the task of challenging the employer seems less daunting to unions.

Hence, even though the road to progressive reforms goes through the house of labor, it doesn't have to *start* there. The energies that go into organizing the working class can be acquired from other movements and other sources. The main point is that these movements need to be broad and ambitious, inclusive, and capable of challenging the basic distribution of power and resources. They need to be focused on the centers of power and audacious. This is what many of the recent explosions around the world have in common — Occupy Wall Street, the Arab Spring, the Bernie Sanders campaign, the mobilization for Corbyn, to name the most well-known. None of them were based in labor. Yet all of them were significant in moving the political culture, raising morale and political ambition, and all of them have in some way enlivened parts of the labor movement. They have contributed to a sense, around the world, that perhaps the long dark night of neoliberalism might be drawing to a close. And maybe it is. But how far we are able to press this will depend, in the end, on how much power we can muster — against the state and the class of investors who stand behind it. This is the subject of the next pamphlet in the series. ▲



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