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THE RELATIONSHIP OF THE STATE TO ECONOMIC DEVELOPMENT: THE UNITED STATES SINCE 1920

by

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INTRODUCTION

Though the twentieth century has ushered in fundamental social changes in countries claiming a Marxist inspiration, social scientists in the United States have for the most part, not made the works of Marx or his purported followers objects of serious study(Mills,1962). Identifying Karl Marx with "mere communist ideology" has precluded significant confrontation with central issues of Marxian thought(Deutscher,1971). This perfunctory dismissal not only narrows the scope of apperception of foreign revolutionary situations, but also discourages Marxian analysis of American society. The "Great Evasion" is reflected in popularly accepted social theories which tend to neglect Marx's principle thesis concerning the nature and "costs" of capitalism(Williams,1968). By crudely relegating Marxian political-economic thought to the limited realm of "political ideology" American social scientists have dismissed a "major thread in the historical development of our times(Mills,1962:34)."

But with the long and tragic list of acutely observable problems now dominating American society: unemployment, poverty, cities with intractable fiscal, social and environment crises, racial and sexual discrimination, militarism and dependence on military production-the unavoidable suspicion grows that the capitalist means of achieving "economic growth" has created or exacerbated domestic and foreign socio-economic problems. As the necessity for dealing with such problems becomes increasingly pressing, so does the need for the development of a dynamic political economy which integrates the connections of "economic" with interdependent "non-economic" relationships. With few exceptions, American social scientists have failed to meet this challenge and consequently have offered generally inadequate explanations of social change and present day events. The typically narrow, segmented and static social inquiries of conventional social scientists, though doubtlessly useful for a broad range of purposes, now serve to cripple any serious

attempts to understand the processes of conflict and change in today's society.

What is needed are sociological studies of American institutions and social problems at the macro-level with an emphasis on the study of the contemporary political economy. Though well within the classical tradition of sociology, few American sociologists have considered the study of political economy as a key referent to understanding current "sociological problem." This paper, therefore, is an attempt to redress this situation.

Karl Marx's outstanding contributions to theories and methods of social inquiry in the areas of social change, conflict, power structures, and ideology represent an essential point of departure for developing a new and vital political economy applicable to the United States. Though Marx provided a central framework for such a task, his fundamental role in the classical tradition of sociology(as well as the other social sciences) goes largely unrecognized by American sociologist's(Mills,1962).

Crucial to Marxist thought, but neglected by most social scientists, is the portrayal of the social process as dialectical. "Contradiction" is inherent in the social process and it becomes the driving mechanism of change.

> Contradiction is of the essence of the social process. That is, the contradiction does not arise out of external forces or factors which impinge upon the society; the contradiction is an integral part of social development. A capitalist society gives birth to material conditions that will ultimately destroy the society. Dialectical development means that the contradiction emerges out of the essence of the social process. No external challenge...is reguired for Marx and Engels; slave, feudal and capitalist societies carry within them the seeds of self-destruction(Lauer,1973:58).

Thus, a dialectician regards every social phenomena as a fluid movement and recognizes that every situation carries its obverse within it.

In Marxist thought, the application of the dialectic to social life rests upon a materialist base.

> In the social production which men carry on they enter into definite relations that are indispensable and independent of their will; these relations of production correspond to a definite stage of development of their material powers of production. The totality of these relations of production constitutes the economic structure of society-the real foundation, on which legal and political superstructures arise and to which definite forms of social consciousness correspond. The mode of production of material life determines the general character of the social, political and spiritual processes of life(Marx,1947:23).

The connections between the infrastructure(the material base of society) and the social relations of men are rarely treated as central to analysis of social life. General compartmentalization of the social science "disciplines" and the tendency to abstract from the socio-economic system contributes to the neglect of dialectical materialism(Dowd,1974). It must be noted too that the crude dismissal of Marx and Engels as simple "economic determinists" is unwarranted. Clearly, study of Marx and Engel's methodological treatment of various societies refutes the notion that they focused on simplistic, deterministic relationships(Zeitlin,1967). In correspondence, Engels points out that the productive mode of existence was the "ultimate" determining element, but that the various elements of the superstructure "also exercise their influence upon the course of the historical struggles and in many cases preponderate in determining their <u>form</u>(Lauer,1973:57). The mistaken image of the "superstructure" as a rigid architectural construct erected on the infrastructure of society is a by-product of neglecting the dialectic. The "social, political, and spiritual processes of life" can evoke significant changes in the forms of the productive mode.

Thus, the application of dialectical materialism to analysis of today's social problems and issues provides the backdrop for the development of a viable, contemporary political economy. Most significantly, dialectical materialism demands an historical approach. Of all the damning criticisms

that can be leveled against American social scientists, ahistoricity take the forefront. Knowing little history, they tend to study only details of small-scale milieux and short-run trends(Mills,1962).

In contrast, Marx with a mastery of historical material took into account the structure of total society, locating it within the context of its historical development. His works clearly demonstrate treatment of social "reality" as an historical process linked to a specified set of relations(Sweezy,1942:15). Accurately describing social change and interpreting contemporary events requires an historical approach which considers the "problem of the present as an historical problem(Lukacs,1971:ix)." Marx's method of historical specificity, calling for an examination of each individual case within its particular cultural milieu, undeniably testifies against static, rigid applications of his analysis of capitalist socio-economic organizations. Though Marx did formulate a general theory of social change and describes certain abstract features of capitalism, they must be viewed within the context of particular historical situations. In his studies, Marx carefully qualifies all generalizations about capitalistic systems by considering the specific conditions of the society under investigation(Zeitlin,1967).

By employing the method of dialectical materialism with an emphasis on historical specificity, the broad contours of American economic development and contingent "superstructural" elements can be outlined for different historical periods. Though a few Marxist writers have been employing Marx and Engels method of political economy as a tool for analyzing various aspects of American economic development in relation to accompanying "superstructural" features of society, there are numerous questions left unanswered.[1]

Of particular need are Marxian critiques of the American political economy after World War II. After the war and until the 1970's the United States witnessed the longest period of "economic growth"(as conventionally measured by GNP rates) in its history. This expansionary phase provides

the historical explanations for the emerging fiscal crisis(which is rooted in social crisis) of the 1970's. It is crucial for understanding "the present as history" to explore socio-economic relationships of the post-World War II period in the context of structural changes which "had at their base the internationalization and militarization of the American economy, and the accompanying growth of an even more powerful State with increasingly centralized controls over the economy(Dowd,1974:107).

Since World War II, a small number of Marxist writers, recognizing certain trends in increased State intervention in the American economy, have stepped up their studies of various aspects of the development of the modern capitalist State. But only recently has consideration been given to the explicit task of developing a theory(ies) of the State employing Marx and Engels' method of political economy. One of the central questions posed in this study will concern the dialectical interaction between the State and economy in the post-World War II period. Equally important though, is the relationship between the State and the economy in the 1920's and '30's', for it was during these decades that significant precedents were set which facilitated major changes in the twentieth century political economy. It is hoped that by drawing from and synthesizing some of the work recently completed in this area that the broad contours of interplay between State and the economy can be traced for the period of the last fifty years. The purpose of this paper will be to illustrate a line of theoretical thought concerning the relationship between the State and twentieth century American economic development, rather than attempting to present a full-blown, comprehensive theory of the State with a set of hypotheses to verify.

CHAPTER I

A REVIEW OF THE INSTRUMENTALIST AND STRUCTURALIST APPROACHES TO THE STATE

INTRODUCTION

Before dialectical interaction between the State and twentieth century U.S. economic development can be explored, a viable theoretical framework for examining changes in the sources and distribution of State power and the functions of the State must be presented. The first step in developing such a schema will be to briefly review the works of several writers of Marxist persuasion. First of all, the works of Ralph Miliband and the Frankfurt school will illustrate different but valuable departures on just what the State is. Secondly, a shift to contemporary power structure theory(i.e. instrumentalism and structuralist) will provide an additional view of the State from the vantage point of the sources and distribution of State power. Third, power structure theory also contains implicit and explicit assumptions about the functions of the State which will offer a further point of departure for examining the State in contemporary American society. Last of all, a general discussion of the contributions, theoretical assumptions and weaknesses of the instrumentalist and structuralist approaches will introduce suggested groundwork for new departures toward a theory(ies)of the State.

COMPOSITION OF THE STATE

The sources and distribution of State power and functions of the State cannot be properly focused without first dealing with the preliminary problem of just what the State is.

> This is the fact that "the State" is not a thing, that it does not, as such, exist. What "the State" stands for is a number of particular institutions which together constitute its reality, and which interact as parts of what may be called the state system(Miliband,1969:49).

So the State, rather than being an entity, represents a specific set of relationships manifested through various institutions. To understand the nature of State power and to locate the sources of that power, it is first of all essential to distinguish and relate the various elements which constitute the State system.

The "State system" in advanced capitalist societies(England, France, Japan, Germany and the United States) is composed of the government, administration, military and para-military apparatuses, the judicial branch, governmental sub-units, and legislative assemblies(Miliband,1969). Ralph Miliband cautions that the government(the first element of the State system) should not be viewed as synonomous with the State though the government may speak in the name of the State and is formerly vested with State power. This, however, does not mean in Miliband's view, that the government effectively controls that power. To what extent the government does control and allocate power in the United States capitalist society, is one of the major questions to be determined when later examined in light of post-World War II economic development.

The second element of the State system, administrative-bureaucratic institutions, has emerged as the most marked feature of advanced capitalist societies. The extraordinary growth of bureaucracy and administration and its significant impact upon contemporary life has prompted numerous studies concerning bureaucratic structures, functions, processes and ideologies. Administration represents an important element of the State system to be considered when examining the exercise of power within the context in which it functions.

Violence management institutions which constitute the third element of the State system are the military, para-military, security and police forces. Considered "instruments of oppression of one class by another" by some Marxist writers(noably, Lenin); these agencies grow into sprawling

organizations with increasing status and clout inside the State system and in advanced capitalist societies. The nature and extent of power exercised by these institutions must be considered later in light of socio-economic developments in post-World War II American society.

While the administrative and violence management elements of the State system are meant to hold the constitutional position of serving "the State by serving the government of the day," the judiciary branch ostensibly is constitutionally independent of the political executive. Judges' active duties are to protect the citizen against the political executive or its agents. But the judiciary branch still is an integral part of the State system and therefore affects the exercise of State power(Miliband,1969).

Ralph Miliband describes the fifth element of the State system, sub-central government as having two major functions in advanced capitalist societies. Not only do local, county and state governments serve as agents of the State by overcoming "local particularities," but they "also provide platforms for their expression, instruments of central control and obstacles to it(Miliband,1969:53)." Much the same point can be made about the final segment of the State system, the legislative assembly. The two branches of Congress with their counterparts in state and local assemblies have historically provided, within narrowly defined limits characterizing the behavior of other segments of the State system, conflict/cooperation interaction with the executive branch. The changing nature of the two-fold interaction between Congress and the executive branch in the United States will be explored when dealing with the dialectic relationship between the State and the post-World War II economy.

Thus, Miliband has aptly identified the State as a specific set of relationships which are expressed in advanced capitalist societies through six major elements of the State system." One of the general questions

posed in this study concerns the impact of increased State intervention in the economy on particular elements of the State system(i.e. government, administration, military, and congress). Given changes in the twentieth century American economy, how has the nature of the State changed?

THE MYSTIFICATION OF THE STATE

Another approach to just what the State is, derives from the early writings of Marx and Engels and draws heavily from the tradition of the Frankfurt School, most notably from writers such as Habermas and Marcuse. This perspeetive is more highly abstract than dealing with the State as a set of interrelationships between institutions with particular dominant leaders comprising the sources and distribution of power. Instead, the central focus is upon the State as a mystification which seeks to represent itself as serving the nation as a whole, but which actually serves the interest of the dominant class. Most writers who employ this approach have based their investigations of what the State is upon how mystification of the State occurs. Emphasis is thus placed upon ideology, legitimacy, consciousness and the mediating role of institutions in assuring mystification of the State. So far, there has been little treatment of specific State actions or State policies which might in some way reflect the mystification of the State(Gold, Lo, and Wright,1975). But that mystification of the State is an aspect of the legitimation function of the State in advanced capitalist societies is indisputable and should be given due consideration when studying relationships between State and society(Miliband,1969). Recent U.S. examples of the State in mystifying its policies in order to conceal its role in capital accumulation are Nixon's calling a legislated increase in profit rates a "job development credit;" the State announcing that new fiscal policies are aimed at "stability and growth" when indeed, their purpose is to keep profits high; and calling

the tax system "progressive and based on the ability to pay when the system is actually regressive(O'Connor,1973).

SOURCES AND DISTRIBUTION OF STATE POWER; AND THE FUNCTIONS OF THE STATE

"A theory of the State is also a theory of society and the distribution of power in that society(Miliband,1969:2)." The functions of the State are greatly determined by the sources of State power and the distribution of that power within the State system. But locating the sources of power throughout the State system and establishing viable explanations and concrete evidence for the nature of the dynamics and operations of power is not an easy task (and some would say an impossible task); particularly when the infrastructure is relatively secured and stable(Offe,1971). The unprecedented scale and pervasiveness of State intervention in advanced capitalist systems and the accompanying impact on contemporary life, has served as a major inducement for emerging developments and new directions in Marxist theories of the State(Gold, Lo, and Wright,1975). New departures in Marxian theory of the State attempt to overcome the weaknesses of current power structure perspectives and develop new approaches. But, before discussing new developments, contemporary power structure theory will be examined in light the contributions made by the particular power structure perspective, its theoretical underpinnings and the deficiencies of the theory in explaining the sources and distribution of State power and the functions of the State.

A. Instrumentalist Power Structure Theories

Instrumentalist power structure theory has been a most popular approach to the treatment of the State in American power structure research. It offers an opposing view to the predominant theory of pluralism which assumes a political system in which "all the active and legitimate groups in the population can make themselves heard at some crucial state in the process of

decision-making(Dahl,1965:137-8)." The studies associated with this perspective as summarized by Gold, Lo and Wright, deal with:

> ...the nature of the class which rules, the mechanisms which tie this class to the state, and the concrete relationships between state policies and class interest(Gold, Lo and Wright,1975:part 2,:32).

Contributions made by instrumentalist power structure theory are numerous. Widely varied methodologies have produced instrumental power structure research dealing with the sociology of the capitalist class, studies showing connections between the capitalist class and the State system links between this class and political parties, research organizations, and universities. Examples of these types of studies are represented in the works of Domhoff (1967&1971), Kolko(1963) and Weinstein(1968). The literature on financial interest groups as presented by Menshikov(1969), has contributed to the development of an empirical picture of the capitalist class in the United States too. Also included are studies providing reinterpretations of historic episodes and specific examples of how government policy is formulated. Gabriel Kolko(1969), Joyce and Gabriel Kolko(1972) and Eakins(1969) have provided valuable instrumental analyses of this type.

The challenge to the dominant pluralistic view probably represents the most significant contribution to the social sciences. Pluralism tends to serve either as a reinforcement of the class-mediation theory or the myth of a classless society; thus veiling the sources of State power, its character and functions. Second of all, instrumental power structure research helped establish a sociology of the capitalist State by 1) showing that historically,, an economic elite class as Marx describes exists in America, 2) that the capitalist class(economic elites) can effectively achieve a high degree of solidarity in the political arena, and 3) that they exercise a <u>decisive</u> degree of political power, thereby constituting what Marx termed a "ruling

class." In conjunction with building a sociology of the capitalist State, instrumentalist power structure research also contributes to the study of the State function of legitimation through examination of specific institutions linking the capitalist class and the State. Work toward an understanding of interrelationships between local, regional, and national institutions linked to the capitalist class constitutes yet another contribution to the social sciences.

Despite significant contributions, theoretical underpinnings of the instrumentalist approach reveals major deficiencies. Understanding the first shortcoming requires a brief historical explanation of the use of Marxian concepts of the State. Though Marx intended to undertake a systematic study of the State as part of a vast scheme of work which he had projected for the 1850's, Volume I of Capital was the only fully completed part(Marx,1858). However, his studies of different societies contain several references to the State in particular historical settings. While these references clearly demonstrate divergent, but complimentary ideas concerning the State in historically specific situations,[2] the one premise serving most frequently as the basis for Marxian views of the State has been the well-known quote from the Communist Manifesto: "The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie." The fundamental observation is that the State in capitalist society broadly serves the interests of the capitalist class, and thus is an instrument for the preservation of the existing class structure. Lenin's "State and Revolution" set the precedent for placing the State's function of "legitimation"(as an "instrument of oppression of one class by another") in the foreground of analysis of capitalist societies(Sweezy,1942).

From the instrumentalist perspective, the primary focus is upon the legitimation of the existing class structure through manipulation of State

policies seen as purely political issues, or through the exercise of political pressure on the State. But preservation of existing capitalist relations requires more than the State functioning as an instrument guaranteeing and disguising an exploitative system of property relations(i.e. through ideological and repressive mechanisms of the State). The State has also been a significant factor in the continued functioning of the economic structure as a whole within the framework of property and class relations it supports (i.e. creating foreign policy suitable for overseas investment). Preservation of a capitalist economic structure, according to Marx, relies upon continuous capital accumulation and is guaranteed vis-a-vis the State. Thus, the State has a two-fold function of accumulation and legitimation. Following from a long line of traditional Marxist writers, instrumentalist theorists have neglected the State's major function of assuring capitalist accumulation (Sweezy,1942).[3] Furthermore, the possible contradictory interplay of the State's two-fold function of accumulation and legitimation has been overlooked (see p.p.44-45). The instrumental theoretical underpinning of treating legitimation as an exclusive and independently operating function of the State limits empirical investigations of State power, its sources and character.

Another shortcoming of the instrumental approach, which is clearly related to the neglect of the State function of accumulation, is the omission of analysis of the structural context within which ties between State and ruling class occur. The constraints and contradictions of capitalist economic structures are not taken into account as determining factors in the examination of possible restrictions imposed upon the ruling class groups. Clearly, there are many cases of State intervention in the economy which cannot simply be explained by instrumentalist theory of one sort of another. On many occasions, State policy did not just emerge as dominant corporate initiative, but often in opposition to the wishes of large segments of the

business community(i.e. New Deal legislation). Though reform may ultimately be co-optive, initiatives for State policy may come within the State itself as a consequence of constraints imposed by capitalist development(Gold, Lo and Wright,1975). A dialectic of the accumulation process in capitalist society must be viewed in relation to a dialectic of the State to ascertain the sources, distribution of State power and the character of State functions in historically specific situations. Instrumental studies tend to overlook this approach to sources of State power as a result of the general omission of history and the dialectic.

While the instrumental approach to a theory of the State signified an important development in the social sciences through its confrontation with the dominant theory of pluralism, the challenge presented definite drawbacks. Because instrumental power structure theory has been primarily a challenge to pluralism, work done from an instrumentalist angle fails to transcend the framework employed by pluralists. Rather than defining classes by their relationships to the means of production, American power structure research focuses on social and political groupings(Balbus,1971). Though this is a theoretical underpinning characteristic of both perspectives, pluralists see many such groups, all having equal influence and sway while instrumentalists see an overwhelmingly dominant group or groups with far more common interests than differences.

Thus, when considering the major theoretical underpinnings of the instrumentalist perspective, it becomes apparent that the major deficiencies of the approach are rooted in the neglect of capitalist society infra-structures(economic bases). The State's role in capitalist accumulation is not taken into account. Nor is the economic structural context in which ties between State and ruling class given consideration.

> While many policies are the outcome of control by specific capitalists, and some government agencies appear to be tools of specific capitalist interests, it is impossible to see how the complex apparatus of the state can be understood adequately in a model which sees policy outcomes primarily in terms of class conscious manipulations by a ruling class. (Gold, Lo and Wright,1975:part 2,:36).

Focusing on social and political groupings rather than defining classes by their relationship to the means of production represents another inadequacy, a consequence of the neglect of capitalist society infrastructures. The weaknesses of the instrumentalist approach should not, however, detract from its contributions toward an understanding of the sources and distribution of State power and the functions of the State in twentieth century American history. It will become evident that instrumentalist investigations of the State may have explanatory powers, unsurpassed by other approaches during certain historical periods.

B. Structuralist Theories of the State

Rather than developing a theory of the State through the method of locating the sources of State power, the structuralist perspective is more concerned with the analysis of the functional relationship of various institutions comprising capitalist society to the process of surplus-value production and appropriation. By structure, structuralist writers do not mean concrete social institutions but rather the systematic inter-relationships among these institutions(Gold, Lo, and Wright,1975).[4] As Maurice Godelier has written: "Structures should not be confused with visible 'social relations' but constitute a level of reality invisible but present behind the visible social relations(Godelier,1972:336)." This "level of [invisible] reality refers to the economic requisites for the preservation of capitalist society or in Marxian terms, "laws of

motion." (See Appendix). Structuralists analyze the means by which the State attempts to ameliorate or displace the contradictions inherent in capitalist society as a whole.

The contributions of the structuralist perspective toward a theory of the State are crucial in situating State activities within the context of the functioning of capitalism as a whole. Furthermore, this approach has as its central methodological core, the dialectic. Following from Marx's general theory of change in capitalist infrastructures and the economic contradictions which ensue, structuralists have broken the ground for examining the State in relation to historically specific situations of capitalist development.

Among the structuralist writers who have made significant contributions toward an understanding of the State in advanced capitalist societies are Poulantzas, Sweezy and Baran, and Erik Olin Wright. Nicos Poulantzas' central thesis is that in capitalist society the critical economic contradiction is the ever-increasing social character of production on one hand and the continuing private appropriation of the surplus product on the other. The author examines the function of the State as a mediator of these contradictions and analyzes its impact on the working class and the capitalist class(Poulantzas,1973). Sweezy and Baran provide a most important example of economic structuralism. Though developing a theory of the State is not the major focus of their work, they do discuss the State in terms of how it aids in the surplus absorption process. The framework in which they develop their analysis is based upon economic structuralism, but there is also an attempt to include aspects of the instrumentalist perspective. Thus, the means by which the State handles the absorption of rising surplus emerge out of interaction between

structural needs of preserving a capitalist system and particular needs of capitalist groups(Sweezy and Baran,1966).[5] Erik Wright presents alternative perspectives in Marxist theory of accumulation and crisis. Wright examines the bare essentials of general Marxist perspectives on economic crisis and provides a preliminary synthesis based on the contention that the diverse conceptions of the contradictions in accumulation must be viewed as part of an historical process. His contribution is significant in light of his thesis that the current world economic crisis "can be (tentatively) understood as part of a transition from one pattern of constraints on accumulation ...to a new set of emergent contradictions...," partially caused by those strategies used earlier on in the crisis(Wright,1975).

Just as the theoretical underpinnings of the instrumental approach reveal major shortcomings, so too are chief weaknesses of the structuralist perspective detected in its theoretical assumptions. First of all, from the structuralist viewpoint, the State assumes a relatively autonomous role from manipulations by specific capitalists or groups of capitalists. The State is presented as an almost completely non-autonomous entity subject to the structural requirements of an economy which derives from the logic of the accumulation process. The upshot of this theoretical underpinning is the tendency to eliminate almost entirely the possibility of class conscious action on the part of a capitalist group(s) and non-capitalist groups during certain historical periods and situations. Kolko and Weinstein present convincing arguments to the contrary, contending that concerted capitalist class-conscious moves were activated through the State in the first two decades of the 1900's(Kolko,1963 and Weinstein,1968). Gold, Lo, Wright and O'Connor offer similar evidence concerning non-capitalist groups exerting growing class conscious demands upon the State in the 1970's.

Following from the rejection of class-consciousness, as an important means by which class strategies are defined and translated into State policy, is the implicit view that State policies respond almost exclusively to economic contradictions. Thus, the possibility that a class conscious group(s) steers the development of the state in directions compatible with the requisites of the economic structure, is ignored. Sturcturalist theory also tends to eliminate the possibility of class conscious groups (or the sporadic actions of non-capitalist groups) pressuring for modes of State performance contradictory to economic structural demands. Besides dismissing analysis of class consciousness-to what degree it may exist and under what conditions high solidarity may be generated-structuralists have not examined the mechanisms within the State that may create and guarantee class policy consistant with the needs of the economic structure. The structuralist approach also fails to explore the range of potential options in selecting State policies which would fulfill essentially the same purposes of preserving the existing capitalist society.

The major weaknesses of the structuralist perspective, then can be traced to the assumption of little or no State autonomy based on conscious action and to the premise of State actions deriving almost exclusively from economic structural requisites. So, while the instrumentalist approach is an inadequate guide for understanding the State in an advanced capitalist society such as the United States, so is the structuralist alternative. Neither, by themselves, provide an explanatory schema for interpreting the broad outline of interaction between the State and economic development in twentieth century American history.

> ...the instrumentalists explain the state in terms of external manipulations of the state apparatus by the ruling class; the structuralists explain the state by the external constraints which limit the scope of possible state activities(Gold, Lo and Wright,1975: part 2:37).

While both the instrumentalist and structuralist approaches examine the external determinants of State power and State functions, there are no attempts to explore the internal operations of the State. As Gabriel Kolko has suggested, perhaps in the last analysis, the structure of power in the State can only be understood in the context in which it functions (Kolko,1969). This requires a brief examination of the roles played by the administrative and government elements of the State system in relation to the dynamics of American economic developments. In other words, what mechanisms within the State guarantee its class character and the continuation of a capitalist economic system? Taking into consideration the internal structure of the capitalist State illustrates the important point that the internal workings of bureaucratic structures are less the sources of power than the means by which power is directed. And they in turn, are perhaps the means by which the sources and functions of State power are better understood. This will be the subject matter of the next chapter.

CHAPTER II

ALTERNATIVE APPROACHES TO THE STATE: ANALYSIS OF THE INTERNAL DYNAMICS OF STATE POWER

INTRODUCTION

An examination of the internal determinants of State activity as well as external determinants is vital in developing an explanatory schema for outlining the larger contours of American economic development and the State in the twentieth century. The internal structure of the capitalist State should provide further elucidation of the location of State power and State functions. This chapter therefore, deals with the subject of the structure of State power within the context in which it functions. Claus Offe's studies represent a radical departure from instrumental and structuralist approaches which examine exclusively external determinants of State power and State functions. His work will, first of all, provide the backdrop for examining mechanisms within the State which guarantee its class character during "normal" functioning periods of the State and in "political crisis situations" (Offe, 1971-1973, et.al.). Franz Schurmann's theoretical propositions regarding the nature of bureaucratic institutions and power distribution within organizations during "anomoulous situations" will be discussed in conjunction with Offe's work. An attempt will also be made to integrate the instrumentalist and structuralist view into an analysis which focuses on the internal structures of the State. Last of all, propositions gleaned from Offe's work and fused with Schurmann's theories are considered as possible focal points for defining the broad contours of interaction between the State and ecoqomic development.

STATE POWER IN THE CONTEXT IN WHICH IT FUNCTIONS

Claus Offe's work on institutional mechanisms within the State apparatus represents an important new development in understanding the State in capitalist society. Particularly significant, is Offe's central focus on the dialectical relationship between State policies and capitalist class interests as they emerge from the changing accumulation process. Thus, contradiction is seen as the core of the State itself and is vital in the policy formation process in capitalist society(Gold, Lo, and Wright,1975). "Selective" mechanisms of the State serve crucial functions in preserving the class nature of the State and capitalist relations as a whole. "negative, positive, and disguising" mechanisms constitute the wide scope of institutionalized means of maintaining the existing capitalist system.

Negative selective mechanisms are presented in an hierarchical fashion in which each level excludes possibilities that have not yet been eliminated by the higher level. Structure, ideology, process and repression represent the hierarchical ordering of negative selective mechanisms. Structural selective mechanisms refer to the process of eliminating possible State actions which are not compatible with the overall design of the administrative structure of the State system or the State as a whole. For instance, a critical means of excluding anti-capitalist policies from introduction onto the State activity agenda, is reference to constitutional guarantees of private property.

Potential State policies not filtered out by the structure of the State system may be excluded vis-a-vis ideological mechanisms which specify the issues to be articulated and perceived as problems to be solved. The internal structure of the capitalist State, thus, conceals potential policies and in turn, possible State activities which are transformed into

"non-events." They are outside the sphere of acceptable discourse.

Process selective mechanisms such as decision-making rules favor certain policy options:

> ...by granting them chronological priority and relatively more favorable coalition chances or the opportunity to employ specific power resources. Every procedural rule creates conditions of being excluded, for certain topics, groups or interests(Offe,1973a;11).

So, if anti-capitalist policies are not eliminated through structural or ideological selective mechanisms, then process selective mechanisms may halt them. In a recent study of power and poverty in Baltimore, the internal structure of sub-central units of the State was described in regard to negative selective mechanisms of ideology and process.

> ...non-decision making is a means by which demands for change in the existing allocation of benefits and privledges in the community can be suffocated before they are even voiced or kept covert; or killed before they gain access to the relevant decision-making arena; or, failing all these things, maimed or destroyed in the decision-implementing stage of the policy process(Bacharach and Baratz, 1970;44).

Thus, on a national as well as local level, elements of the State system operated similarly in excluding policy options that would undermine the existing capitalist base.

The final negative selective mechanism, the repressive apparatus of the State, expells some policy options through direct coercion. Since repression resides at the bottom of Offe's hierarchical ordering of negative selective mechanisms, the implication appears to be that this is the least favorable means of eliminating potential anti-capitalist State activities. An increased reliance on violence-management institutions

of the State system would expose the class nature of policy options.

After negative selection mechanisms have systematically omitted anti-capitalist interests from State activity, positive selection mechanisms promote the remaining alternatives which serve capital as a whole over particular interests of specific capitalist groups. The class character of chosen policies and State activities is concealed by disguising selective mechanisms which serve to maintain the appearance of class-neutrality. Mystifying the State, an aspect of the legitimation function of the State, is clearly reflected here.

As Offe notes, there is a serious methodological dilemma in studying selective mechanisms of the internal operations of the advanced capitalist State and empirically demonstrating its class nature. In the case of negative selective mechanisms, what should be examined are the excluded policy options, but they are intrinisically difficult to define and observe. In addition, disguising selection mechanisms mystify the class nature of State activities. So, Offe argues, when selective mechanisms of the State are working smoothly it is virtually impossible to demonstrate empirically that the State is a capitalist State necessarily serving capitalist interests. Instrumentalist (or structuralist) research could reveal the class interests served by particular policies and State activities, but this does not satisfy Offe's question of how the State guarantees its class character(Gold, Lo and Wright, 1975).

State Power As It Functions In "Political" Crisis Situations

Claus Offe's answer to this methodological problem is to change the focus of analysis from the normal functioning of the State to the State in political crisis situations. What exposes the class nature of excluded and accepted State policy options, State activities, and hence the class nature of the State itself, is an increased reliance on repression-as a consequence of

other faltering selective mechanism.

Not only do crisis situations induce shifts(qualitative and quantitative changes) in the State's apparatus of negative selective mechanisms, but the operations of positive selective mechanisms are also threatened. While in cases of "normal" functioning of the State, positive selective mechanisms strive towards fairly successful implementation or preservation of policies that benefit capital as a whole, in crisis situations contradictions internal to the State interfere with this process. If Offe's negative and disguising selective mechanisms can be said to roughly describe the legitimation functions of the State, then positive selective mechanisms correspond to the State's function of capital accumulation.

The State engages in two types of positive activities which serve a critical role in providing for the necessary conditions for continued capitalist accumulation-"allocative" and "productive policies." In the first activity the State regulates and coordinates what has already been produced. "Allocative" policies also include those actvities which mobilize the production of resources for Keynesian purposes of creating "effective" demand. They are policies which indirectly involve the State in maintaining or even generating the conditions for capitalist accumulation. In the second type of activity the State becomes directly involved in the accumulation process by producing goods and services itself. Historically, the State has not directly impinged on the productive process except in times of war and depression. During a crisis situation, private capital has either begrudgingly or eagerly accepted the encroachment of the State upon production activities-depending upon their own financial conditions at the time, and their perspective on State economic activities. But once the crisis has passed, wage and price controls and/or State productive facilities(for examples) have been liquidated. Today, new productivity-enhancing forms of State intervention

are called for, but the allocative policies introduced in the past thirty years(i.e. military Keynesianism) act as serious constraints upon the formulation of new productive policies. This is a subject that will be taken up in a later section of this paper(see chapter five).

The distinction between allocative and productive policies is crucial, for it introduces Offe's dialectical framework of analysis and demonstrates the importance of historical specificity. His central focus is upon the relationship between State policies and capitalist class interests as they emerge from the changing accumulation process. As long as the State is mainly involved with the positive selection of allocative policies, acute contradictions within the internal structure of the State are not likely to arise. A range of policy alternatives, all equally capable of serving the interests of capitalism as a whole, made the adoption of one definite, optimal allocative policy unnecessary.

This positive selection mechanism corresponds to the instrumentalist view which describes the dynamics of capitalist interest group formulation of allocative policies. A wide scope of possible allocative policies also suggests the viability of a "natural selection" exercise of State power. Rather than a high degree of class conscious political control, a certain amount of conflict within the capitalist class can be absorbed within this range of allocative policy alternatives. Various elements of the capitalist class recognize the need to stay within defined boundaries in formulating allocative policy alternatives and accordingly, veto those policies which threaten their own economic interest(England,1972). These are the members of the capitalist class which have organized themselves along pre-dominantly interest group lines rather than as a class-conscious political directorate.

The exercise of power and influence in the State system by interest group organizations have been studied by both pluralist and instrumentalist

theorist (though their conclusions are different). Among the many social scientists and historians who have examined interest group organizations in the United States are McConnell, Hamilton, Kolko and Engler. They have noted that interest groups exercise power and influence either as: 1) self-regulatory private associations organized along industry lines who use the State to mediate between their members as well as provide needed credits, supports, research and development aid and subsidies, or as 2) nominally independent government agencies. Those interest groups organized along industry lines include:

> ...the highway lobby, automobiles, oil, rubber, glass, branches of construction, etc., the military lobby, oil, cotton, textiles, railroads, airlines, radio and television, public utilities, and banking and brokerage. Wheat, cotton, sugar (among other growers), and cattle ranchers...(O'Connor,1973:66).

Nominally independent government agencies in which interest groups have considerable power and influence include:

> ...so-called regulatory agencies at the federal, state and local levels, many bureaus within the Department of Agriculture and Interior, the Bureau of Highways, and a number of congressional committees...(O'Connor,1973:66).

"The Crisis of Crisis Management"

Offe asserts that such widely disparate interests which generate internal conflict within the State may have been manageable through institutionalized positive mechanisms up until the mid-twentieth century. In the nineteenth century, no one truly optimal allocative policy had to be implemented to satisfy conditions for capitalist accumulation and competing capitalist interests. But as contradictions in the accumulation process developed in the twentieth century, it became increasingly necessary to adopt optimal allocative policies that would be rational from the point of view of capital as a whole. Yet, as the development of monopoly capital compels the State

to become more involved in producing conditions for capitalist accumulation, it becomes more and more difficult to formulate such State policies. The conflicts between capitalist groups which emerge over the process of reordering and transforming dysfunctional, obsolete positive selective mechanisms constitutes what Offe calls "crises of crisis management." This situation is further aggravated by antedated negative selective mechanisms which frustrate the implementation of new positive selective mechanisms.

> ...rigid bureaucratic procedures and constitutional and ideological defenses of private property for example, are obstacles to the development of selective mechanisms which can guarantee that State production will serve the general interests of capital(Gold, Lo, and Wright,1975,part 2:40).

Offe contends that contradictions within the State's internal structures (e.g. positive and negative selective mechanisms) are not uncommon in twentieth century capitalist history. But the ability of capitalist groups to discover or agree upon State policies which will rationalize capital as a whole and solve contradictions within the accumulation process, is declining.

"Crisis of Crisis Management" As A Product of "Advanced Monopoly Capital"

Through examination of positive selective mechanisms of the State in crisis situations, Offe demonstrates the importance of the dialectic method in viewing the changing nature of the State's function of capitalist accumulation. The mechanisms within the internal structure of the capitalist State as well as elements of the State system must be viewed in conjunction with capitalist development (the contradictions of the accumulation process). Offe contends that the intensification of contradictions between the State's changing role in the accumulation process and the internal structure of the capitalist State will make the guarantee of its class nature much more difficult to assure. This suggests that the changes in the accumul-

ation process from competitive to monopolistic capitalism will be accompanied by an increasing need for a class-conscious political directorate which will attempt to coordinate and conciliate potential interest group conflicts.

The members of the capitalist class organizing themselves as a class-conscious political class represent monopoly sector capital. The private activities and participation in the State of this capitalist class organization have been studied by Williams, Weinstein, Kolko, Domhoff, Eakins and others. These writers demonstrate that increasing instabilities in capitalist production under competitive capitalism in the nineteenth century contributed to economic problems of cyclic depressions and deficiencies in aggregate demand. So, the twentieth century ushered in capitalist groups who developed the organizational skills, financial abilities and ideas essential for self-regulation as a class. Weinstein shows how World War I served as a springboard for the growing consolidation of a class conscious organization of capitalists. The war legitimated the need for the State to impose certain economic and political regulatory measures in this time of crisis vis-a-vis a class conscious political directorate. Through the War Industry Board during World War I, class conscious capitalist members of the ruling class learned to better coordinate private economic and State activities. Parts of the National Recovery Administration, the Agricultural Adjustment Administration and the Office of War Mobilization served the same function during World War II (O'Connor,1973).

Thus, by the twentieth century, organizing a class conscious political directorate capable of working effectively through the State to rationalize capital as a whole, became more and more desirable. Since selective mechanisms are becoming increasingly ineffective, Offe argues

that the capitalist class is incapable of such planning. Contradictions within the ruling class will become more acute as conflicts between capitalists arise over varying attempts to restructure the State. Such restructuring suggests the likelihood of greater instrumental manipulation of the State by the ruling class or segments of the ruling class (Gold, Lo, and Wright,1975).

For Offe, the key political question in contemporary times centers on the kind of "use-value criteria" adopted in determining State allocative and productive policies. He defines "use-value criteria" as a standard(s) by which State economic activities are guided. This standard(s) is arrived at through ideological and political processes. The determination of the general direction and state of the economy through market criteria in 19th century American "competitive capitalism" gradually gave way to political criteria as the State became increasingly involved in economic activities in the 20th century. So, for instance, today a dominant use-value criteria employed in determining a great portion of state economic activities revolves around military or "defense" considerations.

The State As A Bureaucratic Institution During Normal & Crisis Situations

Franz Schurmann offers different but complimentary insights regarding organizations in "normal" and "crisis" situations. Schurmann defines "crisis" simply as an anomolous situation which poses a major threat to the status quo. For Schurmann, the major inducements for crisis within the State are war and the pretense of war. (i.e. the cold war). His initial remarks concern the nature of bureaucratic institutions and shifts in power distribution within organizations which occur when contradictions arise in internal structures. In discussing organizations as they normally function, he draws from the conclusions made by numerous social scientists about large organization characteristics. The general features of

bureaucratic structures go hand in hand with Offe's concept of negative and positive mechanisms within the State system. First of all, the observation is made that during normal functioning periods of organizations, the internal structures appear to remain the same with little visible policy change or alterations in distribution of power.

> All organizations have a tendency towards inertia; they tend to keep on doing what they have been doing, a bit more or less, but always in the same way(Schurmann,1974:20).

When applied to the State system, this general characteristic of organizations functioning in a stable climate, insure, to a greater degree, the success of negative selective mechanisms. Thus, organizations characterized by bureaucracy, such as the government, sub-central units of the government, and administrative parts of the State system, tend towards routinization of existing policies and operations. For example, Schurmann points out that one of the important causes for bureaucratic routinization is the nature of budgets which tend to remain fairly constant. Furthermore, as Karl Mannheim noted, "bureaucratic thought" tends to turn all problems of politics into problems of administration(Mannheim,1952). So, potential State policies become "nonevents," and "non-decisions." Normal procedure becomes one of administering and bureaucratizing (encapsulating) political problems. "Contained specialization" by which decisions are made via specialists guided by professional and technical criteria; and "incremental decision making," accepting programs and policies already in force, constitute the normal functionings of the State system(O'Connor,1973a).

Just as negative selective mechanisms of the State have been reinforced by transforming political problems into administrative problems, positive selective mechanisms have also been bureaucratized. McConnel provides

insights concerning interest group operations within the State system when it is (or was) possible to "routinize" crisis effectively within the range of allocative policy alternatives.

> Where dramatic conflicts over policy have occurred, they have appeared as rivalries among the public administrative agencies, but the conflicts are more conspicuous and less important than the agreements among these systems. The most frequent solution to conflict is jurisdictional demarcation and establishment of spheres of influence. Log-rolling, rather than compromise, is the normal pattern of relationship(McConnell,1966:244).

Similar observations about bureaucratic "routinization" can be applied to the State system during periods of monopolistic capitalism when contradictions between its internal structure and the increasing role in accumulation intensify. However, the feasibility of the continued success of this mode of bureaucratic "routinization" in the '70's' is a moot question. "Jurisdictional demarcation" proves to be more tenuous as the national economy becomes increasingly interdependent and as the operations of a world economy form the prevalent bases for economic and political arrangements.

Further bureaucratization of political issues serve as attempts during crisis situations (in monopoly capitalism periods) to maintain the integrity of the internal structure of the State. Indeed, the tendency towards "routinization" will forestall recognition of the ineffectiveness of institutionalized selective mechanisms and the need for restructuring the State. As the State's direct involvement in the accumulation process grows, economic issues are increasingly politicized and thrust into the arena of administration. The State's role in productive policy formulation and rationalization has the effect of politicizing the accumulation process itself. And in turn, the accumulation process is transformed into a problem of administration. So, crisis situations which arise in monopolistic

periods of capitalism are increasingly treated as administrative decisions of quasi-public and public agencies. Private corporations per se become less subject to the demands of the working class. Instead, class struggle is increasingly directed towards nominally independent State system agencies rather than towards firms and industries(Gold, Lo, and Wright,1975). Under conditions of monopoly capital, when the State directly produces more and more the conditions of accumulation, the economic roots of "political" crisis become incresingly revealed. Clearly, this suggests significant changes in elements of the State system and in the relationship of the State to the capitalist class and non-capitalist classes. An ever growing politicization of class struggle most likely indicates various expansions of legitimation functions of the State.

Power Distribution And The State During Crisis Situations

Crisis situations also affect relationships within the ruling class in regard to the use of State power. With respect to large organizations in general, Schurmann observes that crisis lays the fertile grounds for changing the distribution of power. He argues that:

> Within organizations, the various bureaucracies never work things out among themselves, but rather try to get the executive to do something, naturally of a sort that accords with their own interests(Schurmann,1974:21).

Thus, in crisis situations, demands for the amelioration of contradictions within organizations flow to the executive level. And crisis, in turn, acts to increase power at executive levels of organization. While organization line and staff bureaucracies tend toward "routinization" of existing policies, the executive's role is to have an overall view of the organization's functions, purposes and goals. Though she may have little power over day-to-day operations, "monopoly of consciousness" provides the key factor in crisis situations. If critical decisions must be made, executive order

serves as a binding force on the organization as a whole. Executive decision legitimates rearrangements and new policy, not because the executive gave the order, but because her presumed monopoly of consciousness becomes a unique source of power during periods of crisis. Thus, when routine breaks down as a result of contradictions, only the executive can make critical decisions to resolve the situation effectively. Related to these propositions about crisis and subsequent distributions of power, are questions concerning the executive branch of State.

> How is it that so pivotal an office as the executive seems at times to consist of one man and a couple of advisors? How could an institution that seems so often to be dominated by one man be the lynch pen for an entire world order(Schurmann,1974: 22).

Schurmann's basic answer is that the greater the contradictions within the political economy and in turn, the ruling structure of the State, the greater the tendency for the displacement of power upward to the executive branch of the federal government.

LINKS BETWEEN OFFE'S AND SCHURMANN'S STUDIES

Schurmann is addressing the specific issue of the relationship between the State's expanding role in world economic-political affairs(since World War II) and the distribution of power in the executive branch of the government. The implicit links that can be drawn between his theoretical propositions and Off'e warrant careful consideration, since they raise the question of the relationship of the internationalization of capital to the dynamics of State involvement in accumulation. Viewed together, their works suggest that 1) there are close connections between the requirements of capital accumulation in contemporary monopolistic capitalism and the expanding role of the United States in foreign affairs, 2) the emergence of

growing contradictions between capital accumulation requisites and the State's expanding role in a world political economy may usher in prolonged "crisis" situations on domestic and international fronts and 3) "crisis of crisis management" in the internal structures of the State must be viewed in conjunction with "crisis" situations deriving in part, from the growing contradictions between capital accumulation requisites and the State's position in the world economy.

The State's Role in the World Political Economy and Crisis of Crisis Management

If indeed, the contradictions arising from the relationship between capitalist accumulation requirements and U. S. foreign affairs induce acute crisis within the State system's internal structures and prompts restructuring, than these conditions may suggest periods of prolonged crisis (i.e. the cold war and the Vietnam War) and protracted struggle to displace power upward, to the executive branch of the State's government. Offe provides an explanation for prolonged crisis which may suggest dramatic changes in the structure of the economy. As it may be recalled, these propositions focus on the dialectical relationship between State policies and capitalist class interests as they emerge from the changing accumulation process. As the State's role in direct accumulation expands and selective mechanisms become more and more ineffective, attempts to restructure the State will result in greater instrumental manipulation. Increased instrumental manipulation by the ruling class (or segments of it) during transitions periods of State restructuring reflects the urgent need for re-adjusting State functions of accumulation and legitimation. If Schurmann's propositions are correct, than attempts at greater concerted control will be manifested in some fashion in the executive branch of the

State. This may suggest that certain parts of the State apparatus are tightly manipulated by a political class-conscious directorate while other parts are left to special interests groups.

In the United States changing relationships between the legislative and executive branches of the government element of the State system is a familiar topic in the political sciences. Increasing centralization of power within the executive branch, a multiplication of its functions and more informal controls over Congress have long been under observation. The gradual erosion of the traditional federal system has also been noted. The increase of federal power in local affairs and step-by-step dismantling of local governments have long been subjects of popular contention (O'Connor,1973). But while these general changes in government, sub-central units of government and administrative elements of the State system are familiar stories, there have rarely been attempts to examine these changes in the context of American economic development and crisis situations.

CONCEPTUAL PROBLEMS CONCERNING STATE POWER AS IT FUNCTIONS IN "CRISIS" SITUATIONS

Detailed examination of the effects of various crisis situations on the State in post-World War II United States is a line of study that needs to be diligently pursued. There are several conceptual problems that must be ironed out. Among the questions that arise are: 1) what constitutes crisis situations, 2) what are the various components of different crisis situations, 3) how do these elements effect internal structures of the State system, the location and distribution of power and the functions of the State, 4) in what kinds of crisis situations does displacement of power flow upward and instrumental manipulation increase in the executive branch, and 5) what are perceived as crisis situations and who perceives them as such? In general, a theory of the transformation of economic crisis into political crisis and the reverse needs to be developed. So, "crisis

situations" must first be carefully defined to include a viable criteria for empirical testing. However, undertaking the explicit task of formulating a theory of State crisis is not the intention of this paper. But within the context of discussing interaction between the State and American economic development, some guiding ideas for the development of such a theory should emerge.

WORLD WAR II AS A "CRISIS" SITUATION

The crisis situation which serves as the foundation for analysis of Schurmann's theoretical line of thought is World War II. He first of all asserts that the war marked the birth of an American empire which was characterized by a "qualitative leap" from traditional expansionism to a new global role whereby it tried to create and implement a world order. There is a definite link between war, empire and executive power just as there is between crisis, global policy and power in the executive branch for the decades following World War II. Edward Corwin, a constitutional historian, has noted that crisis situations such as wars have increased the power of the executive and speeded the centralization of government(Corwin,1955).

Other social scientists besides Schurmann portray World War II as a social and economic "qualitative leap" for the United States. The war marked the fruition of a sustained period of economic growth and institutionalization of increased State economic activity; both of which had established precedents prior to the war. While Offe does not include in his analysis the actual transformations of internal State structures according to specific historic datelines, his work does suggest the dialectical connections between the dynamics of capitalist economic development and the internal structures of the State. Other new departures which like Offe's, strengthen the dialectical quality of Marxian theory of the State, move more in the

direction of an historical theory. Before turning to these studies, certain implications of Offe's work(and Schurmann's) need further consideration. The propositions gleaned from their studies will serve as possible focal points for defining the broad contours of interaction between the State and post-World War II American economy.

FOCAL POINTS OF OFFE's AND SCHURMANN's WORKS

(1) Offe's study implicitly suggests that defining State power(its nature, sources, distribution, and functions) in terms of exclusively instrumental or structural causation is incorrect. The State is "relatively" autonomous. It is not simply manipulated by members of the ruling class nor is it completely controlled by economic determinants. The most plausible view appears to be that:

> There are periods in which the State can be reasonably understood as a self-reproducing structure which functions largely independently of any external manipulation, and other times when it is best viewed as a simple tool in the hands of the ruling class. Certain parts of the State apparatus may be highly manipulated by specific capitalist interests, while other parts may have much more structural autonomy(Gold, Lo, and Wright,1975: part 2;46).

That the power structure of the State is historically contingent upon economic development, may partially explain the prevalence of one power structure perspective over another. As Kariel contends, pluralism may have once been a more viable theory for portraying the State at some earlier point in American history. This is not to suggest that predominant classes did not prevail during earlier periods of American history, but that the likelihood of competing blocs of interests diffusing power through the political process was greater. Such a theory corresponds to Offe's selective mechanisms which evolved during earlier stages of capitalism,

allowing for a wide range of competing allocative policies which were functional for productive policies and satisfied capital as a whole. Kariel attempts to show how the American political(constitutional) system works toward the fragmentation of power while the technological system (the framework for monopolistic capitalism) works toward the consolidation of power(Kariel,1961). The concentration of power inevitably leads to the decline of countervailing powers.

Just as instrumental theory developed in response to (visible) manifestations of instrumental power, structuralism arose as an interpretation of growing constraints imposed on the State by increasing contradictions in the accumulation process. Similar observations can be made regarding the emphasis on the State's function of legitimation at the expense of neglecting its capital accumulation function(and vica versa). Like attempts to explain the nature of State power, its sources and distribution, discussion of State functions are historically contingent. Before significant quantitative and qualitative changes occured in the State's role in accumulation, various aspects of the legitimation function of the State were more prevalent(at least more visible) and therefore, dominated the writings of instrumentalist theorists. While instrumentalists tend to treat the legitimation role of the State exclusively, structuralists tend to neglect the legitimation role and emphasize capital accumulation as it came to occupy an even more crucial position in preserving the existing economic framework. So, clearly, different power structure approaches reflect the historical contingencies of the changing relationship between economic development and the State's character. But at no point in the history of capitalist societies can strictly instrumental or structural causation represent the central focus of a viable theory of the State.

Different perspectives on the power structure of the State also reflect

a wide diversity in the focus of analysis of various investigations. The approach taken depends, to some degree, on the aspect(s) of the State system under observation and the particular historical milieu in which it is situated. It is feasible that some elements of the State system are more accurately seen as the domain of specific interest groups while other parts of the State system are more correctly viewed as the arena of a class-conscious political directorate. The power structure(s) of the State system must not only be perceived in terms of spheres of influence but also as issues raised within that sphere. The exercise and distribution of power in elements of the State system must be viewed within the context of particular historical situations where power may only be exercised in a highly centralized, manipulative fashion under certain conditions and for specific issues(i.e. perceived or fabricated crisis situations).

Richard Barnet provides a contemporary example of this line of thought in his observations concerning a decisive shift of State power to those agencies that are involved with foreign and military affairs(national security). He argues that in the decades following World War II until the Vietnam War, national security managers("the McGeorge Bundys and Henry Kissingers") via the president exercised a broad scope of highly manipulative powers in foreign and military affairs with virtually little political restraint from domestic conflict. The brazen command and tactics employed by the executive beyond the American shores was a display of highly manipulative powers not acceptable in the domestic arena for resolving domestic issues. Thus, Barnet shows for this particular historical period, that though there is good evidence of instrumental manipulation and centralization of power in regard to military and foreign affairs, the same perspective on power structure does not automatically carry over to other arenas and issues(Barnet,1971).

In other instances within the same historical period, the internal

mechanism of certain elements of the State system and structural requirements of the economic system appear to take the forefront while direct instrumental manipulation becomes either less necessary or less feasible. To use Barnet's example again; the Vietnam fiasco marked the beginning of a transitional phase in American political economy in which the structural constraints of a world political-economic system contradict the highly guided tactics of the executive in foreign and military affairs. While "national security" agencies of the State system struggle to safeguard their exercise of power, the consequences of their actions are revealed through intensified contradictions in the economic structure and are reflected in domestic conflict. Direct instrumental manipulation by the executive in foreign and military affairs as once displayed becomes less feasible. This however, does not mean that because structural restrictions of the political economy are undermining executive directive in these areas, that a protracted struggle within the State might not go on to preserve that power. Barnet's observations elucidate a point made earlier on. The State cannot be viewed from the perspective of strictly structural or instrumental power structure theory. Nor can it accurately be portrayed through an approach which examines exclusively external or internal determinants of State policy and State action. With these point in mind, the development of the State and the American economy of the past fifty years will be traced accordingly in chapters to follow.

(2) While Offe has presented ideas concerning recent trends in the relationship between the State's internal structures and requirements of the monopolistic capital accumulation process, Schurmann offers complimentary theoretical propositions about the State in regard to its expanding role in a world political economy.

(a) Schurmann's study implicitly extablishes links between the State as a distinct sector of the economy and United State's foreign economic-

political affairs. Clearly, this suggests the need to explore the relationship of the State to accumulation in both a national and international context..

(b) To recall, Offe notes quantitative and qualitative changes in the State's involvement in the accumulation process and argues that antedated allocative policies are no longer functional for newly required productive policies. The key political questions for Offe then, are what kinds of use-value criteria is used or will be used for State production? The role of World War II in extablishing and maintaining certain precedents for use-value standards will be a topic of critical concern later in the paper. The implication of Offe's recognition of the State's expanding role in capital accumulation is that State activity can no longer be viewed as an external response to the dynamics of capitalist development, but must be seen as an intrinsic part of that process. The State represents a vital sector of the economy and must be treated in any socio-economic analysis as such.

(c) As the State replaces market criteria by political considerations(use-value) in the organization of production and allocation of resources in the accumulation process, non-capitalist class demands become politicized and directed toward the State. The general observation that should be made is that under monopolistic capitalistic conditions in which the State constitutes an integral sector of the economy, economic issues are transformed into political issues; and economic crisis increasingly become viewed as political crisis(and vica versa).

(d) The pressing need to restructure the State suggests a period of greater instrumental manipulation by the ruling class or segments of it. If, indeed, State restructuring should induce a "crisis of crisis management" and power in organizations is displaced to the executive level, increasing executive centralization in the State should occur vis-a-vis struggle to

increase federal government powers. It is likely that increased government executive level power(or the attempted struggle to gain such power) will manifest itself in those areas perceived as the most crucial for preservation of capitalist society(i.e.foreign investments). Drawing from Gold, Lo and Wright, two related questions arise in regard to this point: 1) Through what channels or mechanisms of the State system apparatus are growing attempts at executive level instrumental manipulation funnelled for safeguarding the economic structure, and 2) given certain economic structural requirements for the changing process of economic development what areas and related issues will increased executive level control be manifested?(i.e. the national budget). Increasing federal executive centralization would attempt to handle the central task of ameliorating the contradictory forces of the "crisis of crisis management:" 1) the need for internal structures suitable for more directly planning and managing a monopolistic capitalist economy and 2) the need to de-politicize non-capitalist class demands(Gold, Lo and Wright,1975).

Offe and Schurmann's theoretical propositions and the links between them provide some direction for defining the general contours of interaction between the State and American economic development since World War II. But their studies also implicitly raise important questions about the State and economic development which are either not specifically addressed or adequately explored. While Offe points out distinct connections between the dynamics of capitalist development and the internal structures of the State, his work lacks the essential inclusion of history. And since the internal structure of the State is his focus of analysis, he does not elaborate on the external determinants of the State and their ramifications upon institutional State mechanisms.

Likewise, Schurmann does not place enough emphasis on economic factors and their impact upon internal structures of the State(and vica versa). He does however, incorporate external determinants describing the instrumentalist

dimension, claiming that the contemporary political-economic scenario is a consequence of increased executive power in general and influential bureaucratic factions in particular. Questions raised but not discussed to any great length, if at all, in either Schurmann's or Offe's writings are: 1) the State in conjunction with a dialectic of the accumulation and legitimation process, 2) the State as an integral sector of the economy and its connections with other sectors of the economy, and 3) the State in relation to domestic and world economic development.

However, other recent developments in Marxist theories of the State treat these topic areas. Like Offe, these writers have attempted to depart from traditional instrumental and structuralist approaches and restore Marx's dialectical method to analysis of the State. In contrast to Offe, they move more in the direction of centering their analysis of the State in a specific historic context and in doing so, provide additional substance to theoretical propositions concerning both internal structures and external determinants of the State. Not only do the works of Eric Wright, James O'Connor, Richard Barnet and other writers flesh out Offe and Schurmann's theoretical propositions, but a synthesis of the two groups of writers can provide the groundwork for a theoretical line of thought concerning the State in U.S. post-World War II capitalist society. The next chapter will therefore begin dealing with other new approaches to the State by portraying the historic climate in which the fundamental changes in the State(of which contemporary Marxist theorists are most concerned) first took root in American society. Questions and propositions posed in Offe and Schurmann's works will serve as focal points for synthesizing complimentary but separate developments in Marxian theories of the State.

CHAPTER THREE

THE APPLICATION OF ALTERNATIVE AND CONVENTIOANAL APPROACHES THE 1920's AND 1930's

INTRODUCTION

A synthesis of new departures in Marxian theories of the State requires the explicit inclusion of history. An understanding of the "present as history" calls for at least a brief overview of the American political economy of the '20's' and '30's'. Contemporary topics concerning the State, addressed by Wright, O'Connor, Sweezy and Baran were nurtured in these earlier decades and thus, elucidate later developments of the State. Therefore, this chapter will provide an historical sketch of the changing character of State accumulation and legitimation functions as they correspond to economic development in the '20's' and '30's'. This outline will not be designed to cover a broad, detailed range of historical events, but will highlight certain significant developments pertaining to interaction between the State and economic development in a domestic context. These developments include: 1) the nature of economic crisis in an era of "rising monopoly capital;" 2) the evolution of a dual economy, 3) changing production relations(capital/labor relations), 4) the transformation of State/labor and State/capital relations, and 5) the emergence of the State as an integral sector of the economy.

THE STATE IN RELATION TO ACCUMULATION AND LEGITIMATION PROCESSES-1920's

Accumulation and legitimation processes represent the two fundamental and often mutually contradictory functions capitalist states must try to fulfill. While the State attempts to bolster conditions for profitable capital accumulation, it must also try to maintain and generate the conditions for social harmony.

THIS BOOK CONTAINS NUMEROUS PAGES WITH MULTIPLE PENCIL AND/OR PEN MARKS THROUGHOUT THE TEXT.

THIS IS THE BEST IMAGE AVAILABLE.

> A capitalist state that openly uses its coercive forces to help one class accumulate capital at the expense of other classes loses its legitimacy and hence undermines the basis of its loyalty and support. But a state that ignores the necessity of assisting the process of capital accumulation risks drying up the production capacity and the taxes drawn from this surplus(and other forms of capital)(O'Connor, 1973:6).

It is upon this basic Marxian economic premise that a theoretical line of thought about the State in American capitalist society can begin to be formulated.

The character of State interaction in accumulation and legitimizing activities during the 1920's was primarily shaped by the impact of World War I on the American economy. A brief overview of U.S. economic development(the accumulation process) during this period will serve as a preliminary foundation for understanding the kinds of economic crises characteristic of the 20th century and the implications these crises have for quantitative and qualitative changes in the State's accumulation and legitimation activities in later decades. Baran and Sweezy provide an analysis of 20th century American economic history in terms of the surplus absorption problem which can most usefully be seen within Wright's broader theoretical framework of the State's historically expanding role in implementing "structural solutions" to "constraints on accumulation."(Baran and Sweezy,1966 and Wright,1975). James O'Connor provides additional substance to a dialectical approach to the 20th century American political economy by describing the changing context of capital accumulation as a single contradictory process of two(and later three) developing sectors of the economy. Their observations comprise an economic historic backdrop and explanatory model for the changing nature of the State and State functions; and offers some insight into the sources of State power and the distribution of State power since World War I.

A. General Features of the Accumulation Process-Economic Crisis and Development of a Dual Economy-The 1920's

In order to begin examining the broad contours of changing interaction between State and American economic development, the general features of the capitalist accumulation process during the 1920's must first be appraised. According to Baran and Sweezy, World War I marked an important juncture in U.S. economic history. The war served as just the kind of "external stimuli" needed to rescue the economy from severe depression during the early '20's'. The theory that "external stimuli"(epoch-making innovations," and "wars and their aftermath") offset the depressive effects of monopoly capital hinges upon Marx's "laws of motion" for capitalist systems and on Marxian theory of economic crisis(See Appendix). The first quarter of the 20th century, the era of rising monopoly capital, is characterized by a slow down or stabilization of the organic composition of capital and a "tendency for the surplus to rise more rapidly than consumption demand(Wright,1975)." Capital and labor-saving devices and growing monopoly power generated an increased rate of exploitation and thus, underconsumption problems. Unemployment and underutilization of production capacity represent the most serious effects of consumption/realization economic crises. So, Baran and Sweezy as well as Wright see "stagnation" or chronic depression as the major source of economic instability in the 20th century.

Baran and Sweezy point to the onset of "creeping stagnation," featured by increasing severity of the contraction phases of the business cycle from 1908 until World War I and to an accompanying steep increase in unemployment. Thus, they conclude that in the absense of "external stimuli" such as war, the decade 1910-1920 would have been marked by severe depression. But, the outbreak of World War I in 1914 entirely altered the prospects of the American economy by facilitating the postponement of depression and contributing to the dubious image of the 1920's as the "new era" of economic prosperity.

The mounting surplus absorption/underconsumption difficulties of the 1907-1915 period were partially stemmed by growing military demands and cutbacks in civilian goods and services production. Though the aftermath of the war ushered in a brief "reconversion crisis," it was followed by a boom riding on the heights of speculative mania in the spring of 1919; only to be interrupted by mild depression in 1922. But the "aftermath" boom soon resumed its course as a consequence of a backlog demand for durable consumer goods, particularly for automobiles and housing construction. The automobile, its by-products, construction, and the production of new and attractive products secured by a fraction of the population, appeared to reflect sustained economic stability.

Yet underlying this confident veil of "prosperity" were developing impediments to the accumulation process which would continue to endanger the operations of monopoly capital throughout the 20th century. Since surplus absorption seemed to be proceeding relatively smoothly and unemployment figures suggested promising decreases, the actual rockiness of the American economy during the early 20th century as well as the major causes of economic instability went unrecognized. What then were the developing structural impediments to the accumulation process which brought the "prosperity decade" to a crashing halt? And in what kind of general socio-economic milieu did these constraints to the accumulation process arise? Baran and Sweezy base their explanation primarily on the nature and "solutions" for economic crises while O'Connor focuses upon the development of a dual economy as a bais for understanding the recent-past and contemporary American socio-economic climate.

A.(1)Developing Structural Impediments to the Accumulation Process-The Nature of Economic Crisis-1920's and Later Decades

Baran and Sweezy assert that the Great Depression of the 1930's was largely a consequence of the failure of the effective continuation of

neutralizing the problem of surplus absorption/underconsumption, a problem characteristic of the monopoly capital era. The automobile and construction industries which experienced a boom in the "aftermath" of the war lost their impetus in the mid-20's as the upper limits of the market were reached. By 1924, the automobile industry was no longer concentrating on new car buyers, but on planned obsolescence, consumer finance, and extensive advertising to encourage trade-ins and buy-on-credit plans. In the construction industry, after a few years of active building, the market limit was approached by 1926. A similar pattern occurred in durable consumer good markets which had experienced an explosion of new attractive products(Dowd,1974). "External stimuli" such as the war and its "aftermath" and the "epoch-making innovation" of the automobile could no longer sustain relative economic stability. Meanwhile, investment rates continued to grow rapidly and excess capacity accumulated swiftly after 1923; thereby contributing significantly to creating conditions for severe depression. Therefore, Baran and Sweezy contend that war and the automobile temporarily submerged the stagnation tendencies inherent in monopoly capitalism which had already begun to dominate the economic scene after 1907.

> During the 1930's they [stagnation tendencies] rose to the surface, and put their indelible stamp on a whole decade of economic history. Here for the first time we get a crystal-clear view of the system operating with a minimum of external stimuli for an extended period of time, laying bare what Marx called its "laws of motion" for all to see(Baran and Sweezy,1966:240).

Thus, monopoly sector productivity and productive capacity tend to expand more rapidly than the demand for labor and employment while failing to provide consumption and investment outlets required for absorption of a rising surplus.

A.(2)The General Socio-Economic Milieu Of The 1920's-Development of a Dual Economy

Failure to recognize the precariousness of dubious prosperity conditions of the 20's was largely due to the dynamism of the monopolistic sector of the

economy. While technological innovations occurred at speedy rates and a whole new gamut of durable consumer goods were made available; and industries associated with automobiles and construction expanded enormously, competitive sector industries continued to decay(Dowd,1974). The general socio-economic climate in which submerged, but intensifying surplus absorption/underconsumption difficulties developed during the '20's' is primarily marked by the bifurcation of the American economy.

The concept of economic duality solves some of the puzzles regarding American economic history and links the dubious prosperity of the '20's' with the stark realities of mixed prosperity-poverty conditions in our own times(Dowd,1974). James O'Connor and Barry Bluestone, the leading proponents of the theory of American economic duality, contend that:

> An economic system based on private investment decisions thus tends to produce a dual economy both in the structure of industries and in the structure of the labor force(Bluestone,1972; Hearings).

Economic duality not only suggests differences between groups and sectors in the economy, but the "evolution of two paths of change, one dynamic and profitable, the other marked by difficulties and stagnation(Dowd,1974:62)." This pattern was well underway before the 1920's but such disparities in the economy did not constitute a firm basis for "duality" until monopoly capital became the prime representative of economic power. So, while those industries of the "monopolistic sector" of the 1920's economy(i.e. automobile, construction and related industries) achieved great heights of prosperity, those businesses associated with the "competitive sector"(i.e. railroads, agriculture, and coal mining) experienced increasing economic difficulties. Given the economic climate of the '20's'(that is, the emerging structural constraints of monopoly capital and the economic disparities of a dual economy, how then, did the State act to maintain conditions for profitable capitalist accumulation?

B. Maintaining The Conditions For Capitalist Accumulation-1920's

State intervention into the economy during the 1920's remained relatively unobtrusive. Direct State involvement in the accumulation process was limited to minimal support of segments of monopoly capital. State economic activities in the '20's' can generally be viewed as an external response to the dynamics of capitalist development rather than an intrinsic part of that process. State expenditures were small as a percentage and were dominated by state and local expenditures(i.e.highways and education) rather than by federal expenditures(Dowd,1974). Unlike later decades, the federal government element of State in the 1920's had a minimal role in directing(or attempting to direct) subunits of government to fiscally operate in certain ways. State actions reflected little concern for the economic difficulties of competitive sector businesses or for the economic disparities of a developing dual economy. The State responded positively to big business(the dynamism of the monopoly sector) through direct and indirect subsidization, virtual dismissal of anti-trust cases, the institution of a more favorable tax structure, and through the creation of appropriate conditions for foreign and domestic investment.[6] Thus, the State helped to create conditions for expansion of monopoly sector productivity and productive capacity while providing opportunities for new investment. But, the emerging tendency of stagnation in the monopoly sector(as well as in the competitive sector) of the economy was not anticipated through State action. Since the demand for labor and employment in the monopoly sector tends to lag behind expansion, sufficient consumption outlets were not provided for a rising surplus. So, rather than maintaining and creating long-term conditions for capitalist accumulation, the State did more to aggravate stagnation tendencies and widen the gap between the dual economic system(Dowd,1974).

The State's inactions in economic affairs are perhaps a more revealing

testimony of the State's role in the accumulation process in the 1920's than its actions. While giving some support to the monopolistic sector of the economy, the State abandoned small businesses to the vagaries of a postwar economy. Agricultural economic problems provide a glaring example of State inaction during the '20's' in regard to the competitive sector of the economy. After World War I farmers were faced with glutted peacetime markets, largely the result of government policies encouraging huge crop production. Though prices of agricultural products plummetted, the State did little to ameliorate farmer's basic economic problems. Not until the Hoover administration did the federal government take concerted steps to absorb the rising surplus of agricultural products through purchase of non-perishable crops and export subsidies. Measures introduced for federal price supports, which would have provided protection for farmers comparable in effect, to that already given industrial firms were vetoed(Coban,1973). Agricultural economic problems clearly portray the existence of a dual economy; one economy marked by stagnation and impoverishment and the other by profitability and growth.

Though corporate business flourished in the 1920's, laborers in the monopoly sector were faring little better than their counterparts in competitive sector businesses. While capital-state relations were becoming close-knit, capital-labor relations were deteriorating. The demands of labor became not only a challenge to certain industries in the 1920's but contested the efficacy of the American economic system. What was the State's response to what, in effect was a challenge to its legitimacy?

C. Legitimation Processes-Maintaining Conditions of Social Harmony-1920's

As suggested by Offe's study, recognition of changing relations of labor to capital and labor to the State is important in understanding their subsequent

impact upon internal structures of the State. Though labor in the 1920's did not direct economic demands toward the State, labor's potential role in transforming economic crises into political crises began emerging. The post-World War I period marked some of the most turbulent years in American labor history. Labor demands after World War I and through the '20's' centered around such revolutionary changes as the abolition of the twenty-four hour shift, the institution of a six-day work week, a 20 minute lunch break, and wages commensurate to rising cost of living(Coban,1973). Capital as well as the State's response to such demands were notably severe. In Offe's terms, the State used selective negative mechanisms of process (judicial means), ideology, and repression to suppress labor demands. Federal troops were employed to squelch strikes(i.e. steel strike of 1919), judicial decisions were handed down inevitably unfavorable to labor, and strikers were branded as "Red."

Cooperation between monopoly capital and State was evident in labor disputes of the 1920's. The'20's' portray cooperation between a developing class-conscious political directorate that recognized the growing need to regulate private economic and State activities of accumulation and legitimatior (see p.p.27-28). Using Offe's framework of analysis, the following observations can be made about the internal structure of the State in the 1920's.

Capitalist accumulation in the '20's' appeared to be proceeding smoothly(at least until 1928). The State was minimally involved in the accumulation process, dealing almost strictly with allocative policies rather than productive policies. As long as monopoly capital, as a whole, could benefit from a widely acceptable scope of allocative policies, corporate businessmen desired only minimal State activity in the accumulation process(Hawley,1966). So, the positive selective mechanisms of the State's internal structure in the 1920's remained intact.

Cooperation between monopoly capital and the State is most clearly portrayed through the use of State negative selective mechanisms in the 1920's. Besides invoking judicial measures against labor, the State employed ideological warfare by capitalizing on the "Red Scare" hysteria. The State also used coercive forces against labor. Resorting to repression to restore social harmony puts stress upon the State's internal structure and the State risks losing legitimacy. If, however, positive selective mechanisms are well secured, as appears bo be the case in the 1920's, than acute contradictions within the State's internal structure("crisis of crisis management") are not likely to arise.

Neither the internal structure of the State nor the legitimacy of the State as a whole appeared to be in serious jeopardy in the 1920's. Existing threats to social harmony were not intense or widespread enough to threaten the prevailing mood of optimism and belief in the fulfillment of the "American Dream." In addition, the State was not yet viewed as an agent to alleviate conditions of poverty and unemployment. The dominant ideology held that any reliance on government elements of the State for income or services, besides being contrary to the laws of nature and demoralizing to the individual, was ruinous to "private enterprise." So, economic grievances that did arise were not attributed to the State, but were contained and channelled at this level.

But by the 1930's the efficacy of the State's legitimating role in stabilizing and reproducing a class structure conducive to monopolistic capital development, was seriously called into question. Concomitantly, the economic crisis of the 1930's ushered in an expansion of State accumulation/legitimation functions and with it, a changing image of the State's economic role.

THE STATE IN RELATION TO ACCUMULATION AND LEGITIMATION PROCESSES-1930's

The role of the State in economic affairs in the 1930's was obtrusive and explicit. The 1930's depression induced State intervention into the economy on an unprecedented scale and facilitated the expansion of State legitimation functions. What clearly differentiates the 1930's from the previous decade is the changed role of the State(expecially the federal government component of the State) in economic activities. The economic history of the 1920's provides a basic explanation for the depression of the 1930's. Once the "external stimuli" of World War I's "aftermath" and the automobile had played out their momentum, the economy was once again faced with an underconsumption/realization crisis. Though this kind of economic crisis had become a standard feature of monopoly capital, it had never before been so severe. The dynamism of monopoly capital disguised not only the intensification of problems in the competitive sector of the economy, but largely concealed the monopoly sector's own economic difficulties. Without "external stimuli" to promote the extension of new investment and market outlets; and without the realization of effective demand to absorb the surplus, monopoly capital could no longer operate at near-full utilization of capacity. Thus, profits dropped and unemployment rose. The 1930's inequivocally demonstrated that with the development of the early phases of monopoly capitalism into advanced monopoly capitalism, the reproduction of favorable conditions for accumulation depends increasingly upon the active intervention of the State(Gold, Lo and Wright,1975:part 2). In Wright's terms, the depression compelled the State to seek "solutions" for the structural impediments of a rapidly rising surplus and a slowly rising consumption demand. How then did the State respond to the need for restoring conditions of capitalist accumulation in the '30's?'

A. Restoring Conditions of Capitalist Accumulation-1930's

The New Deal era can best be characterized as conservative in substance and revolutionary in pace. New Deal legislation for economic recovery basically reassured monopoly capital of its leading position in economic power and re-stabilized a class structure conducive to monopolistic capital development (Hawley,1966). Thus, the fundamental ties between State and monopoly capital were retained and would become stronger as corporate businessmen realized the potential of the State(federal government element of the State) in rescuing monopoly capital from severe economic crisis. The New Deal administration could not be insensitive to small business interests but the dynamic forces of monopoly capital within the State; especially at the federal level, rendered ostensible attempts at controlling monopoly power ineffectual(Hawley,1966 and Kariel,1963). Capital(non-corporate and corporate) and State relations were indeed not without their strains, but the general trend towards developing closer ties continued; particularly between monopoly capital and the federal government element of the State(O'Connor,1975).

The National Recovery Act(NRA), a plan for regulation of industries through the cooperation of the federal government and industries, was introduced as a major program for economic recovery. What resulted was not overall direction for economic recovery via the State, but a program which served as the backdrop for continual, heated debate and dialogue between the corporate liberals, national planners and anti-trusters. Rather than developing a program "determined by economic and political bargaining" which would establish "fair codes of competition," the NRA instead, fostered monopoly. As both Hawley and Kariel note, the bargaining approach "naturally favored the highly organized group with a specific and well articulated set of demands (Hawley,1966:136)." Corporate businessmen saw the NRA as a means through which economic power for monopoly capital(or segments of it) could be secured

through consensus arrangements on quotas, prices and wages. But the NRA became embroiled in legal conflicts, battles between industries and bureaucratic ensnarlments and was soon invalidated by the Supreme Court.[7] The NRA failed to effectively mediate between highly organized power groups that fortified and extended monopolistic arrangements and the legacy of pluralism and competition. Though the NRA failed, it served as an object lesson for both small business and corporate business. Owners of small businesses began looking to the State as their only means of economic survival in a predominantly monopolistic economy. In the political arena, they struggled to hold onto their major sphere of influence and power; sub-central units of government and Congress. For corporate businessmen, the NRA and the severity of the 1930's economic crisis accentuated the need for a well-developed class conscious political directorate with the capabilities of orchestrating the economy through the State. Monopoly capital interests filtered their economic requirements through the political channels of federal government agencies and the executive branch. By the 1930's, corporate businessmen recognized the need for interpenetration of the power-holds of small business; state and local governments and the federal legislature. Similarly, other New Deal legislation which originated in part as a result of corporate business pressure like the NRA, reflected the successful attempts of big business to better assure their economic stability through the State.[8] In Hawley's estimation, what the NRA might be credited with is "a sort of holding action, a program that for a season did provide a psychological stimulant and helped check the deflationary spiral...(Hawley,1966:132).

Like its counterpart, the NRA, the Agricultural Adjustment Act fostered monopoly while guaranteeing a class structure suitable for expediting capitalist class power. The basic intention of New Deal farm policy was to reduce and restrict surplus through controlled production. Though conditions for

capitalist accumulation(expansion) in agriculture were not restored until World War II, State agricultural programs did help reduce price-depressing surpluses; thereby raising cash incomes of some farmers. However, the benefits of New Deal agricultural programs were largely channelled to large farmers, while the small farmer and tenent endured continuing impoverishment. Just as corporate industrial businessmen became increasingly aware of the need and potential benefits of closer State-capital ties through New Deal programs, so were large farmers. Like other State(federal, state, and local) "New Deal" agencies, the purported national interest of agricultural agencies was often subordinate to private ends of large capital interests(Graham,1973). Monopoly power could be effectively camoflauged behind the rhetoric of anti-big business, purchasing power, and consumer interests.

Economic recovery strategies for industry and agriculture were halting and erratic. New Deal programs were dictated more by political and social pressure than by "economic planning." The State attempted to steer the reef between the economic-political clout of capitalist classes(particularly monopoly capital) and the social pressure of non-capitalist classes. In Offe's terms, as the State became increasingly involved in the accumulation process in the 1930's, the accumulation process itself became politicized, in the sense that more decisions about accumulation were at least partially made in public agencies rather than by corporate firms. While State economic activities to restore conditions of capitalist accumulation failed, the New Deal administration was fairly successful at politically manuevering clashing business interests(Hawley,1966). And though State relief funds were meager, judging from past performance, these State enactments were superior. The State then, managed to shore up wavering loyalty and confidence in both the economic structure and political system.

New Deal legislation was conservative in nature, attempting to preserve fundamental State/capital and capital/labor relations. But the New Deal administration was revolutionary in its pace, quickly enacting laws, especially in the early years of the New Deal, which regularly would have been obstructed in Congress.[9] Economic crisis compelled businessmen to accept and even request measures of economic regulation which previously had been undesirable.

Yet for all the apparent political successes of the New Deal administration, the economic crisis of the 1930's put serious strains on the internal structure of the State. As the depressive economic conditions of the '30's' pressed the State into increasing involvement in the accumulation process, the institutional mechanisms for policy formation, evolved in earlier periods of capitalist development, became noticeably ineffective. The State had stepped up its involvement in allocative policies which basically re-distributed resources already produced(i.e. Commodities Surplus Corporation) or which mobilize the production of resources strictly for Keynesian purposes(i.e. WPA). In addition, the State began formulating policies which indirectly impinged on the production process(i.e. cutting back production in agriculture). Institutional barriers which arose clearly suggested that conventional selective mechanisms for policy formation would increasingly become dysfunctional for newer requirements for accumulation. The major institutional obstacles hampering newer requirements for accumulation in the '30's' were the Supreme Court and the Democratic Party's conservative southern wing with its power base in Congress. Gold, Lo, and Wright suggest that as State mechanisms for policy formation become less and less effective, there may be a period of greater instrumental manipulation of State structures by a ruling class group(s) in attempts to restructure the State in ways more compatible with accumulation requirement(Gold, Lo and Wright,1975:part 2). This observation can be applied

to the 1930's and Roosevelt's attempts to enlarge the size of the Supreme Court and his 1938 campaign for a more liberal Democratic Congress. So, the contradictory consequences of increased State involvement in the accumulation process began emerging in the internal structure of the State in the 1930's, foreshadowing future endeavors to restructure the State.

Since accumulation underpins much of the ideological legitimation of the inequalities of capitalist society(i.e. class structure), a prolonged period of non-accumulation threatens to undermine such legitimation and is likely to intensify class struggle(Wright,1975). This observation starkly characterizes the Depression of the 1930's. The continued distress of a stagnant economy undercut the legitimacy of the capitalist system and in turn, threatened the legitimacy of the State. As Offe points out, as the accumulation process becomes more and more politicized, so does class struggle. Demands tend to become increasingly directed toward the State(elements of the State), so that if demands are not met the legitimacy of the State is called into question. How then did the depression jeopardize civil order and how did the State respond to regain lost legitimacy?

B. Legitimation Processes-Maintaining Conditions of Social Harmony-1930's

The temper of the country in the opening years of the 1930 decade was generally quiescent. But beginning in 1934, signs of discontent began emerging In the midst of a prolonged period of impoverishment, property loss, and unemployment, middle and low income classes began losing faith in reform government rhetoric. Generally, their demands were expressed in a subdued, unorganized fashion, though there were occasional, sporadic attempts by some groups (i.e. young people and farmers) to unite for redress. In voicing their demands, there was one group, however, which drastically diverged from the usual modes of expression. Mounting radical sentiment stirred most intensely

in the ranks of industrial labor and found stormy expression in unity. In 1934, rising labor militancy brought a wave of strikes and violence which was met with armed retaliation by private police hired by employers, local state police and the state national guard. Even migratory agricultural workers, who did not have a history of labor redress, mounted a campaign for union recognition and higher wages. Their demands too, were met with violence on the part of employers and local coercive elements of State(Graham,1973). Though employers and local State elements were successful in quelling a portion of militant labor demands, important concessions were nevertheless made in the '30's.'

Indeed, the depression era marked a watershed in American labor history. Labor history in the 1930's can be seen generally as a part of the struggle to adjust old relations of production(State/labor, capital/labor relations of the competitive era) to new forces of production(monopoly capital). Thus, changes which transpired in State/labor and capital/labor relations in the depression decade were specific responses of a capitalist system in search of a new framework for monopoly capital and institutional adaptations for amelioration of economic crises. In the process, industrial labor won concessions which represented an unprecedented increase in political-economic power for the major portion of the working class.

The 1930's marked an inextricable turn in the State's role in labor-management relations at the federal level. In assuming more and more responsibility for economic development, the State was also compelled to insure a cooperative labor market; especially for the most powerful economic units, represented by monopoly sector capital. So, in its attempts to temper labor militancy and induce economic growth, the State passed measures guaranteeing the right to organize and bargain collectively(NRA's Section 7'A and the Wagner Connery Bill). In the improved political climate of the 1930's, unionization

made significant headway. Established unions, such as the AFL and UMW recovered from the drastic decline in membership of the '20's, and surpassed former membership numbers by impressive margins. New unions, such as the CIO, consolidated its new base from within the unhappy ranks of the AFL and made tremendous strides in unionizing the great non-union industries of steel, automobiles and textiles. By the end of the 1930's, the CIO had in addition, organized glass, lumber, electrical products and maritime industries. The UAW also won recognition from General Motors and Chrysler in a sitdown strike in 1936-37(Graham,1973).

Unionization produced other demands directed toward the State and industry. Thus, a raft of social insurance measures were legislated in the '30's'(and '40's'). All the major social security programs(except workmen's compensation) were introduced during this period-unemployment insurance, veteran's life insurance, and old age and survivors insurance. Though workers obtained coverage from the State as never before, corporate leaders of the 1930's recognized that State social insurance measures actually served as more of an insurance for them rather than for the workers. According to James Weinstein, some corporate leaders had long been aware of the importance of providing a sense of economic security within the ranks of employed workers(particularly monopoly capital). It was recognized that economic security would most likely raise morale and reinforce discipline; thus, acting to smooth labor-management relations. Workmen's compensation, for example, was initiated by some corporate leaders well before such insurance became mandatory under the law. Industrial leaders of the 1880's supported other social security programs, including national health insurance(Weinstein,1968). Similarly, corporate leaders began to view unionization as a potential cooptive mechanism which could assure high discipline and a sense of economic security among employees. As O'Connor has remarked, the benchmarks in 1930 labor history(i.e. social security) were very much

a product of corporate liberal planning at one stage or another(O'Connor,1973).

From the vantage point of the State, unionization and social security programs represent both a means of assuring continued economic growth and as a legitimizing force. In giving workers a sense of economic security through these channels, the State reinforced its legitimacy. Social insurance programs also served to conservatize unemployed and retired workers. As the 1930's paved the way for increasing State participation in labor-management matters, economic demands were no longer contained at the industry/employee level. Workers began to direct more and more of their demands toward the State.

Monopoly capital subsequently benefited in two major ways. First of all, attention was diverted away from corporate policies and the responsibility for economic and social imbalances, while the amelioration of them was increasingly placed on the State. Secondly, in socializing the "costs" of monopoly capital-that is, in passing the costs of workers' economic security onto the worker in the form of taxes-the State reduces the expenses of corporations in assuring smooth labor-management relations and consequently, protects their profits. From the 1930's on, corporate leaders were thus, provided with potential avenues for socializing the demands which labor had wrested from monopoly capital(i.e. pensions).

While dissatisfied low and middle income groups in the 1930's rarely expressed their demands as militantly as industrial labor, corporate and political leaders nevertheless began recognizing their potential in severely disrupting social harmony. Loss of small properties, unemployment and impoverishment, underscored the striking differences in living standards of non-owner/small-owner classes(or "non-capitalist" classes) and capitalist classes. These discrepancies heightened the possibilities of social unrest marked by serious challenges to the legitimacy of the State. The 1930's left no doubt that in the absense of rapid economic recovery, social programs directed toward

"immediate" economic relief would play a vital role in containing and channelling potential class struggle.

Like legislation for economic recovery(i.e. NRA and AAA), relief measures of the depression era were conservative in substance and revolutionary in pace. Relief policies of the 1930's were initiated to mute sporadic outbreaks of civil disorder produced by mass employment and poverty. Thus, social programs were designed to fortify the class structure of the American capitalist system (Cloward and Pivin, 1971), while also genuinely fulfilling humanitarian needs. The State moved conservatively, providing adequate social control through insufficient relief programs.

While relief policies were reparation measures for the preservation of the existing socio-economic structure, they were nevertheless revolutionary in their very introduction and the pace by which they were instituted. For the first time, the State accepted responsibility for alleviating the economic distresses of low and middle-income families. Though the State's response to unemployment, poverty and property loss was entirely inadequate, relief policies did literally save thousands from starving, revived a portion of the earning power of millions, and prevented many property losses.

However, relief programs of the '30's', in effect, largely served the interests of middle-class property owners rather than the most destitute. A large part of federal relief spending can be regarded as a salvage operation for property owners of various sizes and descriptions(Baran and Sweezy,1966). The New Deal had accomplished little in the area of low-income housing, yet debt refinancing of farms and the urban homes of middle-income class families were the most successful and uncontroversial programs. In the area of employment, the State's response was inadequate. The Works Progress Administration (WPA) never hired more than 39 percent of the eligible unemployed and at one point, only hired 17 percent. And WPA wages were lower than necessary in order

to avoid competition with private industry(Graham,1973:366). While there was some genuine benefit for non-owning classes and labor, more significantly, relief policies of the 1930's established a precedent for initiating social programs more directly oriented to these groups. The State's legitimation actions were therefore, sufficient enough to subdue major social tensions and restore people's waning confidence in the economy and the State.

So, the State was compelled to direct increasing activity toward co-opting potential sources of popular discontent. The central thrust of the State's expanded legitimation functions in the 1930's focused on transforming political demands(threats to the State's legitimacy) into demands for economic relief. Once the State becomes identified as the agent that remedies economic plight, demands become increasingly directed toward the State. Wright notes that once demands are made on the State to provide a social service or meet some social need and they are granted, the program as well as the State's role in economic relief are viewed as "right." Therefore, any retreat from these economic activities constitute a source of de-legitimation for the State. So, there is a tendency for social programs to continue in one form or another. Furthermore, there is constant pressure to expand existing programs and to create new ones(Wright,1975).

By the 1930's the State's legitimation functions were becoming increasingly bound to the State's role in the accumulation process. Government expenditures to prop up the flagging economy initially dovetailed with political(legitimation) requirements. Programs to ease social tension also served the purpose of boosting effective demand. Though government spending in the 1930's was not enough to offset powerful depressive forces at work in the economy, Keynesian-demand maintenance programs became bound up with legitimation functions of the State. The depression of the 1930's only came to an end with mobilization for war and Keynesian economic theory of stabilizing capitalism through deficit spending spending remained the key to preventing another severe depression.[10]

So, by the 1930's the character of accumulation/legitimation functions of the State was largely shaped by government expenditures. And in turn, the composition of the State budget became a predominant topic of contention in the political arena. The 1930's marked an important juncture in American economic history. The impact of the depression upon the State left its impression on the decades to follow. It is therefore necessary to trace the general impact of State activities in the '30's' upon the consequent nature of the State.

C. General Impact of the Depression Upon the Nature of the State

The economic crisis of the 1930's accelerated the pace of three significant trends of development in American society: 1) the expansion of federal intervention into national, state, and local affairs, 2) the growth of State expenditures and, 3) the emergence of the State as an integral sector of the economy. The impact of these developments upon the nature of the State and American society can most adequately be viewed from the perspective of American economic development. As Wright notes, the 1920's and 1930's can be described as the era of "rising monopoly capital." To summarize, by the 1930's, the stagnation tendencies inherent in monopoly capitalism had emerged full-force. Preservation of the existing economic structure and class system required institutional re-orderings to generate effective demand that would insure utilization of both labor and productive facilities. Expansion of federal government apparatus into new areas of influence, the growth of State expenditures and the State as a sector of the economy represent major institutional adaptations to economic crisis.

C.(1) Expansion of the Federal Government and Administrative Agencies

A trend toward social management, based upon bureaucratization and centralization of decision-making had been gathering momentum since the turn of the century. The need for a more "rational" economy became even more crucial as

economic sectors grew increasingly interdependent and as segments of the economy became effectively monopolistic(Dowd,1974). The Progressive Era and World War I had stimulated the trend toward consolidation and bureaucratization on the federal level. In economic affairs businessmen began recognizing that under the auspices of federal power, an effective "political capitalism" could temper economic fluctuations and cut-throat competition (Kolko,1963). During the '20's' federal government expansion slowed, but state and local governments and private institutions(i.e. corporations) continued to centralize their activities. By the 1930's the trend toward central coordination and social management was firmly established as a necessary institutional re-ordering for ameliorating economic crisis.[11]

The New Deal era marked an unprecedented expansion of federal government power in national, state and local affairs. The central drive of federal expansion was coordination and regulation of the faltering economy. In both public and private life, the presence of the federal government was felt in areas never encroached upon before. This element of the State, the federal government, took on new regulatory responsibilities in agriculture, industry, labor-management relations, wages and hours of labor in interstate commerce, banking, resource use and food and drug quality. The federal government became vested with other new economic functions of money lending to farmers, homeowners, railroads and banks; and producing and selling electricity. It dispensed pensions to the aged and relief to the unemployed. For the sake of economic recovery, the Constitution was reinterpreted to permit necessary adaptations of these and other managerial activities(Graham,1973). During the 1930's power within the State system became increasingly consolidated at the federal level. Thus, the federal government was not only formally vested with State power, but appeared to effectively speak in the name of the State.

To coordinate new managerial activities of the federal government,

bureaucratic-administrative agencies(as Miliband coins them) were instituted on an expansive scale. One of the major tasks of the State administration (as well as other elements of the State) became one of reconciling emerging contradictions in State functions of legitimation and accumulation. The availability of federal funds in the '30's' also spurred state and local governments into creating more extensive networks of bureaucratic-administrative regulation. Increased State intervention into the economy and the concomitant expansion of State bureaucratic-administrative agencies in the 1930's(and on into the following decades) has resulted in a transformation of economic issues into problems of administration.

The proliferation of bureaucratic administrative agencies has had the effect of neutralizing political-economic demands of non-capitalist classes in the post-World War II period. The vast network of State bureaucratic institutions has successfully concealed the loci of power and further frustrated political economic aims through the process of bureaucratic routinization. Thus, the impact of non-capitalist class demands upon the internal structure (negative and positive selective mechanisms) of the State has been effectively minimized vis-a-vis State bureaucratic institutions. Bureaucratic-administrative agencies have facilitated the mystification of State economic activities which favor capital and have helped support the neutral, non-partisanship(in terms of economics) image of the State. But, as Offe points out, the State's antiquated internal structure eventually collides with the development of newer selective mechanisms required for a changing accumulation process. State selective mechanisms are not only becoming less effective in eradicating anti-capitalist policies, but they are increasingly dysfunctional to the needs of capital interests. Just as contradictions within the internal structure of the State intensify, so do corresponding problems in bureaucratic-administrative agencies.

Because of increased economic concentration and centralization and economic interdependency on local, regional and national levels, monopoly capital (or segments of it) has been engaging in a protracted struggle in recent decades for a centralized political administration and corresponding fiscal planning. Federal intervention into previously unchartered zones of regional and local affairs in the '30's', provided precedence for further expansion of federal powers into areas which have been persistently controlled by small business. Part of the legacy of the New Deal has been the expansion of federal government powers and an accompanying growth in monopoly capital power at the federal level(O'Connor,1975). But the growing obsolesence of State administrative arrangements suggests that monopoly capital will be compelled to use concerted instrumental manipulation at the federal level in order to orchestrate the changes necessary for a centralized political administration at the regional and local levels(Gold, Lo, and Wright,1975:part 2).

C.(2) The Evolution of the State Budget and the State As An Integral Sector of the Economy

O'Connor claims that one of the primary targets for change within the State administration, as well as in other elements of the State, is the budget.

> The evolution of the State budget as a crucial factor in economic life has gone hand in hand with the development of a permanent state bureaucracy. State capitalism is no temporary phenomenon which will be dismantled once capitalism returns to "normalcy," but rather is the integrating principle of the modern economic era (O'Connor,1975:72).

Throughout the present century the trend toward government spending has continued uninterruptedly upward, both absolutely and as a percentage of GNP. Until 1929 the rise was slow(from 7.4 percent of GNP in 1903 to 9.8 percent in 1929). But since 1929 this ratio has been rising much faster, to level off between

approximately thirty to forty percent of the GNP. Since the 1930's, government spending has become an extablished feature of American capitalism. State activity in economic affairs then, can no longer be viewed as an external response to the dynamics of capitalist development, but must be viewed as an intrinsic part of that process. The State represents an integral sector of the contemporary American economy.

The rise of government spending over the past four decades can be considered an approximate index of the extent to which the State's(federal government element of the State) role as creator of effective demand and absorber of surplus has grown. Sweezy and Baran point out though, that the trend toward government absorption of surplus and creator of effective demand is not peculiar to monopoly capital, but appears to be a feature of most expanding economic systems(Baran and Sweezy,1966). Increasing magnitudes of State expenditures signify nothing about the composition of government spending, however. As Offe suggests, the composition of State expenditures portrays not only the State's expanding role in the organization of production and allocation of resources in the accumulation process, but also reflect the use-value criteria used to determine the composition of the State budget. Use-value criteria for government spending, in turn, reflects economic power relationships in the political arena and the structural requirements of the economy (i.e. changing needs of the capitalist accumulation process). Thus, particular State expenditures, programs and the budget as a whole are explicable in terms of 1) the changing needs for economic expansion and prevention of economic crisis, 2) power relationships within the American economy and 3) their expression within the confines of a political and economic framework. In the post-World War II era the State budget has become a major channel through which economic class relationships find their expression within the restraints of political structures and their processes; and within the boundaries of economic structural requirements(see pp.91-92).

Given the inherent crisis tendencies of monopoly capitalism, the State budget has become the *indispensable tool* for capitalist development since the 1930's. Thus, any theory of the State in the post-World War II period must encompass a theory of the State budget. The next chapter therefore, will employ O'Connor's theory of the State budget to illustrate the relationship between economic development of the past three decades and State economic activities. O'Connor's schema for analyzing the contemporary era of monopoly capitalism in relation to the appropriation of State power vis-a-vis State expenditures will also elucidate economic class struggles within the political framework. Contemporary power distributions within the State system and struggles over altering the internal structure of the State can also be interpreted using O'Connor's framework of analysis.

CHAPTER FOUR

CONTEMPORARY U.S. STATE CAPITALISM-ITS ANATOMY AND FUNCTIONS

INTRODUCTION

An analysis of the anatomy of contemporary American capitalism will serve as a frame of reference through which the general features of capitalist development can be examined. James O'Connor provides such an analysis in Fiscal Crisis of the State. He describes the functions and interaction of three distinct sectors of the economy and traces their fundamental connection to the accumulation process. O'Connor's work hinges upon the premise that the State must attempt to fulfill the contradictory functions of accumulation/legitimation within the constraints of the American political system and within the framework of structural requirements for contemporary capitalist development. He examines the means by which the State dispenses these functions in the mid-twentieth century-State expenditures. Contemporary economic conditions have lead to rapidly increasing State expenditures at national, state, county and local levels of government. Not only does James O'Connor offer a powerful schema for sketching the dialectic interaction between modern capitalist development and State activities, he provides a compelling interpretation of today's fiscal and social crisis. He depicts the economic processes which are linked to the disproportionate growth of State expenditures. His line of thought will serve as a major point of reference throughout the rest of this paper, along with the observations of other "Marxist" writers(Offe, Baran, Sweezy, and Wright) and "non-Marxist" writers(Barnet and Schurmann).

THE ANATOMY OF CONTEMPORARY AMERICAN STATE CAPITALISM

A brief description of the three sectors of the contemporary American economy which O'Connor posits will help elucidate the dialectic relationship between the State and economic development during the mid-twentieth century.

Each sector of the economy overlaps considerably, but each has its own distinguishing features. The fundamental economic processes(i.e. wage and price determination)of the monopoly, competitive and State sectors of the economy and their basic effects on one another will also be traced. What follows draws heavily upon James O'Connor's Fiscal Crisis of the State.

A. Monopoly Sector of the Economy

The monopoly sector of the economy is the prime accumulation sector of the economy. Historically, the process of monopolization involved a rapid growth in the physical capital-to-labor ratio and output per worker, or physical productivity. In recent decades, growth of the monopoly sector(production) depends more on the expansion of capital and technology. Production is large scale and markets are typically national and international in scope. The monopoly sector is the economic sphere of the large corporation-such as GE, GM, IBM, ITT, and EXXON. Examples of capital goods produced in this economic sector are steel, copper, aluminum, electrical equipment, appliances, cars, various food products, airlines and railroads. Profit margins are high.

The monopoly sector is comprised of relatively stable industrial structures in which production, distribution and employment are highly regularized. The classic competitive market mechanism is not the chief determinant of profit, prices, and wages in the monopoly sector. Prices are administered on the basis of a planned after-tax profit target, normally between ten and fifteen percent. Prices hinge on labor productivity and money wages. If labor productivity declines, prices will normally be raised to protect profit margins. In the case of a fairly stabilized or increasing level of labor productivity, money wages become the main determinant of monopoly sector prices.

Money wages in the monopoly sector cannot be analyzed without reference to power relationships and actual production. Dominant production relations

between monopoly capital and organized labor chiefly determine the wage structure(as well as the allocation of economic resources and the distribution of income). In the last analysis, it is the political force of organized labor which wrests higher wages from monopolistic corporations. Since the 1930's and early 1940's the labor movement in the monopoly sector has been relatively developed. The inelasticity of the labor force, the geographic concentration of industrial units and the social make-up of the workers (highly skilled or semi-skilled "blue-collar" and "white-collar" workers who are predominantly white, middle-class and male), has facilitated a highly organized labor movement in monopolistic industries. However, the governing principles of monopoly capital and the industrial union perspective undercut potential labor gains. Because corporations control prices, unions cannot demand higher wages at the expense of profit. Historically, industrial unions have adopted conciliatory rather than politically disruptive bargaining policies with monopoly capital. Given this perspective and the lack of control over prices, monopoly sector unions demand that wages be commensurate with productivity and the cost of living. Pattern bargaining, or the process by which wages are increased most rapidly and union demands are passed down to those corporations with lower productivity. Monopoly capital exacted a price for the agreement that wages be pegged to the cost of living and productivity. That is, unions acquiesced to the implementation of further mechanization and other large-scale re-organizations of the work process. In effect, monopolistic industrial unions have become "one agent of technical progress and rational(in terms of profit) labor power planning by monopoly capital (O'Connor,1973:23).

The process of administered prices and wages, productivity wage increases and pattern bargaining in the monopoly sector has a dramatic impact upon the

the economy as a whole. The principles governing the movement of wages and prices and production relations in the monopoly sector are intrinsically linked to contemporary social and fiscal crisis. One result of the socio-economic processes which operate in the monopoly sector is that:

> ...many or most of the gains from productivity increases arising from technical progress(and other factors such as scale of production and degree of capacity utilization) are not distributed evenly throughout the population but rather are 'bottled up' in the monopoly sector by corporations and organized labor. One side-effect is, the drift towards permanent inflation-that is, the continuous upward movement of wages and prices (O'Connor,1973:21).[12]

Unlike in the monopoly sector, determination of wages, prices and productivity in the competitive sector depends upon market forces. Because wages in the competitive sector are low and increase relatively slowly, the upward prices in the monopoly sector affect consumer demand. The result is that monopoly sector productivity and productive capacity tend to rise faster than real wages throughout the economy. Thus, productive capacity in the monopoly sector tends to grow faster than the demand for output. In turn,

> ...the lag between increases in output and employment has become greater and greater and the impact of increases in output on employment has become smaller(O'Connor,1973:25).

The State then, becomes increasingly compelled to find solutions for problems perpetuated by monopoly sector economic governing principles and production relations. In the following pages it will be seen that the very institutional re-ordering the State has assumed to "solve" the problems of excess productive capacity, unemployment and inflation are now exacerbating these problems.

B. Competitive Sector of the Economy

The competitive sector of the economy is characterized by a low ration of capital-to-labor and low productivity. The growth of production depends less

on physical capital investment and technological innovation than it does in the monopoly sector. Rather, competitive sector production growth depends more on employment. Low productivity and low capital-to-labor ratios signify relatively low wages and a tendency for "overcrowding"; since it is fairly easy to start a business in the competitive sector. Wages in the competitive sector are determined by market forces. During periods of high labor demands and general inflation, wages in competitive sector industries increase faster than wages in the monopoly sector. Production is typically small-scale and markets are usually local or regional in scope. Overall, product and selling markets of the competitive sector are unstable and irregular. Many competitive businesses produce or sell in markets that are seasonal or subject to quick changes in fashion or style. Characteristicly, competitive sector businesses are small retailing outlets, small manufacturing companies, restaurants, and appliance repair shops.

Unstable and irregular product and selling markets correspond to a highly irregular labor market. Employment in the competitive sector tends to be relatively low paid and temporary or seasonal. Working conditions in industries are typically poor and adequate company-paid health, retirement and fringe benefits are rare. Compared to the monopoly sector, the labor movement in competitive business is underdeveloped. The social make-up of the labor force (e.g. seasonality of married women, students and retired workers), the unconcentrated character of industries, and small-scale, localized production obstruct strong labor movements. Employers feel little compunction to recognize labor organization since there are small profit margins, rapid business turnovers and an adequate surplus labor population. As discussed in Chapter two, by the 1920's the duality of the economy had been firmly established. Not only did the bifurcation of the economy and its prime cause, monopoly sector growth, provide a major explanation for the depression, but it also elucidates the

growth of the State sector.

Monopoly sector growth tends to generate a "relative" surplus population and an "absolute" surplus population. O'Connor defines "relative" surplus population as redundant labor in the monopoly sector. The "absolute" surplus population is composed of job seekers who never manage to enter the monopoly sector labor force-primarily youth, women, and minorities. Since the demand for labor increases more slowly than the demand for products in the monopoly sector, the absolute surplus population tends to increase. The competitive sector is consequently supplied with a large labor market which in turn, increases potential labor exploitation. The result of expansion of the supply of competitive sector labor is that both unemployed, underemployed and fully employed in this sector become more and more impoverished. As Harry Braverman asserts, under conditions of monopoly capital a significant increase in "proletarianization" has taken place. During the era of monopoly capital, there has been a growth in the percent of the work force with nothing to sell but their labor power-at the going, insufficient price(Braverman,1974).

Historically, community-help programs, extended family systems, subsistence and artisan production supplemented incomes, but since the turn of the century these compensatory methods had all but disappeared. So, workers of the competitive sector have been increasingly forced to look to the State for means of subsistence. Monopoly sector growth is the prime contributor to the growth of the State sector through its effects on the competitive sector of the economy.

Monopoly sector growth generates expansion of the State sector in another way. Monopoly capital has produced "surplus capitalists" by taking over conventional competitive industries such as agriculture, construction, trade, and services. Because profits are depressed when small business must compete with large-scale capital, small businessmen are forced to rely increasingly on the State for various kinds of subsidies and loan guarantees-what O'Connor calls forms of "social expenses." They also put demands on the State for different

types of protective legislation. Thus, the State is compelled to prevent the dimunition of threatened small businesses. The ability of small businesses to wrest economic demands from the State, of course, depends upon the consolidation of political power.

Looking at the other side of the coin, monopoly sector growth actually tends to contribute to competitive sector growth. Though monopoly capital liquidates numerous small businessmen, the low capital-to-labor ratio, the long-run expansion of labor surplus, and in some cases, forms of government-survival guarantees, attracts even larger numbers of small businessmen. Unlike most "Marxist" writers(exceptions are Baran and Sweezy), O'Connor argues that the competitive sector does not decline and even tends to expand relatively with monopoly sector growth. Thus, monopoly capital stimulates the simultaneous growth of the competitive sector and the State.

C. The State Sector of the Economy

State economic activities can be viewed in two distinct categories. O'Connor describes these two types of State industries as those in which the production of goods and services are organized by the State itself and those in which production is organized by industries under contract with the State. Education, welfare, other social and subsidization services, and the military(excluding arms production) are examples of the first type of State-organized activity. Examples of the second type are military supplies and highway construction.

Like competitive industries, State organized activities have a relatively low capital-to-labor ratio and productivity is low, compared to the monopoly sector. Productivity growth in State-organized activities depends mainly on increased employment as it does in the competitive sector. In contrast, in the second category of State industries, the capital-to-labor ratio is comparitively high, while production growth depends on increased capital investment,

technological progress and the number of workers employed. Productivity in industries under contract with the State, however, tends to be low and increases slowly as in State-organized activities. Because State contractors often produce one-in-kind products(i.e. new weapons systems, research&development), production planning is difficult to regularize and organize, as are other aspects of the work process. In addition, since certain industries are under State contract neither market mechanisms or the drive for typical profit maximization compels contractors to coordinate activities and minimize costs(i.e. cost-plus contracts which have a guaranteed profit).

O'Connor argues that the general cause of monopoly sector growth has been the expansion of the State sector. Conversely, it is argued that the expansion of the State's functions of accumulation/legitimation vis-a-vis State spending and State programs, is the result of monopoly sector growth. The expansion of monopoly and State sectors then, can be seen as a single, assymetric process. O'Connor's thesis is diametrically opposed to modern "conservative" economic thought(i.e. Milton Friedman) which claims that the State expands at the expense of private industry. His thesis also contrasts with "liberal" thought who's main proponent, John Galbraith, asserts that growth of the monopoly sector restrains State sector expansion. Sweezy and Baran's work also counters "conservative" and "liberal" economic theory in regard to this subject and supports O'Connor's view.

> ...the vast and growing amounts of surplus absorbed by the government in recent decades are not, we repeat, deductions from what would otherwise be available to corporations and individuals for their private purposes...What government absorbs is in addition to, not subtracted from, private surplus... Even more...the government and the private segments of surplus can and indeed typically do grow simultaneously(Baran and Sweezy,1966:147&148).

The thesis that the expansion of the State sector is both the primary cause and effect of monopoly growth will underpin discussion of American economic

development in the past three decades.

STATE EXPENDITURES AND THE DYNAMICS OF ECONOMIC DEVELOPMENT

O'Connor tests this thesis against the specific application of State budgetary items to the theoretical relationship between the State's functions of legitimation and accumulation. State budgetary items correspond roughly to the State's major functions and also reflect the interaction between competitive, monopoly and State sectors of the economy. O'Connor uses "basic Marxist economic categories" to portray the connection between the two-fold character of State expenditures and the dual character of the State's economic functions. Like his analysis of the anatomy of contemporary capitalism, O'Connor's theory of the State budget will serve as a primary point of reference in the following pages. Therefore, the extensive description of his definitional framework will be quoted in it's entirety.

> Social capital is expenditures required for profitable private accumulation;it is indirectly productive (in Marxist terms, social capital indirectly expands surplus value). There are two kinds of social capital: social investment and social consumption(in Marxist terms, social constant capital and social variable capital). Social investment consists of projects and services that increase the productivity of a given amount of laborpower and, other factors being equal, increase the rate of profit. A good example is state-finance industrial-development parks. Social consumption consists of projects and services that lower the reproduction costs of labor and, other factors being equal, increase the rate of profit. An example of this is social insurance, which expands the reproductive powers of the work force while simultaneously lowering labor costs. The second category, social expenses, consists of projects and services which are required to maintain social harmony-to fulfill the state's 'legitimization' function. They are not even indirectly productive. The best example is the welfare system, which is designed chiefly to keep social peace among unemployed workers(O'Connor,1973:6&7).

Though there are some empirical problems in locating State expenditures unambiguously into one category or another, O'Connor's schema provides a fairly

novel and compelling method for interpreting general features of contemporary economic development and crisis tendencies. Therefore, the character of major social expenses and social capital that have evolved from the broad contours of interaction between State and economic development in this period, will be of principal concern in the rest of this paper.

Social expenses and social capital requirements of monopoly capital are assumed at national and sub-central-unit government levels. Because of the limited scope of this paper however, the character of social expenses and social capital taken up at state, regional and local levels(sub-central units) will be excluded. Instead, national government expenditures will be the main focus of analysis. In the post-war period, defense and welfare outlays have emerged as federal budgetary priorities. They represent the major channels through which social expenses and social capital requirements for monopoly capital growth are dispensed at the national level. O'Connor describes the "warfare-welfare" State in terms of its accumulation and legitimation functions.

> The welfare state tends to expand because of the growth of the surplus population which has relatively little purchasing power of its own, and the warfare state tends to grow because of the expansion of surplus capital which cannot be disposed of at home(in part because of the growth of the surplus population). For these reasons, the problem of maintaining an adequate level of aggregate demand is fundamentally a problem of expanding markets and investments abroad and subsidizing competitive sector(and unemplyed) workers at home. In sum, both welfare spending and warfare spending have a twofold nature: The function of the welfare system is not only to control the surplus population politically but also to expand demand and domestic markets. And the warfare system not only keeps foreign rivals at bay and inhibits the development of world revolution(thus keeping laborpower, raw materials and markets in the capitalist orbit) but also helps stave off domestic economic stagnation(O'Connor,1973:151).

This paper will deal almost exclusively with aspects of the warfare system. In the next chapter militarism will be examined as the key State accumulating

and legitimating agent in the post-World War II period. Also, the evolution of militarism as a primary expenditure source for social capital and social expenses will be discussed in the context of the interaction between State and postwar economic development.

CHAPTER FIVE

THE WARFARE STATE - DOMESTIC DIMENSIONS

INTRODUCTION

This chapter briefly traces the development of a "permanent war economy" in the decades following World War II. The compatibility between the military-industrial complex and postwar political, ideological and economic realities is explored also. In addition, military outlays as the chief absorber of monopoly capital expenses and the primary agent of monopoly sector growth is examined. Last of all, the broader implications of defense expenditures (in the form of defense contracts) with respect to contemporary economic crises and political instabilities is discussed.

THE DEVELOPMENT OF A PERMANENT WAR ECONOMY - A LEGACY OF WORLD WAR II

Military outlays during World War II lifted the United States out of economic depression and sparked the development of a "permanent war economy." [13] In the post-World War II period, defense spending has been the only kind of State expenditure that has been consistent with both economic stabilization, growth and the political realities of American society (O'Connor,1973). The defense budget has absorbed a great deal of the "costs" of monopoly capital (e.g. unemployment and excess productive capacity). In addition, military outlays have contributed significantly to the growth of the monopoly sector in the postwar period. Thus, the military has become a major avenue through which the State exercises essential legitimation and accumulation functions. In this sense, the defense budget can be viewed as a portrayal of major social expenses and social capital requirements of monopoly capital. Militarism then, has emerged as a key feature of the American economy.

Transformations in defense budget levels and the composition of federal government budget reflect the changing role of the military in the postwar U. S. economy. Defense outlays never returned to pre-war levels, which represented about 1.0 percent of the GNP. Between 1946 and 1950, military expenditures constituted about 5.1 percent of the GNP while between 1951 and 1953, warfare expenses jumped to 12.3 percent. After the Korean war and after the Cold War had "cooled" somewhat, defense outlays declined to 8.4 percent from 1961 to 1965, then rose slightly to 8.5 percent from 1966 to 1970 (O'Connor,1973). From 1971 to 1976, defense outlays as a percent of the GNP have remained at approximately an 8 to 10 percent level.

Changes in the composition of government spending from 1930 to the present illustrate the emergence of militarism as a federal budget priority. In the decade of the thirties, national defense outlays constituted between 10 and 15 percent of the federal budget. In 1960, military expenditures amounted to 46 percent of the federal budget. In 1965, defense outlays represented 49.9 percent, while in 1969, the Vietnam War had pushed military expenses up to 81.9 percent of the federal budget. Defense expenditures now represent about 60 percent of the national budget.

The vast expansion of civilian government employment in the 30's, early 40's and postwar period, has been a necessary adjunct to monopoly sector growth. Since World War II, the military has established its distinct role as a major State employer and so, has assumed some of the social expenses of the monopoly sector (i.e. unemployment). Military employees constitute the largest proportion of the civilian labor force.

> The military and foreign police establishment dominates federal government payrolls. Of two and one-half million civilian workers in eighty federal departments and agencies about one million are employed by military and 'international relations'

> agencies. Normally, between three and four million men and women are in the armed forces (O'Connor,1973:99).

Since World War II, between 8 and 10 percent of the labor force has been dependent upon jobs directly related to the military. This figure, however, does not include those workers that are indirectly employed by the military and that derive their income from the defense budget. World WarII gave impetus to a significant increase in corporate industries under defense contract arrangements and to close university-Defense Department ties. Workers performing jobs under these defense contracts or Defense Department grants to universities, obtain their livelihood indirectly from the military. James Clayton has noted that the defense budget in the past thirty years has been providing the livelihood of twelve to fourteen million Americans who are indirectly employed by the military (Clayton,1970). In addition, there are unaccounted numbers of people dependent upon trade and service jobs that are available strictly because of the existence of a nearby military base. So, "military Keynesianism" serves as a means for staving off economic stagnation by diverting excess labor capacity to indirect and direct State employment.

Besides fulfilling legitimation functions of the State, military Keynesianism has also presented a major means of carrying out necessary accumulation functions. The military-industrial complex has served as the militarist agent which facilitates economic stabilization and growth. A profile of the military-industrial complex will be drawn to outline its impact upon the character of the State and consequent economic activities. This profile will include political and ideological aspects of the military-industrial complex and the economic dynamics of this component of the State sector. These developments will first of all, be explored within a domestic context. Then international dimensions of State militarist

economic activities in the twentieth century will be examined in light of the changing world economy and the United State's position in it.

DOMESTIC DIMENSION(S) OF THE PERMANENT WAR ECONOMY-THE EMERGENCE OF THE MILITARY-INDUSTRIAL COMPLEX

The military-industrial complex is part of the legacy of World War II. Mobilization for the war transformed the relationship between corporate business and the State and introduced the State system of contracting out to private industries as a politically and economically viable mode of State economic activity. The pressing demands of war and the reluctance of businessmen to convert to weapons production, compelled the State to entice industries with attractive incentives. The federal government offered cost-plus contracts and generous tax advantages. The government also constructed facilities through the Reconstruction Finance Corporation which would be sold to leading industries after the war at nominal cost. In addition, Roosevelt drew into his Cabinet men who were acceptable to monopoly sector capital. He also gave key positions in national security agencies (e.g. secretary of war and navy) and mobilization agencies to corporate businessmen (Graham,1973). As a consequence, businessmen began considering a permanent set of relationships between monopoly sector capital and the State (vis-a-vis the federal government and the military) as both acceptable and desirable. (Barnet,1971).

The experiences of war mobilization demonstrated that militarism, as a permanent and dominant feature of the American economy, could result in profitable opportunities for corporations that formed military-industrial coalitions. The tremendous interdependence which developed between large corporations and the military is reflected in 1) the chief personnel make-up of major policy-making bodies in the federal government and 2) in the

transfer of personnel between the military and corporations. The economic power of the military-industrial complex hinges to a great degree, upon its ability to dominate State political process; particularly at the federal level.

MILITARY-INDUSTRIAL COALITIONS IN FEDERAL GOVERNMENT POLICY-MAKING

The fusion of corporate and State interests in military and foreign agencies is well documented through the instrumental analyses of Domhoff, Kolko, Mills and others. They show that those who have been formulating defense and foreign policy comprise a self-perpetuating, select group of corporate and finance leaders who exercise power through participation in key government positions.

> Between 1940 and 1967, when I stopped counting, all the first-level and second-level posts in the huge national security bureaucracy were held by fewer than four hundred individuals who rotate through a variety of key posts...seventy of the ninety-one people who have held the very top jobs-Secretaries of Defense and State, Secretaries of three of the services, the Chairman of the Atomic Energy Commission and the Director of the CIA-have all been businessmen, lawyers for businessmen, and investment bankers(Barnet,1971:49).14

Barnet and other social scientists writing on the subject of corporate and government interlocks, have not demonstrated why the "power elite" makes the defense and foreign affairs decisions they do. But psychological and sociological evidence suggests that, given the importance of defense and foreign policy for a stabilized and growing economy, the "power elite" will act in the interests of themselves and other corporate leaders. Domhoff and Barnet have shown that corporate and financial interests have consolidated a great deal of power in the top policy-making body of the federal government,

the National Security Council. The NSC was created in 1947 under the National Security Act, which provided for the coordination of the entire defense establishment. The Secretary of Defense and the Central Intelligence Agency were also established under the NSA Act. In the years that followed, the National Security Council, along with the Secretary of Defense, the CIA and the Joint Chief of Staff, largely determined the nature of militarism on the domestic front and particularly, on the international front. The key role played by the military-industrial complex in the post-war American economy was dictated to a great degree by defense and foreign policies formulated by the National Security Council and associated agencies.

The Interchange of Military and Corporate Personnel

The transfer of personnel between the military and corporations in the post-war period is a familiar story too. Numerous high-echelon military officers, along with lower ranked officers have taken positions in corporations. Table 1 suggests that high ranking military officers are most likely quite influential in winning prime defense contracts for their companies. So, military personnel appear to perform the function of strengthening the ties between large businesses, the federal government, and the military. In addition, to these connections, military associations have emerged as politically conscious organizations composed of defense contractors, community and financial leaders and active, reserve, and retired members of the Armed Forces. These special interest groups best epitomize the military-industrial complex and represent influential lobbyists for military appropriations bills(Raymond,1964).

The Impact of the Military-Industrial Complex Upon Political Processes

The dramatic fusion of corporate and State interests at the federal government and military levels has had substantial political effects on American society. The first question that must be asked, is just how militarism became accepted in the political sphere as the prime anti-stagnation solution. Richard England has observed that there are at least two conceivable hypothesis which would explain how such a solution could arise. One is that monopoly capital interests have formed a class-conscious, monolythic block of power which has "developed a set of institutional mechanisms for defining class strategies and translating them into public policy (England1971:118)." Following from this hypothesis, a permanent war economy would have been deliberately selected by a class-conscious political directorate representing monopoly sector as a whole. Though the crises of World War I, the Depression, and the Second World War have generated a greater degree of class-consciousness on the part of vanguard corporate leaders(see p.28), England argues that it is unlikely that such a highly effective class planning mechanism existed in 1945 (or in the present).

England's alternative "natural selection" thesis seems more feasible. Corporate leaders (and regional and local capital interests) simply recognized the need for some State fiscal solution and chose the fiscal proposal which was either most beneficial or least detrimental to their economic interests. So, the militarist solution was adopted as the optimal allocative policy, because all other fiscal alternatives were vetoed by one or more interest groups. Thus, England's thesis does not require a high degree of class consciousness on the part of monopoly capital, but only that the capitalist class define the character of the solution (i.e. government spending), that they dominate the political arena, and that each interest

group vetoes threatening fiscal solutions. His thesis leaves open the possibility for further development of a class conscious political directorate (representing monopoly capital or segments of it) which elicits firm support for the continuance of the militarist solution.

Following from Offe's line of thought, postwar policies for mobilizing the production of resources vis-a-vis the military initially dovetailed with legitimation/accumulation functions of the State. The military-industrial complex became politically and economically viable way of both absorbing the "costs" of monopoly sector growth and expanding its frontiers. As large defense outlays have become locked in to production in strategic areas of the economy (domestically and internationally) the defense budget and related issues have come to represent a decisive sphere of power and influence. In turn, the use-value criteria that has emerged for determining State budget priorities gives top consideration to military expenditures. It was not until the mid-1960's and 1970's that critical contradictions in the State's internal structure began emerging once again (as they had in the 1930's). These contradictions arose in partial response to the operations of military-Keynesian allocative policies (see pp.99-100). Solutions to the severe fiscal and social crisis which has consequently developed, requires a new value criteria for determining alternate State allocative policies and for creating new productive policies. The following pages will elucidate some of the ideological and political obstacles to the transformation of internal State structures.

Ideological Effects of the Military-Industrial Complex on the American Public and on Political Processes

Business and federal government interlocks in military affairs have also had a significant impact on ideological grounds in the past three

decades. As a proponent of militarism, corporate business helped to foster a new public image of the military. As the military became increasingly involved in stabilizing the civilian economy, it's soldiers' heroic ethic was overshadowed by the capitalist creed. The military thus, became viewed as the helpmate of economic growth and fuller employment. Similarly, the military began seeing itself as an engine for economic development. Applying this image to themselves, the Navy, for example, always justifies its expansion by pointing out the United State's dependence on "open sea lanes" and raw material for economic growth (Barnet,1974). By the same token, the war experience served as the catalysis for implanting the dominant ideology of economic growth and big business. In creating the arsenal for war, corporate business demonstrated to the public that it could serve the interests of the State. The notion that fundamental conflicts between corporate and public interests could not arise was thus, firmly established in the minds of the public and public administrators. (Barnet, 1971 & 1974). [15]

The ideological underpinnings of the military-industrial complex has contributed to an important facet of ongoing change in U. S. political processes at the federal executive and legislative branches of the State. The diminishing role of Congress in defense budget matters mirrors the general struggles of the executive and legislative branches over the national budget. In the 1930's, Congress exercised a more powerful veto over military spending, but after World War II, the military budget has been considered relatively sacrosanct (Barnet,1971). Not only is the level of defense spending determined by the executive considered almost inviolable, but the composition of outlays is usually not tampered with at the congressional level.

> As for Congress, Administration military appropriations bills are routinely passed and congressmen do not even have the right to vote for or against particular military spending programs(O'Connor,1973:151).

Partially because of it's acceptability on political and ideological grounds, the military budget has come under relatively little congressional scrutiny. Thus, Congress has abdicated decisive powers over the military budget in the post-World War II period.[16]

O'Connor's discussion of Congress' (and the Senate's) reduced control over federal government expenditures in general, helps elucidate the historical processes behind its diminishing role in defense budget management. With the ascendancy of monopoly capital, the executive branch has come to represent national capital (largely monopoly sector capital) while the legislative branch is largely composed of local and regional capital interests. According to O'Connor, as State economic activities came to represent a dynamic sector of the economy, the national budget became a focal point of a protracted struggle between monopoly capital and regional and local capital (largely competitive sector capital). During the twentieth century, monopoly capital (or segments of it) interests in the executive and legislative branches have been attempting to diminish local and regional strength in the national (and regional) political sphere.

> Congress became increasingly unable or unwilling to exercise its prerogatives and voluntarily or involuntarily helped transfer them to the executive and to class-conscious congressional leaders. (O'Connor,1973:73).

O'Connor claims that by and large Congress has not resisted the transfer of budgetary powers to the executive branch, which is increasingly under the dominance of class-conscious monopoly capital interests. The explanation

is that Congress has felt no immediate sense of power loss since the executive is exercising increasing informal, but crucial, controls over budgetary initiatives and authority, rather than formal controls. In the case of the defense budget, there has been even less sense of power loss at the congressional level since militarism is largely accepted on ideological and political grounds as a permanent facet of American life.

But most importantly, the defense budget has come under relatively little critical examination because of its seemingly positive economic impact upon the postwar economy. From a strictly economic vantage point, it can be said that the roots of American militarism can be traced to the tendency for monopoly capital to generate unemployment, excess productive capacity, and surplus capitalists (O'Connor,1973). In Wright's terms, the "permanent war economy" has been serving as a predominant State "structural solution" to contemporary economic "structural impediments." But the roots of American militarism can also be traced to the need to generate economic growth. The last few pages have shown how the development of the military-industrial complex is consistent with the political and ideological realities of postwar American society. The stage is now set to 1) explore some of the economic effects of military Keynesianism upon monopoly sector growth in general, 2) look at the impact of militarism upon specific monopoly sector industries and, 3) view the economic dynamics of State defense-contracting industries.

Effects of Militarism Upon Monopoly Sector Growth

Military Keynesianism not only became an economically and politically viable way of absorbing social expenses of monopoly capital, but it also provided certain forms of social investment-the benefits of which largely go to the monopoly sector. World War II accelerated the trend toward State-

financed social investments (or social constant capital) and set the stage for implementation of social investments vis-a-vis the military. What are the economic historical processes behind the socialization of monopoly sector constant capital "costs" and what forms did these social investments take in the war industry?

As economic systems advance they become increasingly dependent on science and technology, specialized labor functions and more extensive divisions of labor for economic growth. Consequently, the expansion and industrial advances of economies require growing amounts of constant capital for research and development, the training of technical and administrative workers, transportation, communication and other facilities. (O'Connor,1973). So the fact that the State in the United States has been increasingly compelled to socialize (finance vis-a-vis taxation and inflationary spending) more and more of large industry constant capital requirements, is not peculiar to monopoly capitalism. What does differentiate monopoly capitalism from socialistic economies, however, is the guarantee that the benefits (i.e. profits partially derived from State socialized constant capital) will continue to be appropriated privately rather than publicly. Thus, under monopoly capitalism the State must seek out the most politically acceptable avenue(s) for legitimating the continued private appropriation of "social surplus" while socializing the"costs" of monopoly capitalism (i.e. constant capital requirements or "social investments"). The military provided such an avenue in the United States after World War II.

Social Investment-Military Research & Development Projects

Since World War II called for an all-out mobilization of economic

resources, the transfer of labor and productive equipment and the growth of war industries, the State was compelled to provide much of the capital for rationalizing the organization of science and technology. The military-industrial complex became the most politically acceptable sphere for carrying out research and development that was beyond monopoly sector technical and financial capabilities. The military assumed a prominant role in supplying technology for the non-military uses of monopoly sector capital. The importance of research and development for monopoly capital growth is reflected in the composition of the defense budget. Social investments geared toward research and development are intrinsically linked to defense contracts. The development of advanced technology has been a major function of industrial procurement. Therefore, defense contracts given to civilian organizations, represent a large proportion of the defense budget. Industrial procurement has averaged about fifty percent of the military budget since World War II (O'Connor,1973). At present the Defense Department finances over one-half of all research and development costs and ninety percent of the "R&D" costs in space and aviation (Barnet,1974).

Social Investment-Direct and Indirect Military Education Projects

The military also became a politically acceptable sphere for educating and training potential personnel for civilian jobs; particularly for technical and highly skilled jobs in the monopoly sector. Besides offering training under the auspices of the military, the G.I. Bill was introduced to further socialize the costs of training workers. They could then use the pool of technological knowledge created during the war. As monopoly sector capital became increasingly preoccupied with maintaining economic growth vis-a-vis new technical processes, the role of "human capital" became more

and more important. So, the demands for growing amounts of social capital for both training research talent and for basic research became increasingly leveled at the State. The military plays a part in absorbing some of these growing educational costs as well as research and development expenses of monopoly sector industries. Thus, since World War II, military Keynesianism has become the medium through which certain forms of monopoly sector social investments are realized.

Impact of Militarism Upon Largest Corporations

Though military funds facilitate the organization of science and technology in the monopoly sector as a whole, the primary beneficiaries of militarily-assumed social investments and social expenses have been those large corporations which comprise the higher ranks of the military-industrial complex. Since World War II, the largest corporations have received the overwhelming share of defense contracts. Between 1940 and 1944, 33 percent of the defense contracts went to the leading 10 corporations and 67 percent went to the top 100 corporations(Domhoff,1967). Hubert Humphery observed in 1963 that:

> Twenty-four companies accounted for 70 percent of the entire defense expenditures. Of almost 22 billion dollars in defense spending about 16 billion went to 24 companies. There were four companies each receiving over 1 billion dollars in defense sales...(Coffin,1964:159)

Table 2 illustrates the extent to which the largest corporations are still the largest defense contractors. Of the top 100 industrial corporations, all but 5 rank among the 100 largest defense contractors as of 1968. The fact that the proportion of military contracts received by the largest fifty defense contractors increased from 58 percent during World War II to 66

percent in 1963-64, illustrates that a handful of large corporations have a permanent tap on the defense budget (O'Connor,1973:154).

The development of military-industrial coalitions during the war undoubtedly accelerated the pace of monopoly sector industrial growth and gave impetus to the rapid concentration of economic power. Some of the largest corporations mastered the techniques of vertical and horizontal integration and grew to their present proportions with the substantial aid of the military (e.g. General Motors, General Electric, and AT&T). The war economy not only facilitated the expansion of major monopoly sector industries, but provided the momentum for the development of new monopoly sector industries in the areas of chemicals, computers, electronics, and plastics. Military Keynesianism unquestionably played a major role in sustaining economic growth in the postwar period. But despite, this long span of prosperity for the economy as a whole, vast military outlays did not solve the chronic problem of excess plant and labor capacity (Baran & Sweezy,1966). While Keynesian military-maintenance programs were successful in waylaying severe economic crises in the late 40's, 50's and early 60's, the war economy has simultaneously been generating the critical economic problems which mark comtemporary times. Today military Keynesian allocative policies are dysfunctional from the viewpoint of the domestic economy as a whole. The economic dynamics of defense-contracting industries and the nature of defense contracts provide a partial explanation for the transformation of Keynesian military-maintenance programs from an economic structural solution to stagnation, to a structural impediment to economic growth.

The Economic Dynamics of Defense-Contracting Corporations

The industries which constitute the military-industrial component of the State sector are of two distinct types. The economic dynamics through which they handle defense contracts are different, because the nature of their business is different. There are those corporations, for example, that have large defense contracts, but their military operations represent a small proportion of total production output (e.g. Ford, Standard Oil of New Jersey, and AT&T). These monopoly sector industries have expansive and usually, diversified civilian markets. Their primary customers are not military personnel, but civilians.

These are the corporations that reap the major benefits of procurement funds earmarked for research and development. Militarily-funded "R&D" that has supplied monopoly sector capital with technology for non-military purposes, originated in laboratories of such corporations as General Motors and General Electric. The importance of military R&D for civilian use by corporations such as these is illustrated by the fact that defense contracts provided the funds for 377 product innovations of General Motors alone, during World War II (Barnet,1971:36). Though the thrust of R&D in the monopoly sector has changed since World War II, defense contracts still absorb many of the social capital expenses for the development of product differentiation and marketing techniques (Barnet,1974). Subsequently, these corporations have had and probably will continue to have a high stake in preserving the war economy-unless an equally feasible (from their political and economic viewpoint) alternative for the provision of essential social capital outlays presents itself.

The second type of defense-contracting industry also has a strong interest in retaining defense as a top federal budget item. The nature of

their business dictates a different kind of interest in the war economy, however. In contrast to the first type of defense-contracting corporations, these industries are largely or entirely dependent upon military production for their economic survival (e.g. Boeing and Lockheed). They represent the majority of defense contractors. These corporations deal with extremely specialized resources and a narrow range of production items which generate few, if any technological spinoffs and have little or no potential for mass distribution. Their main customers, then, are military personnel, not civilians. These defense-contracting industries typically have a large productive capacity and a great number of employees. Some, however, are relatively small businesses whose livelihood depends to a great degree, upon military subcontracts. Military Keynesianism, thus absorbs some of the social expenses of monopoly sector growth by underwriting the economic survival of businessmen who would otherwise become "surplus capitalists."

The Nature of Defense Contracts and Implications for Production

Though the growth of the defense-contracting system initially dovetailed with American political and economic realities, it has become a constraint on contemporary economic development. The nature of defense contracts and the economic dynamics of defense-contracting industries (especially of the second type) tells part of the story. Most defense contracts require highly technical, labor-specific production processes which turn out a relatively small quantity of high quality products (i.e. weaponry systems). However, many defense contracting corporations have little incentive to carry on highly efficient operations or to produce super-quality goods. Defense-contract guarantee of a given profit rate, underwriting of loans, and long-term subsidy grants, undercut incentive to

introduce inexpensive, efficient innovations into production processes. Especially in those corporations that have no civilian markets, initiative would glean few rewards. Corporate leaders have grown accustomed to the military largesse of privilege contracts, a particular type of production and a special way of thinking. The outcome has consequently been gross inefficiencies and low production in some major defense-contracting industries.

But the State finds it difficult to abandon these corporations for both political and economic reasons. Since a cutback in Keynesian military programs would constitute both a source of delegitimation and economic dislocation, the State is compelled to underwrite the low productivity of industries such as Lockheed. Ties between corporate leaders and the State apparatus make it particularly difficult to effectively challenge Keynesian allocative policies which give crucial sustenance to the military-industrial complex.

But, Wright contends that the upshot of State support of unproductive capital is a *reduction in the average level* of productivity in the economy. Allocative policies which underwrite the low productivity of military programs (and other sectors of the economy -i.e. railroads) act as a constraint on the very mechanisms which alleviate economic crises induced by low productivity. When unproductive capital is eliminated it serves the function of leaving remaining capital at higher levels of productivity, thus restoring capital accumulation. But the partial blocking of this restorative mechanism by State allocative policies (i.e. defense-contracting system) has contributed heavily to conditions of "stagflation.)(Wright,1975).

This emergent crisis of crisis management can be partially attributed to the obdurate perception of the military-industrial complex (and other facets of militarism) as the quid pro quo of economic stabilization and growth.

Yet in the past few years, certain segments of monopoly sector capital have begun to recognize the damaging effects of continued, conventional use of militarism on their economic growth patterns (Barnet,1971 and Zevin,1975). Subsequently, a critical debate has been growing over the transformation of the character of militarism as a major instrument of economic stabilization and expansion. The re-evaluation of State-militarist economic activities however, is largely focusing on the international dimensions of State militarism which primarily shapes the character of the military-industrial complex (e.g. foreign policy which invites an arms race). While State militarist activities in the domestic context can be seen in terms of the military-industrial nexus, the international dimensions of State militarist activities involve the history of foreign policy formation and a concomitant overseas military posture. Therefore, any further examination of the changing interaction between State and economic developemts calls for a shift to international dimensions of State - militarist economic activity. The subsequent, emergent crisis of crisis management can then be explored in full scope. Following from Gold, Lo and Wright's line of thought, conventional forms of militarism employed on the domestic and international front, as well as the composition and level of the State defense budget, have become major arenas of struggle for greater instrumental manipulation by segments of the capitalist class vis-a-vis the executive branch (see pp.42,86,87). Viewing the State in an international context in the following chapter will accordingly elucidate these characteristic aspects of the crisis of crisis management.

CHAPTER SIX

THE ROLE OF U.S. STATE CAPITALISM IN THE WORLD ECONOMY

INTRODUCTION

Chapter six looks at the international dimension of State economic activities in terms of the changing world economy and the United State's role in it. American foreign policy is examined as both a cause and consequence of the U.S.'s position in the twentieth century world economy, and corresponding State militarist activities. Next, those aspects of the subsequent "Cold War" which elucidate most clearly the interaction of State and economic development during the '50's' and '60's', are discussed. The militarization of the State, foreign aid, the organization of the postwar international system, and the expansion of U.S.-based global corporations are viewed as 1) the "solutions" to structural impediments of the 1930's depressed economy, 2) the key agents of monopoly sector growth and power, and 3) as deciding factors in U.S. world-wide hegemony. At the same time, the dialectical nature of these developments is recognized-that is, they eventually become constraints on the accumulation process in general and monopoly sector expansion in particular, while reducing(or destroying) the prospects of continued U.S. domination of the world economy via the close cooperation of State and monopoly power.

INTERNATIONAL DIMENSIONS OF STATE MILITARIST ECONOMIC ACTIVITIES

Objections to the continued use of conventional forms of militarism are being raised most stringently by those segments of monopoly capital that reaped the greatest economic rewards from militarist economic intervention-the largest corporations(Barnet and Muller,1974). Postwar defense and foreign policy fostered the advancement of corporate skills in finance,

technology, and marketing and opened doors for the integration and expansion of production on the domestic front and on a world-wide scale. World War II sealed developing bonds between corporate and State leaders and for many intents and purposes, corporate and State interests, appeared to be extensions of each other. There is evidence that suggests however, that in very recent years the alliance between State and corporate interests has been deteriorating. In order to understand their growing antagonisms and their probable manifestations in the national political arena, the international dimensions of State-militarist activities as they affect monopoly sector growth and the subsequent nature of current fiscal and social crisis must be placed at the center of analytical focus. Of major concern is the relationship of the world economy to State-militarist activities and the corresponding thrust of foreign and defense policies. Given its changing role in the world economy, what was the direction of American diplomacy and what shape did militarism take?

The Changing Role of the U.S. in the World Economy and its Foreign Policy

The evolution of the world economy is a subject discussed by a number of social scientists and historians; among them are Dowd, Baran, and Magdoff (1974,1957, and 1966 respc.). Magdoff places the systematic internationalization of products and capital between 1860 and 1900. He makes note of the "second industrial revolution" which provided the technological framework for a new world economy and traces the subsequent changes in the character of economic relations between industrial nations. The formation of foreign policy based on international perspectives became a foremost task of rapidly industrializing countries. New industrialized nations of Germany, France, Belgium, Japan and the United States arose as challengers to England's previously undisputed imperialistic claims. Capitalistic explorations into

the international sphere of business in the late nineteenth century, were based upon the struggles of carving up the world between rivaling industrial nations. World War I can be seen as a failure to come to a peaceful agreement between leading industrial countries over the division of economic and political "spheres of influence." With the defeat of Germany, the United States was launched into the forefront position of contending world economic powers after World War I. But it was not without its challengers. In the postwar period, France, Japan, and Germany once again, vied for the top position along with the United States.

The central thrust of postwar U.S. foreign policy emphasized the reconciliation of American economic expansion with the necessity of world peace. By the 1890's, the idea that domestic economic stability and growth hinges upon foreign expansion, was accepted as a veritable doctrine of the capitalist creed by economic leaders. After 1895, the industrial corporation had already effectively become the key element in the political economy of American foreign policy and even by then, the Open Door Policy was largely interpreted from their point of view(Williams,1969). So by the 1920's and '30's', political leaders had come to share the same idea about the relationship between domestic and economic policy. Overseas expansion was seen not just as the concern of particular capitalist interests, but as an integral part of the expansion of the domestic economy(Williams,1959). Translated into practical terms, this view meant that the government continued to support particular capitalist interests through the practice of selecting certain corporations(i.e. Standard Oil) as "chosen instruments" for foreign economic expansion(particularly in the '20's'). As monopoly sector growth became established as the engine of capitalist accumulation, the distinction between lending support to particular capitalist interests via overseas expansion, and fostering domestic economic growth became blurred. In other words,

in the minds of public administrators and the public, government support of Gates Rubber Company overseas was equated with sustaining domestic economic growth in general.

American diplomacy of the 1920's is conventionally thought of as isolationist in character. But historians such as Williams and Kolko, point out that nothing could be farther from the truth(Kolko,1963 and Williams,1959). The intermittant time between world wars was a crucial period in the history of American foreign policy-making. The changing world political and economic scene had to be re-assessed in terms of foreign and defense policy. World War I opened up opportunities for the United States to increase its commercial penetration of Latin America and Asia. The outcome of the war also allowed the U.S. to gain increasing access into already existing colonial and imperial empires of Great Britain, France, and Japan. The war presented lucrative overseas investment opportunities to other industrial nations, too. So, American foreign policy took into considerable account, the scramble for extended economic power bases. One of the main targets of American diplomacy in the 1920's was the prevention of a favorable tip in the balance of world power toward other major industrial nations. After World War I, industrial nations had to contend with another competing factor in the power equation- the "spectre of communism." Capitalist nations began cautiously shaping foreign policy in response to the realities of new and not-so-new facets of the competitive struggle for world power. The construction of postwar U.S. foreign and defense policies proceeded slowly and some historians would say, with the utmost of myopic world views. At any rate, the 1920's was a crucial period for the maturation of a pattern of American economic expansion based on the principles and procedures of the Open Door Notes (Williams,1959).

The subsequent policies that were formulated and put into operation after World War I provided the framework from within which American defense and foreign policy was developed in later years. Twentieth century American foreign policy has since been guided by the primary objective of sustaining overseas economic expansion and spreading the political influence of the United States vis-a-vis the Open Door policy.

> In every instance, the key move was the assertion of the policy of the open door. And in each case, the objectives were markets for American industrial exports, raw materials for American factories, and the right to enter directly into the economic life of a country...That economic expansion made it possible to exercise a growing influence on local political and economic decisions served to provide a base for further penetration and ultimately took on a military significance(Williams,1959:155&156).

Though the United States had a tradition of open, forceful military intervention in the late nineteenth and early twentieth century, by the late 1920's political leaders recognized that the broad, concentrated assertion of the Open Door policy had to be accompanied by a low military profile. Hoover, perhaps better than anyone, realized that in "a world of revolutions" traditional methods of expansion had to be modified, so that they would correspond with the American ideal of self-determination. By the end of the 1920's, policy-makers became convinced that the twenty-one military interventions between 1898 and 1924 had not achieved the desired effects of institutionalizing American economic power and influence. Overt militarist threats and intervention only served to strengthen growing oppositions to foreign economic penetration in the intermittant period between world wars.

The changing nature of foreign investment also prompted alterations in methods of U.S. expansion. Corporate expansion had proceeded rapidly in the 1920's so that direct overseas investments in 1925 amounted to 268 million as compared to 94 million in 1919. By 1929, foreign investments totalled

602 million(Williams,1959:145). Permanency rather than adventurism was the prime characteristic of foreign expansion. With the primacy of American-based corporations secured in foreign investments, corporate leaders required a more sophisticated "good neighbor" policy rather than overt military action. Traditional forceful military tactics no longer suited the interests of American overseas business as they had earlier. Instead, corporate leaders opposed open, and often times, violent militance on the grounds that it would injure American interests abroad and tip the balance of power in favor of foreign industrial rivals. Consequently, high-keyed military strategies were modified in the late '20's' and '30's' to fit the image of the "good neighbor," ready to interpose in instances of threat to a neighbor's "self-determination."

The low profile of the military continued to be projected in the 1930's along with the fundamental deliberations of "open door" foreign policy. By 1934, corporations were vigorously renewing and extending overseas operations. The strong liaison between the New Deal administration and industrial corporations led to broader committments in Latin America, the Middle East and Europe. Williams points out that by 1939, large corporation leaders had already located their sources of rubber, tin and other raw materials almost exclusively in terms of Southeast Asia. By 1939, large corporations had also renewed their interest in China markets(Williams,1969). The stress of traditional foreign policy in the '30's' was upon foreign trade and investment as a means of reviving the domestic economy and inhibiting further development of revolutions threatening to American economic expansion. As early as 1928, Roosevelt and fellow policy-makers considered "exportable surpluses"(both products and capital) as a solution to domestic economic problems. The creation of the Export-Import Bank in 1933 was a formal recognition that the problems of exporters had become the problems of the State. Instead of leaving the task of loaning credits to foreign nations

to buy American goods in private hands, the U.S. government began performing this function through the Export-Import Bank. Reciprocal trade agreements in the 1930's are also indications that the State was beginning to exercise broader responsibilities for creating favorable capitalist accumulation conditions.

Subsequent reciprocal trade programs were designed to meet the requirements of economic expansion and control of markets for the American "corporate system," while facilitating control of foreign raw material supplies. The New Deal conception of trade had far-reaching consequences for post-World War II foreign and defense policy. First of all, it strongly reinforced the definition of overseas economic activities as essential to the welfare of the United States. Secondly, the emphasis on trade expansion as an integral part of overseas expansion of the economy, served as the medium through which international affairs would be interpreted. Any country or social movement that interfered with the adoption of American programs of foreign expansion came to be defined as a dangerous threat to the preservation of the United States itself. Interpreting international events in such a reductionist manner, created conditions for defining American interests once again, in military terms. America began viewing itself as an "embattled outpost in a hostile world(Williams,1959:159)." This world view was persistently stressed by corporate and political leaders so that its ideological roots were firmly implanted in the post-World War II era. The third consequence of New Deal conception and implementation of foreign trade programs, was that it helped unintentionally foster the underdevelopment of undeveloped countries and thus, stockpiled explosive grievances for future social upheavals and weakened the world leadership position of the United States(Williams,1959).

Williams succinctly describes the overtones of New Deal foreign policy.

> The irony is that while the New Deal did gradually become less militant in defending individual American business interests against the actions of underdeveloped countries, it continued at the same time to consolidate the traditional definition of such economic activities as essential to domestic prosperity and political welfare of the United States(Williams, 1959:173).

As the ideological nuances of the open-door program began to firmly take root, Germany and Japan became identified as interlopers blocking the extension of American hegemony. Thus, the traditional definition of overseas economic activities ultimately accounted for the American entry into World War II and contributed significantly to permanent mobilization and militarization in the postwar period(Williams,1959).

Foreign policy of the '20's' and '30's' gave impetus and content to the Cold War. The principle aspects of the Cold War world view can be found in the nascent assumptions underpinning American diplomacy of these two decades. The first assumption of the traditional definition of overseas economic activity points to the Soviet Union as the international conspirator and brutal, world-wide aggressor. Similarly, the second assumption of the open-door outlook, reduces the interpretation of international events and the future of the world to a struggle between the good, symbolized by the United States, and the bad, represented by the Soviet Union. A corollary attitude upholds Americanization of the world as the epitomy of goodness, righteousness, necessity and morality, while it derides any oppositions to this course as evil and irrational. From the early days of the Bolshevik Revolution, the majority of American political and economic leaders believed (up until recently) that "irreconcilable differences" existed between Western Powers and the Soviet Union. Yet the American image of Russia was still left open to debate through the World War II period. Some thought

persisted on the part of a few corporate leaders and eminent politicians that Russia could be drawn into the nexus of the imperialist network and/or that with the proper persuasion, badly needed Russion markets could be opened up to American business(Eakins,1969). Events immediately following World War II, however, destroyed any hopes for this flagging idea and it was firmly displaced by a simplified, distorted picture of Russia which still sparks the imagination of the American public in the present. The good-and-the-bad-guys reductionist interpretation of world events also became a seemingly inextricable part of the postwar world view(Williams,1959).

From an economic viewpoint, one probable explanation for the official hardline against Russia can be found in a third assumption of the open-door outlook. It has already been noted that the traditional definition of economic activities links overseas expansion with prosperity at home, but during World War II this tenet took on an added significance. With the prospects of the war ending and the dreaded fear of another depression, unlimited overseas expansion became the paramount concern in shaping the postwar world in the American image. The depression years had taught corporate and political leaders that surplus production and underconsumption are inherent dangers of monopoly capitalism. The high productive capacity of the American postwar economy put corporations under increasing pressure to expand foreign assets, markets, and raw materials. The transition of the United States from a "have" to a "have not" nation during World War II, particularly intensified the urgency to obtain and control foreign resources in the postwar years. Dramatic changes in technology and consumption rates in the '20's' and '40's' induced a shift in the position of the United States from a new exporter of metals and minerals to a net importer. The growing dependency of major industries and the military on the importation of the most essential raw materials, to a great extent shaped the direction and nature of foreign economic policy in the postwar years. The highly-charged fear of such

of such limitations readily manifested in an intensification and reinforcement of the conspiratorial-aggressor image of Russia. Thus, the underlying assumptions of open-door diplomacy gave rise to the politics of the Cold War and provided the enduring context of crisis needed for a strong American military posture and monopoly sector growth.

The open-door outlook not only provided a central motivation for the formation of Cold War politics, but it helped to foster the content of the Cold War. The content of the Cold War is rich and varied, but the principle concern in this paper are those aspects of the Cold War which elucidate the broad contours of change in the interaction of State and economic development. Those particular facets are: 1) the continued, vast military expenditures of the United States, 2) foreign aid in the form of grants and loans to "developed," "client," and "developing" countries, 3) the organization of the postwar international system and, 4) the vast expansion of the role of global corporations; primarily U.S.-based. These postwar developments not only illustrate the character of interaction between State and economic development, but reveal the changing nature of State accumulation and legitimation processes.

"Twenty Years of War After the War"-The Militarization of the State

World War II transformed the context in which foreign economic policies would and could be made. The war granted the United States the opportunity and capacity to take over the foremost, undisputed position of world leadership. The exercise and preservation of American political and economic supremacy in the postwar period required a vast program of militarization. The collapse of the old European empires and the threat of socialist expansion compelled the State to maintain its military posture throughout the world as the defender of democracy and "free enterprise." America's role as world

policeman was consistent with what political and economic leaders saw as the urgent task of arresting anticolonial and revolutionary movements and reconquoring lost socialist territory. Regardless of whether the conquest took an economic, political or military form, the military presence of approximately 270 major base complexes in 31 countries, 1,400 foreign military-connected bases and vast numbers of troops abroad, clinched U.S. hegemony in the two decades following the war(Eakins,1969).

Postwar militarization was sustained by a powerful ideology which masked broader and more reasonable perspectives on international affairs. What originated in the late nineteenth century as a coherent argument for the extension of American economic markets and investment outlets, mushroomed into an irrational article of faith based on the devil theory of war. The pervasive belief on the part of the American public and public administrators was that "we must fight to keep the peace." Upon this ideological axiom, an enduring context for crisis was built. The pretense of war was thus, institutionalized. In a world supposedly fraught with the perils of communist aggression, the arms race and America's role as world policeman were more than justified. Williams has aptly dubbed this period, "twenty years of war after the war."(Williams,1959). The Cold War ideology, in turn, legitimated State militarist economic activities.

Under the guise of perpetual crisis, the large corporation maintained and enlarged their role in the permanent mobilization of the country. Corporate interests also sustained and extended their influence in foreign affairs via the National Security Council, the CIA, the Defense Department, and the Joint Chiefs of Staff. In the twenty years following the war, foreign policy was made with the conviction that national interests naturally coincided with corporate interests. The vast national security institution operated according to the belief that their business was to employ the full panopoly of

instruments at its command to secure favorable climates in foreign countries for American economic expansion. The State's use of military might was applauded and often times engineered and executed by corporate personnel. In the twenty-five years in which the United State's position as the leading world power was relatively unchallenged, the U.S. military was used extensively to establish the ground rules within which large American based corporations could most profitably operate.

Thus, with the backing of military might the CIA accomplished such feats as the removal of an Iranian premier who "irrationally" tried to intervene with Gulf's and Standard Oil's take-over of his country's oil. Another well-known case of CIA intervention, involves the overthrow of a popularly elected national "subversive" who threatened United Fruit's banana interests in Guatamala. So, a world-wide military empire proved not only to be good business domestically(i.e. defense contracts), but internationally too. Up until somewhere in the mid-'60's', large corporate interests, effectively integrated into the national security institution, found it beneficial to their raison d'etre to perpetuate a sense of crisis and urgency in world-wide affairs. As long as "military might made right" their overseas ventures, corporate interests as part of the national security administration, were adept at discovering new threats to "world peace" when old ones wore out(Barnet,1971).

The perpetual sense of crisis had its impact not only on the content and execution of foreign economic policies, but on the balance of government power in foreign affairs as well. According to Schurmann, when bureaucratic organizations are faced with a crisis(real or imagined) power flows to the executive and executive branch(see p.32). He contends that World War II and the Cold War ideology generated the context of enduring crisis, and in turn, paved the way for increasing executive control over foreign policy.

Barnet's view is similar though he emphasizes the economic constraints within which executive level power over foreign policy must be exercised. He traces specific postwar decisions concerning foreign affairs to the instrumental control of "national security managers via the president(see p.39). Barnet claims that the character of the postwar shift of State power to national security agencies has been narrowly circumscribed, because of the self-perpetuating composition of these agencies. The president not only has a limited range of national security advisors to choose from, but he selects from a small group of men, many of whom are older, former corporate executives who predicate foreign policy on a seemingly unshakeable attachment to Cold War military strategies. While a strong, pervasive military stance and Cold War military tactics coincided with large corporate interests for twenty years of more after the war, they no longer suit the needs of those industries comprising the overwhelmingly powerful segments of monopoly capital-the global corporations. Moreover, Cold War militarization has become obsolete in view of contemporary changes in the U.S.'s position in the world economy(see p.p. 114-15). Other aspects of the Cold War, in addition to the military's role, elucidate changes in State economic activities and thereby, provide the essential background for understanding America's current position in the world economy and the development of global corporations.

Foreign Aid As A Power Lever For U.S. Hegemony and Monopoly Sector Growth

Like vast military expenditures and the strong-armed military profile projected during the Cold War period, government foreign aid programs reveal characteristic aspects of State economic activities. Foreign aid programs have had three major focuses during the postwar period: 1) "developed" countries, 2) "client" countries and, 3) other "developing" countries. Just as militarism has been used to advance and enhance the United State's

pre-eminant position in the world economy, foreign aid has served a similar purpose. Foreign aid, like militarism, has encompassed a broader set of implications other than its political potentials. Large scale foreign aid programs represent yet another facet of the State's postwar accumulation and legitimation functions. Foreign aid was intended as another means through which the State could fulfill its newly acquired duties of guaranteeing domestic economic growth vis-a-vis expanded State expenditures. As a consequence, foreign aid, like militarism, has stimulated monopoly sector growth and has constituted some of the social investment and social capital expenses of monopoly capital. Magdoff outlines the major purposes of foreign aid.

> 1) To implement the world-wide military and political policies of the United States. 2) To enforce the open-door policy: for freedom of access to raw materials, trade, and investment opportunities for U.S. business. 3) To ensure that such economic development as does take place in the underdeveloped countries is firmly rooted in capitalist ways and practices. 5) To make the receivers of aid increasingly dependent on the U.S. and other capital markets. (The debts created by the loans extended perpetuate the bondage of aid-receivers to the capital markets of the metropolitan centers)(Magdoff, 1966:117).

In the early postwar years ninety-five percent of all aid was geared to postwar reconstruction under the Marshall Plan. The multi-purposed Marshall Plan was designed to build a political infrastructure to preserve a pro-American capitalist system in Western Europe, then under strong domestic communist challenge. The other main objective was to re-fortify European industry and thus, restore Europe as the prime market outlet for American goods. The ironic implications of the Marshall Plan should not go unmentioned. The very strategies used to expand and insure American political and economic hegemony in the postwar years are those which have ultimately weakened the

United State's position in the world economy and have played a major part in the current social and fiscal crisis.

The Marshall Plan went into operation apparently without consideration (or concern) that the promotion of European(and Japanese) industrial growth could one day lead to European(and Japanese) penetration of predominantly American domestic and foreign markets. Postwar reconstruction, thus contributed to the transformation of the world economy into a tough competitive arena between advanced capitalist(and socialist) nations. This is a part of the scenario which has subsequently changed the prospects of the United State's continued role as the foremost world economic and political power. As Barnet and Muller have indicated, U.S. world production figures show a sharp decline in America's domination in the world economy.

> In 1953 the United States was responsible for 69.8 percent of the world motor-vehicle production; by 1968 the U.S. share of the total was down to 37.9 percent. Twenty years ago the United States produced 75 percent of all television sets in the world; now U.S. companies produce less than 25 percent. The same trends exist in many other big industries including crude steel, plastics, cargo ships, and synthetic rubber(Barnet and Muller, 1974:27).

Though American-based companies are still far in the lead in the world economy, the competition of large European and Japanese industries has had a hand in altering the dynamics behind U.S. global corporate growth and in turn, has contributed to the current transformations in American production and employment patterns(see p.p.149-154).

The Marshall Plan helped to foster these adverse changes in the American political economy in other ways. The postwar reconstruction period presented large corporations with perfect opportunities for increasing and consolidating their European assets. The large outflow of capital to acquire European

corporate assets contributed heavily to the U.S. balance of payments deficit beginning in the 1950's. The expansion of U.S. investments in Europe resulted in a falloff in employment and a further loss of potential jobs in the United States. The massive diversion of investment from the U.S. to western European countries with the blessings of the Marshall Plan, also helped create an unfavorable balance of trade in the 1970's. As European subsidiaries of American firms assumed an increasing share of what had formerly been a U.S. export market and a greater role in the production of finished products, the U.S. balance of trade turned negative(Barnet,1971).

Like foreign aid directed toward developed countries, assistence to "client" countries and other developing countries has been aimed at the implementation of mixed U.S. military, political and economic controls. The dynamics behind foreign aid demonstrate the compatibility between maintaining the U.S.'s position in the world economy and providing large corporate businesses with market and investment opportunities. Though the mechanics of control are beyond the scope of this paper, the essential character, purposes, and ramifications of foreign aid on the U.S. world position and monopoly sector growth, will be outlined.

"Client" countries are:

> Countries which the United States regards as having special military importance to its policy of containment including those which have contributed land for bases on their territory: Greece, Iran, Turkey, Vietnam, Formosa, Korea, Phillipines, Thailand, Spain, Portugal, Laos(Magdoff,1966:124).

The bulk of foreign aid to client countries has ultimately satisfied a mixture of military and political aims. Foreign aid to these "forward defense countries" for all intense purposes, has gone for the purchase of allies to preserve the "free world order." Military assistance has been used largely

for the construction and maintenance of military bases and personnel, payments for the rental of these and other facilities and for the training of the client country's troops. So, in addition to containing the parameters of non-capitalist countries, military assistance in client countries has helped assure that, through the training and indoctrination of soldiers, governments friendly to the U.S. would most likely hold the seat of power.

Magdoff shows that the distribution of aid to client countries reveals just how important the U.S. government has considered the role of its allies in the postwar period. Between 1957 and 1967, client countries with 13 percent of the population received 37 percent of total foreign aid, while other underdeveloped countries representing 70 percent of the population, received only 50 percent of allocated funds(Magdoff,1966:124). Magdoff notes too, that the type of aid received by client countries reflects its character and purposes. Since military assistance typically comes in the form of grants, forward defense nations have understandably received the bulk of foreign aid through grants. Between 1957 and 1967, 82 percent of the foreign aid received by client countries came in the form of grants(Magdoff, 1966:152).

Client countries have not only served in the capacity of preserving American hegemony in the two decades after the war, but its military aid has stimulated U.S. corporate business. Large corporations have benefited greatly as a result of the military assistance program and the coordination of military treaties which have had the effect of standardizing armaments to client countries and other nations. Consequently, U.S. armament manufacturers experience continuing good business. The construction of military bases also spurred the growth of corporations by providing more access to the client country's(as well as other country's) potential markets. Roads, airports, harbors, and communication centers which are considered a component

of "economic development" in client countries, actually are geared to the needs of the military and simultaneously serve as physical infrastructures for U.S. corporations. Thus, physical capital expenses(social investment) of monopoly sector growth are absorbed through military assistance programs. Military assistance has been an important asset to the growth of large corporations from national bases to multi-national statuses.

But with balance-of-payment and trade difficulties in the 1970's, military grants are likely to continue declining while armament sales rise. Military assistance as a primary mode of extending U.S. influence abroad, is being replaced by increasing armament sales. Whereas, the U.S. government directly sold military goods to foreign countries twenty years ago, defense-contracting industries now promote their own sales. While buoying some sinking U.S. arms industries and boosting considerably the profits of other military contractors, foreign sales of military hardware appears to be taking on the same strategic and political significance as military aid grants(Ward,1977) previously did. Thus, increased armament sales abroad appear to help satisfy domestic considerations which require an increase in exports(a more favorable balance-of-trade) while serving to bolster U.S. foreign policy predicated on the preservation of a global empire.

Like aid to client countries(and developed countries), U.S. assistance to other developing countries has served multi-purposed functions for U.S. military, economic and political control. However, as Magdoff points out, the order of the objectives behind foreign aid to other developing nations differs. This suggests that developing nations play a different role in the imperialistic network than client countries, and thus their ties to the United States(and vica versa) are characteristically different. While the foremost objective of foreign aid to client countries has been the preservation of the capitalist system under the aegis of the United States,

the primary purpose of aid to developing countries has been the enforcement of the open door policy. The type of foreign aid extended to these countries reflects their status as the claimed resource and export centers of U.S. corporations. The greatest proportion of U.S. assistance to developing nations has been in the form of loans. The extension of loans to these countries(as well as others) has served as a major means of American control over vital resource and market outlets. The processes through which loan provisions are made have guaranteed the financial and economic dependency of developing countries on advanced capitalist nations-particularly the United States. Magdoff describes the process of financial/economic dependency generated through foreign aid.

> Fluctuations in the demand for and hence the price of the primary products exported by the underdeveloped countries creates frequent deficits. The deficits are financed by borrowing from the creditor countries. Servicing the debt-payment of interest and amortization-requires that a portion of future exports be devoted to this purpose instead of buying needed imports. Hence, further borrowing is induced to pay for their regular imports. This cycle of economic-financial dependency becomes even more pronounced, paradoxically, as a country tries to advance via the established capitalist path. (Magdoff,1966:149)

Magdoff points out then, that a growing proportion of foreign aid goes to paying a previous debt, rather than toward "economic development" and that the process of aid-giving simply increases the debt burden. In the two decades after the war, foreign aid to developing countries enhanced America's forefront position in the world economy primarily through debt bondage. But most important, U.S. foreign aid assured the entrenchment of these countries (as well as developed and client countries) in capitalist practices and guaranteed access to vital raw materials, trade and investment opportunities

necessary for the transformation of nationally-based corporations into global corporations. As Barnet and Muller note, foreign aid in effect, has been extremely instrumental in successful U.S. corporate endeavors to control all principal levers of power in poor countries; particularly during the '50's' and '60's'(Barnet and Muller,1974).

In the past decades, however, it has become increasingly evident that U.S. based corporations are finding it more difficult to exercise unlimited control over the economies of poor countries. The ruling elites who once served U.S. foreign capital so well, are under mounting pressures to check the flow of global corporate capital out of their countries. The effect of global corporate operations(i.e. unemployment, inflation, stagnation, inadequate services) on the economies of poor countries are generating critical political challenges to national leadership. Economic instabilities are thus, reaching such severe proportions that the ruling elite's very survival, in many cases, depends upon the re-evaluation of the "development" model extolled through the directives of U.S. foreign aid and advanced by U.S. corporations. Developing countries are learning that "economic growth" does not necessarily guarantee the general betterment of society, but indeed, tends to aggravate existing problems and create new ones(Baran,1957). At the same time demands are mounting for changing the rules of the game in dealing with foreign corporations(and foreign countries). Recent changes in world power relations help to strengthen the bargaining positions of poor countries and undermine the use of foreign aid(in all of its forms) as an instrument of control.

The chief transformation in the world economy which invites definite shifts in the balance of power between developed and developing countries, is "the increasing intense competition among the industrial giants for scarce resources, 'export platforms'(low-cost labor enclaves from which to export

to the industrialized world) and new markets(Barnet and Muller,1974:194)." As the dependence of industrialized nations on foreign markets and resources grow, so does their vulnerability to the demands of developing countries to change the terms of foreign exploitation. Moreover, as the economic and political might of industrialized nations(i.e. Japan, Germany, and the United States) converge, the prospects of improving the bargaining positions of poor countries increases. Because developing countries generally have experienced a century or more of exploitation and manipulation by a handful of corporations and willing, local elites, the extent to which governments of poor countries will be able to take advantage of potential bargaining power, is questionable. Though poor countries are gradually exacting economic concessions from foreign companies(i.e. Opec, the Andean and East African Common Markets), the immense power that foreign corporations have wielded historically suggests that that they will continue to moderate legislation to control companies and circumvent laws wherever possible.

Nevertheless, U.S. corporate leaders recognize that the rules of the game are changing and that they must expect lower profits from developing countries. They also realize that U.S. military power marshalled on behalf of U.S. corporations overseas, can no longer be used with the same abandon that characterized the two decades after World War II. Nor can foreign aid, in the form of U.S. military aid now unqualifiably guarantee the cooperation of foreign governments and their people with U.S. corporate demands. Furthermore, with the weakening of the U.S. world power position, corporate executives realize that foreign aid for "economic development" is losing its substance as a successful economic-political tool of control. As the power objectives behind U.S. foreign aid in all its forms, becomes an increasing source of public realization and derision in poor countries, U.S. corporate leaders become less willing to identify with U.S. strategies which threaten

corporate power.

The Organization of the Postwar International System

The organization of the postwar international system, like U. S. militarist activities and foreign aid, portrays the interaciton of the State and economic development and illsutrates the changing nature of State accumulation and legitimation processes. The following pages will look at some of the financial aspects of this organizational procedure. Several international conferences were called by the United States in 1944 and 1945 to come to grips with postwar economic problems. The major thrust of the conferences was the establishment of a stabilized world capitalist system under the directives of the United States. The organization of the postwar international system, thus became a further extension of U. S. political and economic hegemony. Postwar plans for a world political economy also reflected U. S. corporate and political leaders' specific concern for the preservation of the Open Door Policy.

Of the international conferences that were held in 1944 and 1945, Bretton Woods stands out as the most consequential conference in terms of the State's (U.S.) exercise of broader international responsibilities in maintaining favorable conditions for U. S. capitalist accumulation. The United States brought its power to bear in shaping the two major international financial institutions agreed upon at Bretton Woods. The International Monetary Fund (IMF) was designed to stabilize the international monetary system by lending money to nations confronted with temporary foreign trade difficulties. While the IMF became a major source for short-termed loans for deficit countries, the World Bank became a chief source for long-term funds. The greatest amount of assets of both institutions were contributed by advanced capitalist countries, particularly the United

States; and the U. S. has from the beginning, held the prime decision making power (Dowd,1974). The general purpose of both institutions was to restore world trade within a secured capitalist framework. But there are far more broader implications behind the operations of the IMF and the World Bank.

As Magdoff has observed, the structure and administrative procedures of these two agencies,

> ...act only to enforce the rules of the game that govern the existing power relations among countries-rules that evolved in every process by which rich nations and other nations become the poor nations (Magdoff,1966:146).

By simply following what are considered sound monetary and fiscal policies, the IMF and World Bank reinforce the colonizer-colonized relationship between under-developed countries and advanced capitalist nations. But there is little doubt that as the major international lending institutions, the IMF and the World Bank have served as deliberate instruments of control for advanced capitalist nations in their efforts to preserve a particular kind of relationship with poor countries. The exchange of IMF and World Bank loans for promises are legion and often justifiably earn the label of blackmail. Chile, of course, represents one of the better known cases in which the United States pressured the World Bank and Inter-American Development Bank into disapproving further loans to Chile until Chilean governmental policies began to correspond to the economic interests of U. S. corporations. Now that Chile's rightist military government has (apparently) reinstated an economic climate more amenable to U. S. corporations, U. S. World Bank representatives (along with other World Bank members) approved a recent, substantial loan to Chile (December 1976). Despite loud protests by some Congressional members in regard to U. S. support of a repressionist government, the loan was approved with the

justification that Chile meets the conventional qualifications for a loan required by any good banker. A less familiar example of control via the IMF involves Bolivia in 1959. In order to receive an IMF loan and U. S. government air, the Bolivian government had to comply with the order that a $3 million a year subsidy to government commissaries selling consumer goods to miners be eliminated for "economic stabilization" purposes (Magdoff,1966).

Though the competitive struggles between leading industrial nations have become more intense, particularly in the last decade, they have an overriding mutual interest in preserving colonizer-colonized relations between themselves and poor countries. Thus, it is not unusual that there has been a close cooperation between U. S. foreign aid programs and international financial institutions, particularly since the United States has traditionally dominated these organizations. The effect has been an even tighter set of financial/economic controls which has convinced recipient countries that there really is no other recourse than to follow the rigid terms of loan negotiation. Working in consortia, the IMF, the World Bank and newer organizations (i.e. Inter-American Development Bank) have effectively pressured recipient countries into improving and maintaining foreign investment climates and offering the choicest investment opportunities in the postwar period.

Working through international financial organizations to enhance and preserve favorable overseas investment opportunities in the postwar decade has served the U. S. government's efforts well. Operating through these institutions has presented a means of mystifying State accumulation acitvities and disguising the nature of State policy overseas. Working in consortia with other countries has helped to disguise actual U. S.

dominance and the concerted drive to impose its will. Behind the semblance of purely altruistic motives the U. S. State (as well as other rich nations) has advanced its political hegemony and subsidized U. S. monopoly sector growth overseas vis-a-vis the public money of international lending organizations. However, the continuation of international lending institutions as U. S. instruments of political/economic control, has been contingent upon a world economy which has presented little persuasive competition from other capitalist (and socialist)countries and has offered poor countries few avenues of potential power. Contemporary transformations in the world economy (noted in previous pages) suggests that international lending institutions serve less and less as an effective power lever for the United States government.

Recent actions of international lending organizations appear to reflect a decline in the decision-making power of the United States government within these institutions. For example, over the objections of the U. S., reunified Vietnam was asked to join the IMF and the World Bank as members in the fall of 1976. In January of 1977 the IMF disregarded the tacit disapproval of the United States and authorized a $35 million loan for the Socialist Republic of Vietnam. The chain of events surrounding the future economic development of Vietnam may also reflect the growing differences between the political-economic policies of the U. S. government and the needs of U. S. based multinational corporations. While the U. S. government continues to display hostilities towards Vietnam for revealing its growing weaknesses as a world power, American corporate leaders envision cooperation with socialist governments as the optimum and often only avenue for economic expansion.

In addition to establishing international lending institutions, the

financial side of organizing the postwar international system involved t institution of a world reserve currency. International lending organizat became the channel through which the dollar was introduced as the accepte international currency. As the established reserve currency (the accepted substitute for gold), the dollar has served as a chief instrument by which the United States has attempted to maintain its world political and economic power in the postwar period. The normal workings of international commerce require reserve holds of an acceptable means of payment for recurrent balance-of-payments deficits. The essential controlling factor behind the dollar is that when countries holding the dollar as their reserve currency need to balance their accounts, they are compelled to purchase U. S. goods and services, for in the last analysis, "a national currency is only good as an IOU for goods and services produced by the country issuing the currency (Magdoff,1966:87)." So, as the accepted world currency, the dollar has reinforced the dependency of capitalist nations and underdeveloped countries on the United States. Furthermore, as the vehicle of exchange for other currencies, the dollar accelerated the successful penetration of U. S. corporations into foreign markets.

The dollar, as a financial tool of U. S. control, is part and parcel of the United State's role as organizer and leader of the postwar world political economy, just as international lending organizations are. The economically weakened positions of other industrial nations after World War II, allowed them little recourse than to allow the United States to re-organize the international system of commerce in accord to U. S. domination. Thus, financially, the United States has been able to bend the rules of the game more effectively than other countries. For example, because the U. S. is the world banker and the rest of the capitalist world

has adopted the dollar as a reserve asset, the U. S. government has been able to finance a huge balance-of-payments deficit for a lengthy period of time (since 1950). Any other country attempting to do the same without the backing of their currency as the international reserve currency, could not manage without a severe depression and dramatic reductions in living standards.

The persistant U. S. deficit has been a necessary corollary to the United State's postwar role as the dominant leader of the world political economy and imperialist network. Thus, the overflow of dollars has gone toward financing vast overseas military expenses, foreign aid, and U. S. corporate investments in foreign countries. However, by the late '60's" or early '70's', the limits to which the United States could use deficit financing with such abandon was recognized by political and corporate leaders. In the 1950's and 1960's, the U. S. was largely successful in matching its arrogant international finance methods with its arrogant military and foreign investment operations. But by the 1970's, it was becoming clear that inflationary finance (e.g. deficit spending, expanding the money supply) of military, foreign aid and U. S. corporate investments, has contributed to instabilities in the American domestic economy and has consequently weakened the position of the United States in the world economy.

Robert Zevin describes the process by which State inflationary financing has helped foster a weakened domestic economy, making it more vulnerable to fiscal and social crises. Economists have observed that since World War II, there has been a persistent tendency for the rate of growth of the domestic money supply to accelerate. There has also been a continued disproportionate growth of government, business and household sector indebtedness relative to total assets or total income. In addition, there has been an increase in debt-servicing requirements relative to income in all three sectors. To

compound these developments, there has been an explosive growth of near-money credits and liquid assets (i.e. credit cards, savings accounts, treasury bills) which have even outrun the rapidly growing money supply. Zevin remarks that with inflation this process increases the financial vulnerability of households, businesses, governments and banks. As the process continues to multiply liabilities and assets.

> Businesses, banks, and households have a lower margin of equity (less equity relative to potential liabilities) with which to absorb any period of economic reversal. The soundness and collectability of debts and other liabilities becomes increasingly dependent on the continued creation of new money and new paper assets as well as on the maintenance of stable or rising commodity prices (Zevin,1975:9).

Governments, private and central banks, seeing no other avenue, attempt to patch up these accesses by extending and multiplying them even more. These devices, however, only serve to compound and accelerate the rate of inflation, pitching the domestic economy into crisis situations "...in response to less and less severe moderations in real economic activity or the rate of price increases(Zeven,1975:9)." Thus, conventional monetary/fiscal policies, or State allocative and productive policies as Offe would call them, are no longer effective in ameliorating economic instabilities, but instead tend to deepen economic crises.

As Barnet, Muller and other social scientists have observed, there is a structural lag between State policy and economic realities. Obsolete monetary and fiscal policies, which Zevin cites are only examples of this lag. The greatest determining factor in recent economic structural changes at domestic and internationsl levels has been the development and vast expansion of global corporations. The obverse effects of the dramatic extension of global corporate power and subsequent international economic

structural changes have been 1) a growing ineffectiveness on the part of the American State (and other states) in regulating the domestic economy vis-a-vis conventional State policies, and 2) the growing obsolescence of an international capitalist framework based on the nation-state and built upon the dollar. The scope of this paper is limited to the first development, but before turning to the subject of antiquated State policy, the growth of global corporations and the consolidation of their power (which derived their main impetus from postwar U. S. militarism, foreign aid operations, and the organization of the international capitalist system), must be briefly described.

THE DEVELOPMENT AND EXPANSION OF THE GLOBAL CORPORATION

The development of the American-based global corporation coincided with the United State's assumption of the foremost, commanding position in the world economy. U. S. foreign policy facilitated monopoly sector growth overseas while American business abroad stabilized the economy at home and reinforced the U. S.'s eminant position in the world economy. As the previous pages have suggested, this once seemingly unfaltering formula is becoming increasingly obsolete. Just as the United States no longer holds an unchallengable position in the world economy, American-based corporations overseas confront new and formidable opponents. Moreover, American-based corporate ventures abroad have an increasingly unstabilizing, rather than stabilizing effect on the domestic economy. While the State continues to treat U. S. based corporations as national institutions subject to nation-state jurisdictions, corporations of U. S. origin are operating on global dimensions with diminishing national loyalties. Before examining the impact of global corporate power on the State and the American domestic economy, a brief overview of the dynamics behind global corporate development and power

will be presented.

Today, global corporations, or multi-national corporations as they are somewhat misleadingly called, [17] represent the most dynamic force at work in the American (as well as other domestic economies) and world economy. Global corporate expansion represents the latest "stage" in the history of the corporation. While national corporations developed an organizational framework for rationalizing economies within nation-states, the global corporations are structures for rationalizing the whole world economy. In this lies their power. The components of global corporate power depict the general character of global corporations.

In terms of world production about $450 billion out of a total of approximately $3 trillion (15 percent) were attributable to global corporations in 1972. That proportion of world production contributed by global corporations is increasing at the rate of 10 percent a year (Dowd,1974:73). In terms of productive assets, it has been estimated that by 1985, 200 to 300 multinationals will control 80 percent of all productive assets in the "non-Communist" world (perlmutter,1968).

The annual sales and growth rates of global corporations compared to gross national products of various countries also provides a general picture of the size and thus, the power potential of global corporations. Barnet and Muller have noted for instance, that:

> ...for 1973, we discover that GM is bigger than Switzerland, Pakistan, and South Africa; that Royal Dutch Shell is bigger than Iran, Venezuela and Turkey; and that Goodyear Tire is bigger than Saudi Arabia. The average growth rate of the most successful global corporations is two to three times that of most advanced industrial countries, including the United States.
> (Abrnet and Muller,1974:15).

The annual sales of global corporations thus amount to hundreds of millions of dollars. The four largest global corporations (GM, Standard Oil of New Jersey, Ford Motor Co., Royal Dutch/Shell Group) had sales volumes over 10 billion dollars in 1971. Over 200 global corporations have had sales exceeding the one billion dollar mark (Landsberg,1976:24).

While the growth of global corporate production (in comparison to world production), production assets, and annual sales illustrate components of power, the unique capacity to use finance, technology and advanced marketing skills to internationalize production represents the principal source of global corporate power. Global corporate executives have managed to assemble the most beneficent techniques for obtaining and managing finance capital, avoiding taxes, transfer pricing and maximizing profits for making, packaging, transporting and marketing products. Perhaps the most revolutionary aspect of global corporations though, is not size or global expansionary techniques, but a particular world view. Global corporate leaders view themselves as world salesmen and the corporation as the institution through which economic activities around the world can be organized to maximize global profits. Though in terms of ownership and management, global corporations are one-country companies, their outlook is not. This global world view is reflected in and prompted by the extent to which American-based global corporations have come to depend upon foreign profits.

> The top 298 U. S. based global corporations studied by the Department of Commerce earn 40 percent of their entire net profits outside the United States. A 1972 study by Business International Corporation, a service organization for global corporations, shows that 122 of the top U. S. based multinational corporations had a higher rate of profits from abroad than from domestic operations...for example... the average reported profit of the pharmaceutical

> industry from foreign operations was 22.4 percent as against 15.5 percent from operations in the United States...(Extraordinarily high profit on relatively low overseas investment is not uncommon). By 1973, America's seven largest banks were obtaining 40 percent of their total profits from abroad, up from 23 percent in 1971(Barnet and Muller,1974: 16&17).

Top U. S. corporations such as IBM, UniRoyal, Honeywell, Woolworth, CocaCola, Upjohn, Mobil, Pfizer, Gillette, Reynolds Metal and Standard Oil(N.J.) earned more than half their profits overseas. Department of Commerce surveys show that in the past ten years or so, U. S. corporations have been transferring more and more of their total assets into foreign countries. For example, about 33 percent of pharmaceutical industrial assets and 40 percent of the total assets of consumer-goods industries have been shifted to firms located abroad(Barnet and Muller,1974).

Though global corporate expansion can hardly be described as an exclusive American phenomena, U. S. based firms still control over 50 percent of all direct overseas investment while Japan and Germany account for less than 5 percent each. But their rate of growth (three times that of U. S. foreign investment between 1965 and 1971) and virtual take-over of some former U. S. markets (i.e. radios, televisions, motorcycles) has alerted U. S. corporate executives to the serious extent of competition from corporations based in other advance industrial nations (particularly Germany and Japan). The rapid entry of these corporations into the foreign investment arena in the pase decade promises to alter the prospects of U. S. global corporations and suggests the development of an entirely new international scenario. The formation of a new world economy in search of a new organizational framework is a subject that will not be specifically addressed here. Suffice it is to say that the emergence of serious competitors not only is changing the prospects and approaches toward U. S. corporate

investment and profit-making, but it is an important factor in accounting for recent transformations of State and corporate relations; and domestic economic structural changes. (see p.141-154).

The recognition that economic activities have been undergoing a profound reorganizational process has prompted an explosion of studies on the subject of global corporations. There is a wealth of material on the historical evolution of the global corporation (and specific corporations)(Wallerstein, 1973;Sampson,1973;Seymour,1974). A growing number of social scientists are analyzing the current "crisis of world capitalism," predicting its future course, examining the part global corporations play in the current crisis and the future participatory role of multinationals in a new international framework for world capitalism (Kolko,1974; Amin,1975;Block,1975;Frank,1975). Others are examining the specific impact of global corporate patterns of growth on the U. S. economy(Dowd,1975;Landsberg,1976).

In recent years, writers have been exploring a related topic-developing clashes between global corporations and nation-states(Stephenson,1972; Martinelli and Somaini,1973). They have observed a growing conflict between the emerging new forces of global-corporate production and old relations of production (e.g. the nation-states). Barnet and Muller have observed that there is an "institutional lag" between State economic policies and current economic realities. Though the traditional State tools for stabilizing the economy are pronouncedly obsolete, the State continues to employ them. In this sense, the State has an "emergent interest" which is not necessarily compatible with the interests of some segments of capitalism (i.e. global corporations) nor conducive to the preservation of the capitalist system as we know it today. This will be the subject of the next chapter.

CHAPTER SEVEN

EMERGENT CONTRADICTIONS IN STATE AND ECONOMIC RELATIONSHIPS-1970's

INTRODUCTION

The emergent contradictions between State and economic development in the 1970's is the general topic of discussion in this chapter. Within this context (probable) dramatic changes in the nature of the State in the 1970's are examined. Specific subjects addressed in regard to the State are: 1) the growing autonomy of the State, 2) the structural lag between State policy and economic realities, 3) the departure of the State from the "interests" of some of its subjects, and 4) the subsequent crisis of crisis management. The links between recent transformations in the U.S. domestic economy, global corporate power, and antiquated State economic policy are also discussed.

THE EMERGENT "INTEREST" OF THE STATE

That the State has an emergent "interest" of its own, is a line of thought that is rather undeveloped within a Marxist perspective. Gold, Lo and Wright's work as well as Zevin's, hint at this view, but they do not pursue it(Gold, Lo and Wright,1975). There are several reasons why intense analysis of the subject has not been undertaken from a Marxist point of view. First of all, it is a relatively new phase of development for the State in advanced capitalist society. Secondly, the conventional Marxist(not necessarily Marx's or Engel's notion that State policy and action are tightly bound to serving the capitalist class as a whole tends to thwart any study of a possible State "interest." The State is often seen as reflecting the interests of a presumably monolythic ruling class at all times and for all issues. Even if the State is viewed as the agent of

a particular segment of the capitalist class, it all but eliminates the possibility of conceptualizing a relatively autonomous State. So, the assumptions of instrumental theory tend to obscure the whole question of an emergent State "interest."

However, Marxian structuralist theory offers some promising starting points for building a theory of State "interest." Few writers have recognized the implications of structuralist theory as a point of departure for the development of such a theory though - partly because the State per se has not been the focus of structuralist analysis(Gold, Lo, and Wright are exceptions). Structuralist writers treat the State as "relatively" autonomous with respect to instrumental manipulations by the capitlalist class. The State is seen as always preserving its capitalist nature. But rather than viewing the State as simply a reflection of capitalist class interests, structuralists theory suggest that as the State assumes an increasing role in capitalist accumulation, the State can develop a higher degree of autonomy than most Marxist writers have thought possible.

The underpinnings of instrumental power theory and the conventional use of structuralist theory hinders prospective investigations of an emergent "interest" of the State in other ways. As observed earlier in this paper(see chapters 1&2), reducing the study of the State to simple instrumental or structural causation obscures the operation of the State's changing accumulation/legitimation functions and conceals the State's "internal structures" in specific historical situations. But just as a synthesis of new departures have offered insight into the broad contours of the State and economic development, these ideas can be specifically applied to the question of an emergent State "interest." What follows then, are some observations, drawing in particular, from Offe, Barnet and Muller.

The Failure of Conventional Keynesian Policies

In formulating a line of thought about the State's emergent "interest" (development of a higher degree of State autonomy), Offe's schema concerning the State's internal structures can be used to lay essential groundwork. The strong, dialectical quality of his theories lends substance to a fundamental understanding of the State in American capitalist society today. The internal structure of the State(negative and positive selective mechanisms) are colliding with contemporary economic realities. The allocative and productive policies aimed at stabilizing and stimulating the economy are no longer effective. In fact, these very policies tend to aggravate economic crises. As Marx might say, State managerial strategies contain the seeds of their own destruction, for they encourage the consolidation of global corporate power which in turn, undermine the effectiveness of State economic tools.

In the two decades following World War II, Keynesian-based economic policy worked reasonably well because the U.S. economy was relatively less concentrated and only minimally dependent on economic transactions transpiring outside of U.S. borders. By the mid-1960's the American economy was responding less and less to State managerial policies as the process of "concentration and globalization of the key industries and financial institutions of the U.S. economy" accelerated(Barnet and Muller, 1974:269). Barnet and Muller cite examples of State failures to stimulate the economy and curb inflation.

> When the Federal Government offered tax credits and other incentives to increase investment and hence employment and the supply of goods, output did not increase at the anticipated rate. Similarly, when the Federal Reserve Board raised interest rates or tried to curtail the money supply, which, theoretically, would cut demand and reduce the inflation rate, the anticipated did not happen(Barnet and Muller, 1974:269).

The increasing degree of economic concentration allows powerful segments of monopoly sector capital to circumvent State managerial policy. So, when the government introduces economic incentives, oligopolists can simply maintain the same level of output and raise their prices to take advantage of the increase in demand. Similarly, oligopolists can frustrate Keynesian monetary policy aimed at reducing inflation by passing off the increased interest rates on to the customer. Barnet and Muller have show that the willingness on the part of monopoly capital to keep borrowing and even accelerate borrowing despite higher interest rates is a relatively new phenomena-one that further hampers the State's attempts at inflationary control.

It is becoming increasingly evident that the current economic crisis cannot be remedied by conventional State tools. With the global corporate rise to power, the rules of the game have drastically changed. The very structure of the U.S. economy has been transformed through the orchestrations of State policy and corporate interests. The allocative and productive policies which encourage economic concentration and in turn, facilitate a reduction in U.S. production, a negative balance-of-payments and trade, a rise in inflation and unemployment, and inadequate wages and income, simply cannot be used successfully to reverse these trends. A complete overhaul of the internal structures of the State is required if the State is to preserve its legitimacy and ameliorate severe economic crisis.

Departure of the State From the "Interests" of Its Subjects

The current crisis of crisis management can be characterized as a three-pronged dilemma, representing relations of production(State-to-labor and State-to-capitalist groups). First of all, the State must maintain an acceptable level of unemployment, inflation and standard of living if

it is to successfully disguise its class nature. As the public realization grows that the economic crisis is not vanishing but deepening, the legitimacy of the State will increasingly be called into question. American capitalism finds itself at the critical juncture where old Keynesian interventions into the economy need to be abandoned and qualitatively new forms of active State involvement into the production process itself need to be taken up. But the State seems prepared only to try conventional methods(i.e. tax cuts, "public works" jobs, large military outlays) once again. As Wright, O'Connor, Dowd and other economists have demonstrated, these attempts can only fail and will subsequently intensify the current contradictions within the system. Whether the State begins to take tentative steps toward a structural re-ordering of capitalism or whether socialism becomes an immanent potential, depends upon the resolution of current capitalist class disagreements.

The other components of the State managerial dilemma revolve around capitalist class struggles. For the sake of analysis, these conflicts can be generally attributed to two segments of monopoly sector capital. On one hand, there are those nationally-based industries which demand State policies that guarantee State protection and in some cases, subsidization (see p.p.147-149). On the other hand, U.S.-based global corporations demand the removal of State measures which hinder their movement nationally and internationally(see p.p.141-147). Offe's views are strikingly applicable here. At a time when mounting instabilities in the domestic and world economy require profoundly different "solutions" if capitalism is to remain a viable system, capitalist class interests find it most difficult to resolve their conflicts. Instead, they struggle to restructure the State to suit their own particular interests. But as the State clings obdurately to conventional State economic policy, it departs more and more from the

interests of powerful segments of the capitalist class. Zevin has aptly described the current State dilemma as "its failure to confine it's activities to serving the legitimate interest of any of its subjects and its corresponding inability to command their loyalty(Zevin,1975:16).

The current State managerial dilemma can most easily be observed in State policies concerning militarist activities overseas. Barnet claims that since the late '60's' capitalist group struggles have been taking place over the State's "interest" in foreign policy and military affairs abroad (Barnet,1971). The State then, has developed a relatively high degree of autonomy over what can broadly be termed "national security" issues. According to Barnet, there are other State policies loosely connected to the general concern for "national security" that also reflect a State "interest" (i.e. balance-of-payments, trade, transfer of strategic materials). These are measures intended to guarantee national security vis-a-vis domestic-economic regulatory policies, but which clash with major capitalist interest groups. Those national security policies associated with militarist activities overseas and domestic-economic stabilization will be used in an illustrative manner in pursuing the notion of a State "interest" and related capitalist group conflicts(and agreements). Accordingly, 1) explanations for the emergence of a State "interest" can be developed, 2) specific instances of capitalist group/State conflicts can be cited and 3) clashes of interests and those interests allied with the State can be examined within the context of recent, domestic-economic transformations.

Explanations for the Emergence of a State "Interest"

Explanations for the emergence of a State "interest" lie in the nature of bureaucratic organizations and the process by which power functions in such organizations. Like other bureaucratic organizations, State bureaucratic-administrative agencies eventually develop their own raison d'etre

or self-defined interests, with the central motivation being survival through "routinization" of policies and procedures. So, though the policies and procedures of bureaucratic organizations may become obsolete, there is a tendency to continue doing more or less of the same thing(see p.). As militarism became a key accumulating and legitimating agent for the State, the balance of power shifted to "national security" agencies. Since their interests and large corporate concerns in maintaining an empire were largely the same in the twenty years or so after the war, their power and influence were assured(Barnet,1971). The institutionalization of "national security" crises helped to guarantee that decision-making power would continually filter to the national security managers in the executive branch. So, the national security managers exercised a great deal of unchallenged power in military and foreign affairs through the early 1960's. They began promoting their own ranks and bureaucratic agencies through the Americanization of an overseas empire as an end in itself.

For Barnet, the turning point came during the Vietnam War when the costs of maintaining an empire became greater than the potential benefits for corporate business. So, when the ground rules established during the Cold War began clashing with global corporate concerns, the objectives and strategies of the national security managers and associated agencies began to be challenged. The State managerial changes which current economic-political realities require and which global corporate leaders demand, jeopardize the high-ranking power position of "national security" agencies. Their general response has been to continue doing more or less of the same thing with little regard for the changed interests of corporate business or the subsequent constraints put upon the accumulation process. The tendency of bureaucratic organizations to perpetuate themselves vis-a-vis "routinization" thus provides a partial explanation for the structural

gap between "national security" policy and economic-political realities. The State's own "interest" appears to be inextricably connected to the self-perpetuation of "national security" organizations, procedures and world view. Barnet concludes then that the overriding interest that State bureaucracies have in attaining economic intangibles of power and influence, constitutes a State "interest" which departs from the economic demands of segments of capitalism.

There are, however, capitalist groups which support the continuation of conventional "national security" policy and strategies. And there appear to be non-capitalist groups which are allied to the State's "interest" in other ways. The contentions which have arisen as a result of these different demands constitute one of the most important elements of the current crisis of crisis management. Some observations regarding the character of the struggles can be made through the following inquiries: 1) which segments of capitalism clearly reject conventional "national security" policy and strategies; and why, 2) what segments of the capitalist class support the State's interest and why, 3) what non-capitalist group is allied with the State and in what ways?

The Rejectors of Conventional Foreign Policy Objectives

The greatest rejectors of conventional "national security" policy are U. S. based global corporations. They often do not need or desire the State to open up or guarantee overseas markets. Global corporations have developed their own set of tools for internationalizing their products, capital and marketing procedures. As the increasing sophistication of their expansionary techniques have allowed them to penetrate overseas markets more extensively and intensively, their willingness to wave a flag for a nation-state has declined. U.S. corporations operating abroad as

multinational enterprises now seek maximum freedom from government regulation and surveillance. With increasing production and investment facilities abroad, U.S. based global corporations can no longer afford to patriotically support the costs of preserving the United States as the leading nation of the capitalist imperialist network. Unlike the early postwar years, this decade has revealed that global corporations serve less and less the political ends of the U.S. government (and visa versa), for the compatibility between their interests is declining. This development, however, should not be exaggerated. There are still more instances of cooperation between State and global firms than clashes. Corporate executives have no intentions of foregoing present ties which are beneficial, but only wish to overturn or modify some State policies which are damaging to the global corporate world view. Still, the major sources of tension can lead to serious conflict and hinder the structural solutions which would be favorable to capitalism as a whole. Major sources of tension between the State and global corporations are traditional national security strategies, the balance-of-payments crisis, and U. S. government regulations and surveillance of technology and strategic items transfers.

Major Sources of Tension Between State and Global Corporations

A. National Security Strategies

The massive military expenditures overseas helped to launch the budding careers of many U.S. global corporations. In the"twenty years of war after the war", military expenditures overseas were prime examples of the compatibility of patriotism and profit. They provided a highly mobile military presence which at the time appeared to favorably assure the permanence of U.S. investment. Military expenditures(as well as military foreign aid) also absorbed many of the physical capital expenses

of large firms in the form of roads, airfields, harbors, and other facilities necessary for the evolution of global corporations. But global corporations see the world-wide American military empire and interventionist, "national security" strategies as more damaging than beneficial today. They view conventional "national security" militarization policies as unacceptable on ideological and economic grounds.

An obtrusive military presense, direct interventionist tactics, and the blockading of trade with communist countries are foreign policy objectives which are not compatible with the world view of global corporations. Their target is a "world customer." Global corporations require a low military profile and a more aggressive foreign economic policy(Barnet and Muller,1974). The creation of a voluteer army is compatible with the global corporate ideology. Army volunteers are trained as professional-technical engineers who carry out tasks subtly and as indirectly as possible. U.S. diplomacy concerning the Soviet Union and China also is compatible with the political strategies of global corporations. Corporate executives believe that the best way to prevent communist countries from disturbing their world vision is to include them in it. So, the diplomacy of "detente" and the "normalization" of relations with the Republic of China and other "socialist regimes" are quite in line with global corporate views. Most recently, the U.S.'s abstention vote on Angola's entry into the U.N. and attempts to "normalize" U.S.-South Vietnam relations fit in with U.S.-based global corporate aspirations as "world salesmen."

Besides favoring a low military profile, global corporate leaders are promoting a less expensive "national security" policy. So, there is a growing number of corporate leaders who back the elimination of overseas garrisons and scaling down the full-fledged American military presence in

Europe. They prefer less expensive "indigenous troops," a local military with little visible connection to the United States who maintain a pervasive but subtle influence. According to Barnet and Muller, Vietnam served as an incisive lesson to global corporate leaders. They recognize that conventional military interventionist policy no longer served as an economic-plus as in previous wars, but instead caused considerable economic losses. The Vietnam War weakened the U.S. position as leader of the world economy(and U.S. corporate status) by undercutting its domestic economic prosperity and stirring foreign nationalist sentiments. The persistant outflow of dollars to finance a strong military overseas, has contributed significantly to a crisis in the U.S. balance-of-payments and has helped to foster the international monetary crisis. Because declining corporate profits(as a proportion of the GNP and of corporate sales) since the mid-1960's are complexly related to international financing, global corporations are concerned about stemming the balance-of-payments crisis(Zevin,1975). Their target for a partial solution is the trimming of the "national security" establishment overseas. So, not only are "national security" policies unacceptable ideologically, but the expense of maintaining a strong military posture overseas is objectionable to global corporate leaders, also.

B. Balance-of-Payments Crisis

The actual State policies aimed at remedying the balance-of-payment crisis have rarely met with global corporate approval and indeed, have been measures instituted at the expense of these enterprises. This represents a second, major source of tension between the State and global corporations. Since the 1960's, the federal government has attempted to stem balance-of-payment problems by regulating overseas investments and

lending. During the early years of the Kennedy Administration, "voluntary" guidelines for direct overseas investment and the Interest Equalization Tax were imposed as measures to halt the balance-of-payment outflow. The global corporate response was to evade regulations and the tax by designing the "Eurodollar system," an over-expanded money and banking operation devoid of all regulation. As Zevin shows, these tactics tend to be self-defeating. In resorting to their own inflationary financing, global corporations have endangered their own economic positions with respect to fellow competitors and American national-based corporations. And in the process they have succeeded in aggravating State-global corporation tensions(Zevin,1975).

Another major instance of the State attempting to remedy the balance-of-payment crisis at global-corporate expense occurred during the Vietnam War. The U.S. balance-of-payment deficit jumped as a result of the war. Subsequently, the U.S. Treasury attempted to stop the gold drain by placing restrictions on U.S. corporations abroad. Barnet claims that this is one of the major reasons for global corporation opposition to the war.

> The Voluntary Capital Restraint Program of 1965 was followed by a program of mandatory controls in 1968. The U.S. government asserted the right to compel foreign companies in which a U.S. company had as little as 10 percent interest to declare dividends so that earnings could be repatriated to the United States. U.S. companies were forbidden to transfer capital to their subsidiaries in Europe. The attempt by the U.S. to make laws which in effect regulate corporations located abroad has angered...the multination corporation... (Barnet,1971:231).

The balance-of-payments crisis obviously invites serious State/corporate clashes.

C. The Transfer of Technology and Strategic Items

Another major source of conflict between State and global corporations concerns the transfer of technology and strategic items. Conventional "national security" policy frustrates the world market intentions of global corporations. Though corporations with U.S. investments overseas generally complied with government regulation policies in the early postwar years, there have been numerous cases of corporations circumventing the law. But whereas, evading government regulations was once undertaken with ingenious secretiveness and a facade of compliance, global corporations increasingly are responding with open hostility. Barnet cites such an instance.

> The State Department warned Standard Oil of New Jersey not to let its Canadian affiliate sell oil to ships taking Canadian wheat to China and according to the Toronto 'Daily Star,' received an equally threatening note back from Jersey, the world's largest multinational corporation. 'If you want to start a first-class international row, just keep pressing the matter.'(Barnet,1971:233).

The federal government has put constraints on the transfer of technology and strategic material in particular, and has attempted to use the withholding of sales for its own political objectives. An illustrative example is the case of IBM-France in 1964. The government successfully prevented the company from selling computers needed for the French nuclear program in an attempt to get France to sign a nuclear test ban. The U.S. government has also used the economic weapon of technology and strategic items(and other materials) as a political reprimand to socialist-leaning countries (i.e. Cuba). But the recent changes in diplomatic relations with China and Russia have signaled a gearing-down of Cold War ideology and a deterioration in trade barriers. U.S. chemical plants in the Soviet Union and

Chase Manhattan Bank offices in Peking and Moscow may indicate a trend toward a relaxation of trade barriers; even for strategic items and technological transfers. The most recent turnabout in the U.S. government's trade banning procedures came with the approval of a U.S. corporate sale of computers to China which have military as well as industrial capacities. Though global corporate executives appear to be winning ground for their world salesman aspirations, there is an on-going struggle against government regulation and surveillance.

What corporate leaders envision for the future role of the State is the replacement of State policy mechanisms blocking global corporate business with a more aggressive(and often contradictory) foreign economic policy which uses economic weapons of quotas, tariffs and taxes to guarantee favorable treatment of U.S.-based global corporations overseas. To employ the measures effectively, a stronger executive and a relatively weaker Congress are seen by corporate executives as part of the future managerial role for the State. An executive that would have greater discretionary powers to use one policy or another, could also more easily forego protectionist measures aimed at saving inefficient, non-competitive industries and could then re-allocate their resources to new industries. Quite predictably, chief opponents to these global corporate dreams of the futre managerial role of the State are those dependent industries and small sub-contractors whose very existence is threatened by the withdrawal of government support. So, the State has strong allies in its clashes with global corporations.

The Supporters of Conventional Foreign Policy-The State's Allies

The State has strong domestic allies in the conflict over "national security" objectives. Barnet names two supporters of the State's "interest."

Dependent industries represent one of the allies of the State. They have a particularly strong interest in backing "national security" issues. Barnet describes two types of dependent industries: 1) defense-contracting industries whose lifeblood is derived from the State(O'Connor refers to these firms as part of the State economic sector) and 2) those other industries which reap important economic protection and privleges from the State (i.e. steel companies, domestic oil producers, domestic watchmakers). As Barnet remarks about dependent industries in general:

> Not only do they need economic protection from foreign competition but their interests are tied in so many ways to the state that they must celebrate it. If "national security ceases to be a public issue, then... important economic privleges derived by invoking these magic words will suffer Barnet,1971:235).

Thus, dependent industries express a particularly avid interest in "nationalism" and "national security."

The current congressional debate(fall,1976) over civil defense may represent a vigorous re-assertion of "national security" as a frontline issue. The gradual shift in the past two years from the notion of "mutually assured destruction" to a limited nuclear war policy, can be seen as an attempt to invoke new threats to the nation's "security." While mutually assured destruction is based on the premise that once nuclear devices are detonated both sides of the conflict will be consumed in nuclear holocaust, limited nuclear war emphasizes the possibilities of survival. The limited nuclear war concept encompasses a two-pronged strategy, one focusing on deployment and the other on civil defense. Both strategies would involve enormous expenses and thus, suggest further struggles over defense budgetary issues. Deployment tactics, for example, would require: 1) the B-1 bomber, 2) the MX, which is the next generation of ICBMs, and 3) the MK12A, a new higher

yield warhead. Not surprisingly, Boeing, the manufacturer of U.S. Minutemen ICBMs and a leading "dependent" industry, has headed up the most recent civil defense debate. A Boeing study of Soviet civil defense raises the threat of their survival (Soviet) and our destruction and suggests the dire need for a shift in national security strategies(Stewart,1976). New weapons systems and civil defense plans would accordingly, present fresh prospects for the economic survival and profit of dependent industries. Nationally-based companies, other than dependent industries, most likely would welcome a re-awakening of national security issues to a Cold War feverish pitch, too. Not only would new defense systems boost their production sales, but additional protectionist measures, advantageous sales might follow. So, as Barnet has observed, the State has a strong domestic ally in those industries whose very survival either largely or exclusively depends on conventional foreign policy objectives(Barnet,1971).

According to Barnet, the other domestic ally backing the State's "interest" is organized labor. However, their alliance with the State is based on different concerns than dependent industries. Organized labor is interested in conventional national security policies largely in terms of its protection of the U.S. labor force. Organized labor was slow in recognizing the adverse effects of the internationalization of production on domestic employment. But with the acceleration of the trend towards export platforms in the 1960's, the connection between U.S.-based global corporate transfers of firms to overseas locations and U.S. unemployment became starkly vivid. Labor leaders began to mount a campaign against the alarming growth of export platforms. Barnet and Muller remark that:

> In 1960 there were only four underdeveloped countries that were significant exporters of manufactured goods. By 1968, according to the studies of Hollis Chenery of the World

> Bank, there were thirty. Beginning with low-skilled industries such as textiles, these countries had by the mid-1960's, moved on to electronics, chemicals, steel, calculators, and computers(Barnet and Muller,1974:196).

By 1970, a Congressional estimate called attention to the fact that 20 percent of all cars, 40 percent of all glassware, 60 percent of all sewing machines and calculators, 100 percent of cassettes and radios and "large proportions of U.S. production of shirts, work clothes, shoes..." are imports derived chiefly from American-owned foreign factories. Correspondingly, the estimated loss of jobs in the United States attributable to export platforms has been significant. As of 1966, 30 percent or more of the payrolls of U.S.-based global corporations(i.e. Kodak, Chrysler, ITT) were comprised of non-Americans overseas; and that figure is considerably higher today. The AFL-CIO has ascertained that some 900,000 jobs were lost between 1966 and 1971 in organized industry; largely as a result of plant relocations overseas. To add to the list of production transfers that throw thousands of Americans out of work are "dependent" defense-contracting industries(i.e. Northrop and Lockheed), who have recently located production facilities in Taiwan and Hong Kong.

The impact of export platforms on the elimination of jobs is a matter of heated debate. Global corporations have undertaken as many studies as labor organizations on the subject and conclude just the opposite-that U.S. plant location in foreign countries stimulates the American job market substantially. Barnet and Muller remark that it is impossible to make a definitive judgement of the overall impact of export platforms on American employment, but in the long run, it appears that trends are unfavorable for labor. Rather than looking at employment in the aggregate, an

examination of non-aggregate effects provides a more substantial view of what is transpiring.

> ...if we look at the sectoral and regional effects of foreign investment, the dislocation global corporations cause by closing factories in the United States and opening them somewhere else is obvious. On computer tapes jobs may be interchangable. In the real world they are not. A total of 250,000 new jobs gained in corporate headquarters does not in any political or human sense offset 250,000 old jobs lost in the production line. When Lynn, Massachusetts becomes a ghost of its former self, its jobless citizens find little satisfaction in reading about the new headquarters building on Park Avenue and all the secretaries it will employ(Barnet and Muller, 1974:302).

So, labor organizations have evaluated the general American employment situation accurately. The immediate impact of plant closures on economic and geographical dislocations cannot be denied. Neither can the accompanying shrinkage of blue-collar jobs go unnoticed. Even though production-line jobs may be eventually replaced somewhere in the United States, as global corporate leaders assert, the new job is generally a white-collar position. And opportunities to work in white-collar positions requiring higher education and different skills,are limited for "blue-collar" workers.

An equally ominous effect of the location of U.S.-based corporation abroad is the erosion of the bargaining power of labor organizations. The ability of global corporations to open and close industries quickly and transfer the investment overseas neutralizes the potential power of American labor. The countervailing power which American labor represented in the 30's and 40's gradually deteriorated in the 50's and 60's as management learned the arts of co-optation. And with the rise of global corporate power in the 70's, the bargaining tools of American labor have become increasingly ineffective. Global corporate managers are discovering that

with the weapon of threatened plant closure, a labor force can be easily hamstrung. The effect is a more obsequious work force which demands little in the way of improved working conditions or higher wages.

Stationary or insignificant rises in real money wages as compared to productivity gains in the past fifteen years or more may be partially attributed to a loss of labor bargaining power in some monopoly sector industries. Though the agreement made in the '40's' between labor and industry requires that wages increase with productivity gains(and cost-of-living adjustments), O'Connor observes that between 1965 and 1970, productivity in U.S. manufacturing industries increased by about 13 percent, but real wages did not rise(O'Connor,1973:44,45). Considering that there has been a substantial increase in U.S. manufacturing export platforms in the past ten years or so, a discernable connection between increased global corporate mobility and unfavorable wage bargaining positions might be drawn. Though studies have yet to establish a causal link between the changing foreign investment behavior of U.S.-based global corporations and decreases (or unsubstantial wage increases) in wages there is little doubt that a decline in labor bargaining power exerts a downward pressure on wages.

To ascertain possible links between changes in the livelyhood of the American worker and changing foreign investment patterns, Barnet and Muller compare growing income inequalities between aggregates of workers in certain key industries and foreign investment. They note that in the first tide of foreign investment(1958-1967), industries that were most effected were those that employed unskilled, semi-skilled and irregularly employed workers(i.e. shoes, textiles, leather, electronic assembly). T. Paul Schultz's Rand report and Peter Henle's Library of Congress report on growing income inequalities show that during this same period unskilled,

semi-skilled and part-time workers did experience a greater decline in their share of national income than skilled workers(Schultz,1972; Henle,1972). Correspondingly, as the number of skilled jobs increased overseas with the second wave of foreign investment during the late '60's' and early '70's', the share of national income going to skilled American workers declined noticeably in the same years(Barnet and Muller, 1974:290-296). Professor Robert Gilpin's report for the Senate Committee on Labor and Public Welfare supports these observations and specifically notes that: "The real issue is that foreign direct investment tends to shift the national distribution of income to the disadvantage of blue-collar workers(Gilpin,1973).

Organized labor is also coming to recognize the impact of export platforms on general production and efficiency performance in U.S. firms. Rather than expanding and modernizing production facilities in the United States, U.S.-based global corporations are establishing more and more overseas enterprises with cheaper labor and/or more efficient technology. Table 3 shows the U.S. trailing behind other industrial nations in capital investment and productivity. Table 4 relates this lag to the decline in worker productivity and employment(Landsberg,1976:28). These trends can be attributed in part, to the fact that imports from overseas enterprises can compete favorably with products produced at home bases. Thus, the general effect is reduction of overall production, efficiency, and related jobs.

Just as conventional State managerial policies(i.e. monetary and fiscal policies) have become increasingly ineffective in regulating the domestic economy, organized labor's ability to protect the interests of the American worker is declining. Global corporations thus, challenge labor in essentially the same way as the State. The structural lag between anachronistic labor strategies and global corporate management of a world economy contributes to serious structural unemployment and a decline in real wages. To combat

the effects of the internationalization of labor, capital and production on U.S. employment, organized labor is relying more and more on the State for economic protection. They demand that the State continue to assume a high degree of responsibility for the economic security of the American worker and that the State make more provisions in this direction. Therefore, organized labor is allied with the State's "interest," in so far as it is directed toward implementing controls over the adverse effects of globalization on the domestic economy. The pressing problems caused by transformations in the world and domestic economy, add incentive to organized labor's traditional support of policies which stress national security, external threats, and the need for government control(Barnet,1971:236). Organized labor, as a whole, is not likely to depart from the general thrust of out-dated State managerial policy - national security. However, the UAW has begun to press for measures designed to beat global corporations at their own games(i.e. worldwide contract termination dates). But whether labor will be able to realize demands for these non-conventional methods of protecting American labor is another question. Having considerably more practice and more sophisticated methods at their disposal for international bargaining, global corporations are in a stronger position to centralize their efforts than labor unions (Barnet and Muller,1974). Labor is thus, likely to direct more and more of its demands for controlling global corporate power, to the State.

But, the State is faced with the paradoxical situation of having to curb global corporate power, but having to celebrate it. Here lies the overarching contradiction in State legitimation and accumulation functions today. On one hand, the State must coopt potential sources of widespread discontent by maintaining publicly acceptable unemployment levels and living standards. So, it must implement effective regulatory strategies for controlling global corporations which have seriously aggravated socio-economic

imbalances(e.g. inherent economic crises tendencies). On the other hand, the State must court corporations or risk drying up crucial sources of capital and sparking off world-economic chaos. Yet the State is compelled to support other accumulation forces whose demands conflict with those of global corporations(i.e. military-industrial complex, steel industry). Given these sets of serious contradictions, how can attempts to ameliorate the current crisis of crisis management be seen within the immediate political sphere?

THE "THREE FACES" OF CARTER

Alan Wolfe sees the dynamics of the contemporary political arena dominated by a "two-faced Carter;" one who appears as a new Populist and one who is an agent of financial capital(Wolfe,1976). He examines Carter's prospective actions as president as attempts to unify the two opposing tendencies of the Democratic Party-the South and the Blacks plus the working class. Wolfe's observations can be drawn upon to illustrate the executive's response to the current crisis of crisis management, along with O'Connor's views on economic crisis. Since historically there has been a protracted struggle by the capitalist class(or segments of it) to consolidate power at the executive level, it is important to see how these stuggles might be manifested through presidential action and non-action. Carter's responses to the contemporary crisis of American capitalism reflects, as Wright would say, State attempts to find a "structural solution" to constraints put upon productive forces, or capitalist accumulation. In examining the political scenario in these terms, and in terms of corresponding contradictions in relations of production, Carter's role can be seen as characterestically "three-faced." The "three faces" of Carter correspond to his attempts to steer the reef between the three major contradictions in State accumulation/legitimation functions, while probing for an

an institutional re-ordering or adaptation to current socio-economic problems.

O'Connor observes that today inflation and fiscal crisis are anathema to monopoly capital and the State. "Reducing inflation and ameliorating fiscal crisis have become the basic conditions of stability(O'Connor,1973:47). Given the current contradictions within the system, O'Connor claims that theoretically the State has only three optional methods for "stabilizing" the economy: 1) managed recession, 2) wage and price controls, 3) cooperation with monopoly capital to increase productivity in monopoly and State sectors of the economy. O'Connor dismisses the first two choices as impractical, more or less ineffective management efforts which tend to add fuel to the fire.

According to O'Connor, the only option available for the relatively long-termed survival of capitalism is the development of a "social-industrial complex." Carter's actions indicate that he may be moving in this direction. Economically, the complex would consist of the State funding of "socio-economic programs to provide new subsidized investment opportunities for monopoly capital and to ameliorate the material impoverishment of the surplus population(O'Connor,1973:221)." So, in gearing the State sector more closely to the monopoly sector, the State would turn to private firms, especially monopoly capital, to build and operate hospitals, nursing homes, transportation systems, "public housing," and other facilities.

In forging such ties, O'Connor suggests that the State would emphasize the increasing "efficiency" of the State sector and the increasing productivity in both the State and monopoly sectors of the economy. While "efficiency" in the State sector would focus on improving government productivity through various advances in public administration, increased productivity in the monopoly sector would be advanced in a similar way. Under the guise of

increased government "efficiency" the State budget priorities would be adjusted more in favor of monopoly capital. This would be accomplished vis-a-vis centralized administrative control and budgetary planning. Carter's appointment of Georgia-based capitalist, Thomas b. Lance as head of the Office of Management and Budget and Paul Austin's(of Coca Cola) role as advisor in the "government re-organization" process seems to indicate a move to "rationalize the work of the administration so it can operate to a greater benefit to the largest firms(Wolfe,1976:650)." Thus, the government re-organization effort with its emphasis on "efficiency," appears to represent an effort to mitigate conflicts between State and monopoly capital-and could represent an initial step toward a viable, acceptable institutional re-ordering. However, a "social-industrial complex" would require enormous changes in class relations. Whether American society is capable of such changes or beyond reform is another question.

Carter is not only courting major segments of monopoly capital(particularly global corporations) in the domestic arena, but he is appealing to the interests of global corporations in foreign affairs. The appointment of global corporate activist, Brzezinski to the position of national security advisor, would suggest that Carter and his administration recognize the necessity of responding more favorably to global corporate demands. The Carter administration appears more willing to accept post-Vietnam realities in which full-scale war and Cold War tactics are no longer realistic options. There seems to be no intention of surrendering the fundamental tenet behind U.S. foreign policy-economic political expansion. But the limitations posed by a changing world economy are recognized. Indications are that the U.S. government will continue to assert as dominant position as possible within the existing limits. The U.S.'s reluctance to "normalize" relations

with Cuba until that country follows the dictates of the U.S. concerning Angola(Jamaica and all other western hemispheric countries) is a case in point. Though this position may not match exactly with global corporate sentiments, still it is a step in the direction of a more aggressive economic policy and less aggressive military stance-both of which appeal to global corporate executives. So is the recent lift on travel bans by U.S. citizens to Cuba(as well as other "socialist regimes").

At the same time, Carter dresses out in another "face" to appease dependent industries, particularly weapons-producing firms. Commentary on international events which emphasizes the chief concerns of "national security" and the dominance of the U.S. in the arms race, serve as a rhetorical tactic in keeping potential opposition from dependent industries at bay. But the major tactic for cooling dependent industries denouncements of new foreign policy strategies, appears to be the continuation of a high-level of defense spending on military contracts.

In terms of coopting sources of popular discontent, Carter's major tactic is "symbolic populism." This constitutes a third Carter image. Wolfe cites four elements of symbolic populism.

> First, it requires periodic attacks on elites with corresponding praise for the little man... Second, [it] means attention to gestures...for example, that the inauguration will be a people's event...[Third] Carter will supplement gestures with specific policies that please the Left and cost little or nothing. On the environment and nuclear energy, on human rights in Chile and on the sale of plutonium to France and Germany... Finally...a Carter administration asking that popular laws be passed, but quietly deflecting their effects within a bureaucracy sensitive to the needs of capital(Wolfe,1976:650).

Given the great possibility that the costs of Carter's three-faced strategies will devolve even more to non-capitalist classes, the credibility of this

tactic is yet to be seen.

To be sure though, the Carter administration will have to grapple with socio-economic problems which are qualitatively and quantitatively different from those crises confronted in the '50's' and '60's'; and which are perhaps more severely threatening to the legitimacy of the capitalist State and the current economic structure. The task, howvere, should not be one of predicting the eminant collapse of the capitalist system upon the probable intensifications of contradictions and subsequent increased "class struggle." Afterall, as Wright remarks, social systems have an incredible capacity to muddle through despite an increase in contradictions; particularly when structural arrangements are created in attempts to contain these contradictions. Though the prospects for possible capitalist strutural breakdown certainly cannot be dismissed, an historical analysis of the relationship between State and economic relations should instead point to understanding the kinds of adaptations and institutional reorderings that are likely to be attempted in the effort to counteract structural impediments to the accumulation process. "Such an understanding is crucial to the development of a viable socialist politics(Williams,1975:12)." While a thorough investigation of prospects for the future of American capitalism is not the intent of this paper, some guidelines for such a study are provided.

CONCLUSIONS

The dialectic is the most vital directive in arriving at kinds of institutional reorderings and adaptations that are most likely to be attempted in the future. Contradictions in State and economic development need to be seen as an integral part of that interaction. Changes in the character of the State and economic development(and their interaction) need to be viewed in terms of an exchange of certain contradictions for "solutions" which eventually generate new sets of contradictions. The following summarization

of dialectic interaction between State and U.S. economic development in the last half century may serve as a bare-bone guide to studying the future course of American capitalist society.and will illustrate general conclusions drawn in this paper. This sketch(next page) draws heavily on E.O. Wright's work.

CONTRADICTIONS ARISING FROM U.S. CAPITALIST ECONOMIC DEVELOPMENT AND EMERGENT STRUCTURAL SOLUTIONS PROVIDED BY THE STATE-1920-1970's

"Stage" of Capitalist Development	Constraints on Accumulation	State's Role in Structural Solutions
1. Rise of Monopoly Capital-1920's&1930's	Tendency for surplus to rise more quickly than consumption demand and consequent tendency for consumption/realization crises. Development of a "dual" economy. Growth of more militant labor movements.	Accumulation Functions in the 1920's-State action inobtrusive, but favorable to monopoly business. Legitimation Processes in the 1920's-State judicial measures, physical force and ideological warfare against labor. In the 1930's, State institutional re-orderings(expansion of fed. gov.) and Keynesian forms of State intervention to expand aggregate demand. General acceptance of collective bargaining.
2. Monopoly Capital in the 1940's, '50's, and early '60's'	Tendency for underutilization of capacity(stagnation) and surplus problems.	Keynesian forms of State intervention for the creation of the warfare-welfare State. The military-industrial complex and overseas military intervention for expanding monopoly capital and State powers.
3. Advanced Monopoly Capital-The mid-1960's and early '70's'	Stagnation and chronic inflation due to ever-increasing reproduction costs of the system as a whole; with the exacerbation of the continued growth of monopoly capital and the internationalization of capital. Decreased U.S. productivity, employment and decline in real wages.	Continuation of out-dated Keynesian monetary and fiscal policy, support of non-productive capital and a strong tendency to continue out-dated "national security" policies and strategies.
4. State Directed Monopoly Capitalism Late 1970's	Heightened contradiction between the socialization of production and the continuing private appropriation and control of the surplus product(i.e. global corporations). Continued stagnation, chronic inflation, unemployment, decline in real wages and standard of living. Heightened potential for conflict between masses, the State and capitalist groups.	?

CONTENT FOOTNOTES

1. The State can serve as an example of the numerous questions still to be answered about a "superstructural" feature of society. As O'Connor has suggested: "We need to know more about:...the process of interpenetration of norms that govern activity at the base and norms that inform the superstructure, and the new contradictions that this process creates...about the relationship between capital accumulation and the state budget...how class conflict is reproduced within the state administration, the forms that it takes, and the barriers that it creates for the "rationalization" of the economy as a whole, of the social control mechanism...the relationship between the growth of the state and the limits of capitalist economic expansion and the growth of capitalist society as a whole...what the relationship is between basic contradictions of the system(which are still present) and the contradictions of the equilibrating mechanisms(which exist and grow every year(O'Connor,1973b:64)."

2. Marx and Engel's scattered references to the State concern two basic concepts; one about the State power structure and exercise of State power and the second, about the functions of the State. The frequently cited premise from the Communist Manifesto contains a theory of State power structure and the exercise of State power. It is generally interpreted to mean that the State not only acts on behalf of the ruling class but at the behest of it. According to this interpretation, the ruling class(which is assumed to have a high degree of solidarity at all times) itself shapes State policies under all circumstances. While this interpretation appears plausible for many of Marx and Engel's references to the State, they take into account specific historic situations in which the State is clearly not acting in behest of the ruling class(See Marx, "The Eighteenth Brumaire of Louis Bonaparte and F. Engels, "The Origins of the Family, Private Property and The State"). In discussing Louis Napoleon, for instance, Marx notes that though 'the struggle seems to be settled in such a way that all classes equally impotent and equally mute, fall on their knees before the rifle butt,' Louis' main mission was still to safeguard "bourgeois order."(Miliband,1969:93). This illustrates the point then, that a note of care must be taken in so rigidly interpreting and applying one premise about the State to all historical periods and situations. In regard to functions of the State, Marx and Engels most frequent references are to the State as a coercive instrument of the ruling class (Marx&Engels, Selected Works, 1950, vol.1, p.496; "The Civil War In France"; Engels, "Socialism: Utopian and Scientific, vol.2, pp.136,138). This aspect of the legitimation function has tended to be emphasized by Marxists writers at the expense of other aspects of the legitimation function(i.e. ideology) and the State's function of capital accumulation. Though the stress in Marx and Engel's writings is on the coercive aspect of the legitimation function they have given due accord, depending on the particular historic period under investigation, to ideology(i.e. Marx, "German Ideology,"1974) and to the State as an economic instrument. In discussing the State function of capital accumulation, Engels attributed a broad scope of potential power to the State in managing economic development: "1) State power could accelerate economic development, 2) it could retard and oppose such developments, and finally, 3) it could modify the direction and character of this development (Zeitlin,1967:69).

3. From the standpoint of capitalist development, the neglect of the State as a guarantee-or of capital accumulation(or a capital accumulator itself) in Marxian theories of the State is quite understandable if viewed dialectically. The State as an economic instrument expands, takes on new forms and avenues of expression in advanced capitalist development; thus becoming more visible to the observations of power structure theorists and vital to their investigations of the State. Rosa Luxemborg a "traditional" Marxist writer who recognized the State's two-fold function of legitimation/accumulation, speaks of the evolution of capitalism in conjunction with the evolution of the capitalist State. "Of course, capitalist development itself essentially modifies the nature of the state, widening its sphere of action, constantly imposing new functions on it(especially those affecting economic life), making more and more necessary its intervention and control in society. In this sense, capitalist development gradually prepares the future fusion of the state and society. In this sense, one can speak of an evolution of the capitalist state into society, and it is undoubtedly this that Marx had in mind when he referred to labor legislation as the first conscious intervention of "society" in its social life process...(Luxemborg,1971:79)."

4. Ralph Miliband's treatment of the State as a set of relationships manifested through various institutions rather than a 'thing' reflects the structuralist viewpoint. But his work on the State, which focuses "on patterns and consequences of personal and social ties between individuals occupying positions of power in different institutional spheres," remains firmly fixed in the instrumentalist approach(Gold, Lo and Wright,1975,part 1:33).

5. These brief descriptions of Poulantzas, Baran and Sweezy's work draws heavily from the Gold, Lo, and Wright article in Monthly Review, v.27, no.5(Oct.,1975, p.p.29-41). Other examples of economic structuralism are Ackerman and MacEwan(1972). They discuss the State's role as enforcing the rules of the game of the accumulation process, but the State's ability to change or influence those rules is not examined. Mattick(1969) and Yaffe (1973) see State intervention in the economy as ultimately aggravating the tendencies toward crisis ensuing from the accumulation process. References to their works are cited in the bibleographic section.

6. The government(as well as other elements of the State system) as defender of corporate business has been given extensive treatment by historians such as Kolko(1963), Weinstein(1968), and Soule(1947), as well as others.

7. The problems associated with the NRA"s failure are legion, as are the historical accounts of New Deal legislation. Among the best surveys of the New Deal period and the NRA in particular are Ellis Hawley's, The New Deal and the Problem of Monopoly and Paul Conkin's, The New Deal. The internal conflicts of the NRA reflect the general attitudes and actions of corporate business during economic crisis and is aptly described by Marx.

> So long as everything goes well, 'competition' effects a practical brotherhood of the capitalist class...so that each shares in common loot in proportion to the magnitude of his share of investment. But as soon as it is no longer a question of sharing profits but of sharing losses, everyone tries to reduce his own share to a minimum and load as much as possible upon the shoulders of some competitor... (Marx,1967:253).

While some businessmen saw the NRA as a way to survive the downward spiral of prices and profits in an arena of cut-throat competition, segments of monopoly capital who had a substantial foothold on economic power in the first place, saw the NRA as a means of increasing their economic prowess(Hawley,1966).

8. The proliferation of federal regulatory agencies came largely as a result of corporate business pressure. Businessmen began viewing the federal government as an agent of friendly regulation and subsidy, capable of rescuing industries from the cut-throat competition which ensued in the '30's'. While the NRA originated partly because of corporate business pressure, other legislation came almost entirely as a result of business demands-the two Guffey Coal Acts, the Connally "Hot Oil" Act of 1935, the Emergency Railroad Transportaion Act of 1933, the Motor Carrier Act of 1935, the Merchant Marine Act of 1936, the Air Mail Act of 1934, the Civil Aeornautics Act of 1938, the Robinson-Patman(1936) and Miller-Tydings(1937) "fair trade" laws(Graham,1973).

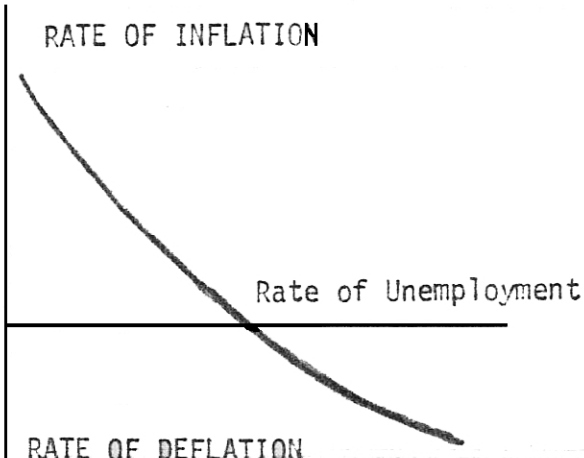
9. Schurmann's theories regarding shifts in State power distribution during perceived crisis situations might be aptly applied to the early '30's'. The continuing distress of the severest depression in American history would certainly generate a mood of urgency and crisis. That Congress yielded to the chief executive in a fashion that had no American precedent, would suggest indeed, that in an atmosphere of crises, State power flows to the executive.

10. President Roosevelt would actually have preferred the conventional balanced budget, but relief spending facilitated an unbalanced budget. Neither he nor his administration conceived of the deficit as an instrument for stabilizing capitalism. Deficit spending was treated as if it were a temporary consession to human misery and political considerations (Graham,1973). Widespread acceptance of Keynesian theory(at least the bare bones of that theory) came only after World War II and the Cold War provided empirical evidence that the ideas worked. But now it appears that the narrow application of Keyne's theory(attempting to maintain rather than change structures as Keynes suggested) is dysfunctional and contradictory within the context of economic structural changes that have occurred-particularly the internationalization of the American economy.

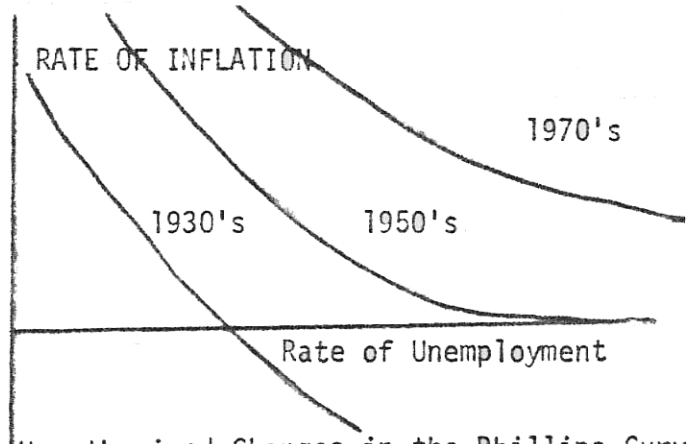
11. Though the New Deal executive felt it had a mandate for "planning," the only common thread which ran throughout the administration, was State intervention into public sectors of life. The managerial hand of the federal government was quite uncoordinated and inept in the areas of fiscal and monetary policy, the tax system and federal grant programs. As Graham Otis points out, social management was such a complex task for so many diverse interests and backgrounds, that it is to their credit that any steps toward engineering the economy were accomplished at all(Otis,1973). The 1930's experiences with "social management" taught invaluable lessons which were drawn upon to divert other severe depressions.

12. Inflation has been a salient feature of the post-World War II American economy, but the causes are not singular. Productivity wage increases represent only one cause of inflation. As O'Connor illustrates in Fiscal Crisis of the State, the "permanent drift towards inflation" must be examined in terms of the many facets of monopoly sector growth and the State's

response to that growth. Whereas, State managerial policies once appeared to function successfully in cooling inflation, State policies now appear to be either inoperable or they tend to aggravate inflation. Managed recession as a State policy-making tool is an example of the former case. State policy-makers in the postwar period have operated from the premise that there is a trade-off function between inflation and unemployment which they visualize as a Phillips Curve. The trade-off function is thought of as being relatively fixed, so that it is the workings of the economy which determine the location of the economy on the curve. Policy-makers then simply regulate the economy according to a politically acceptable percent of inflation and unemployment. Wright argues that forces of the economy and State intervention into the economy do not just determine where on some ideal Phillips curve the economy will fall. Instead, they determine the entire shape and location of the trade-off curve itself. Wright hypothesizes that in the postwar period the Phillips curve has moved away from its origin and "furthermore it may not any longer intersect the horizontal axis at any level of unemployment." As the managed recession in 1969-1970 and its aftermath demonstrated, reducing aggregate demand vis-a-vis fiscal and monetary policy and increasing unemployment does not significantly alter price inflation. "Unmanaged" economic recession and accompanying high rates of unemployment have not been exchanged for a decelerating rate of inflation in '75' and '76' either. So, there has been a definite deterioration in terms of inflation-unemployment tradeoffs. The factors which contribute heavily to contemporary conditions of "stagflation" are increasing concentration of monopoly sector power on a national level, the consolidation of monopolistic power on a global scale, and the obsolescence of State managerial policies(Barnet and Muller,1974).



The Phillips Curve



Hypothesized Changes in the Phillips Curve Over Time(Wright,1975:30)

13. The term, "permanent war economy" has been used by a broad spectrum of people; economists, industrial management engineers, and corporate managers, to describe the postwar American economy from a wide range of perspectives. For example, in 1944, Walter Oakes coined the term in a critique of a government that preferred military public works to the perils of mass unemployment. At the other end of the spectrum, G.E. president, Charles Wilson proposed a "permanent war economy" that would nurture the military-industrial complex. But in the past few years, "permanent war economy," the "garrison state,"

the"Techno-Corporate State," and the "warfare State" have been contemporary terms used to critique, rather than praise different facts of postwar militarization of the State and the economy.

14. Barnet questions whether such a self-perpetuating group has kept pace with rapidly changing economic and political realities of the mid-twentieth century. He claims there is a lag in perception among these and other public administrators who are still operating under the conception that predated Keynesian maintenance solutions will work for a domestic economy that has undergone drastic structural transformations as a result of systematic changes in the world economy.

15. Anti-corporat sentiment has been growing in the past few years as prices climb and unemployment does not drop. However, it can be surmized that most of the public still clings to the belief that wat is good for GM is good for the nation. Rather then placing the blame on monopoly sector corporations, people tend to still direct their demands(and the blame) at the State.

16. Congress has managed to slice away $35 billion in the past five years from a defense budget which steeply rose as a result of the Vietnam War. But the defense expenditures, as a proportion of the federal budget, still represents a twenty percent increase over pre-war levels. The congressional budget system, a reflection of struggles for control over the national budget, which came into being last year helped to restrain military spending and cut it by $6 billion. But House and Senate budget committees in 1976 applauded increases in defense funds sought by President Ford. So, the tentative 1977 defense budget lurches from $101 billion to $113 billion; the steepest rise since the U.S. geared up for Vietnam in 1965-66.

17. Barnet and Muller point out that the term, "multi-national" is misleading for two major reasons. For one thing, it suggests a degree of internationalization of management which is inaccurate. A few years ago a study was conducted that revealed that out of 1,851 top managers of leading U.S. firms with large overseas sales and payrolls, only 1.6 percent were non-American. Another reason that the term "multinational" is misleading is that it denotes an internationalization of stock ownership when non-Americans only hold insignificant amounts of stocks in these U.S. firms. Barnet and Muller say too, that the term is inaccurate because "it fails to capture that aspect of the contemporary world business which is most revolutionary...global corporations...no longer view overseas factories and markets as adjuncts to its home operations(Barnet and Muller, 1974:18)."

TABLE ONE

TEN MILITARY PRIME CONTRACTORS EMPLOYING LARGEST NUMBER OF HIGH RANKING RETIRED MILITARY OFFICERS

Company and Rank by Number of High-Ranking Officers Employed	Number Employed 2/1/69
1. Lockheed Aircraft Co.	210
2. Boeing Co.	169
3. McDonnell Douglas Corp.	141
4. General Dynamics	113
5. North American Rockwell	104
6. General Electric Co.	89
7. Ling Temco Vought, Inc.	69
8. Westinghouse Electric Corp.	59
9. TRW, Inc.	56
10. Hughes Aircraft Co.	55

SOURCE: Congressional Record, Vol. 115, No. 50, Washington, D.C. 3/24/69,p.1.

Found in: The Review of Radical Political Economics, V. 4, No. 1 (Winter,1975), p.p. 3-20. England, Richard, "Capitalism and the Military-Industrial Complex. A Comment."

TABLE TWO

PROFILE OF THE MILITARY-INDUSTRIAL COMPLEX

The Twenty-five Largest Industrial Corporations and Their Rank Among the 100 Largest Defense Department Contractors.

Rank in size [a]	Corporation	Rank Among Defense Contractors [b]
1.	General Motors	10
2.	Standard Oil (N.J.)	25
3.	Ford	19
4.	General Electric	3
5.	Chrysler	43
6.	Mobil	51
7.	I.B.M.	30
8.	Texaco	46
9.	Gulf Oil	78
10.	U. S. Steel	60
11.	A.T.&T.	6
12.	Standard Oil (Calif.)	49
13.	Dupont	38
14.	Shell Oil	*
15.	RCA	26
16.	McDonnell-Douglas	5
17.	Standard Oil (Ind.)	*
18.	Westinghouse	27
19.	Boeing	7
20.	Swift	*
21.	I.T.&T.	29
22.	Goodyear Tire & Rubber	48
23.	General Telephong & Electronics	41
24.	Bethlehem Steel	*
25.	Union Carbide	*

* Not in Top 100

a - 500 largest U.S. industrial corporations, Fortune Directory, 1968.

b - 100 companies and their subsidiary corporations.
Listed According to Net Value of Military Prime Contract Awards (Fiscal Year 1968), Defense Department

SOURCE: R. F. Kaufman, "We must Gurard Against Unwarranted Influence by the Military-Industrial Complex" New York Times Magazine, June 22, 1969

Found in: The Review of Radical Political Economics, V. 4, No. 1 (Winter,1975),p.p.3-20. England, Richard, "Capitalism and the Military-Industrial Complex. A Comment."

TABLE THREE

INVESTMENT AND PRODUCTIVITY, 1960-1973

Country	Average investment OECD concept(a)	Average annual productivity growth (b)
U. S.	19.2%	3.3%
Canada	22.4%	4.3%
Japan	33.4%	10.5%
France	24.9%	6.0%
Germany	26.2%	5.8%
Italy	21.4%	6.4%
U.K.	18.9%	4.0%

(a) Private investment plus government purchases of machinery and equipment for non-defense purposes, as a percentage of gross domestic product excluding defense expenditures.

(b) Output per man hour.

Source: Wall Street Journal, 2/20/75, Editorial

(Landsberg,1976:28)

TABLE FOUR

U. S. INVESTMENT PER WORKER

Date	Direct business investment per worker (1958 dollars)
1956-60	$49,500
1961-65	$55,300
1966-70	$46,400
1971-74	$41,000

SOURCE: Wall Street Journal, 2/20/75, Editorial

(Landsberg,1976:28)

APPENDIX

Marx's "laws of motion" describe the development of capitalism and outline the structural constraints inherent in the process of capital accumulation. Capitalist "laws of motion" constitute a general theory of social change and a theory of economic crisis for they embody "the seeds of their own destruction." At different stages of capitalist development the accumulation process confronts different dominant constraints which are generated by the accumulation process itself. In attempting to resolve these contradictions in any given "stage" of capitalism, new impediments to the accumulation process are created in the subsequent stage. The accumulation process represents the driving mechanism of change in capitalist societies and is the essence behind capitalist "laws of motion." Eric Wright describes the accumulation process and provides a compelling argument for the necessity of continued capital accumulation (e.g. improvement and expansion of the means of production). Capital accumulation is defined as: "the reproduction of capitalist social relations on an ever-expanding scale through the conversion of surplus value into new constant and variable capital." "Surplus value" is the difference between the total value produced by the worker and the value of the worker's labor power. Constant capital can be interpreted as the "accumulation of labor time performed in the past and embodied in the means of production." Variable capital represents "the costs of reproducing the labor force "and is a function of the following processes: 1) "the total number of labor hours of average skill level and average intensity, 2) "the level of the standard of living won by the working class through class struggle, 3) "the exchange value of the consumption goods that constitute this standard of living." The "reproduction of capitalist social relations on an ever-expanding scale" means that part of the surplus value is used to increase the level of constant and variable capital in production. Thus, capital accumulation involves an "expansion both of the means of production controlled by capitalists and of the size of the working class(Wright,1975:11-12)."

For Marx and most Marxist writers, the survival of capitalism hinges upon capital accumulation(expansion). But the need to constantly revolutionize the means of production(e.g. through technological innovation, extending the means of production, expanding markets) and absorb a major portion of the growing working force generates contradictions and subsequent economic crisis which threaten the survival of capitalism. The changing capital accumulation process has produced general alterations in capitalist economic structures as a whole which in turn, contribute to the changing nature of economic crisis. This suggests the need for a dialectic of the accumulation process cast in an historical context. Only recently has a Marxist writer attempted such an analysis and in doing so, provides the groundwork for a Marxian dialectical theory of economic crisis(Wright,1975).

Sweezy marks the first seven decades of the nineteenth century as the "competitive" era of capitalism which was characterized by small units of production responding to relatively "free" markets(Sweezy,1942). The American economy can be said to have been effectively competitive until the years after the Civil War. Wright characterizes dominant constraints of the accumulation process during this "transition from primitive accumulation to manufacture" as having a "relatively low rate of surplus value" as a result of "low level of productivity of technology and the accompanying (relatively) high value of labor power; continuation of general shortage of labor(Wright,1975:32)." The structural solution to these impediments emerged

with technological innovations which cheapened labor power and increased the reserve army of the unemployed vis-a-vis labor-saving innovations.

A developing large-scale technology also provided the framework within which a general alteration in capitalist economic structures began taking place. The small-scale productive units implied by and required in a competitive economy were incompatible with modern technology(Dowd,1974). Economies of scale, concentration and centralization of capital had the gradual effect of eliminating competition and creating monopolistic conditions in different sectors of the economy. After many fits and starts during the latter part of the nineteenth century and beginning of the twentieth, the U.S. economy can be described as a "dual economy," characterized by a dominant monopolistica sector and a competitive sector which aids and abets the monopoly sector(Dowd,1974).

Wright calls the latter part of the nineteenth century a "transition from manufacture to machinofacture:" and describes it as a period in which there was a "tendency for the organic composition of capital* to rise with an accompanying tendency for the rate of profit to fall. New technology made possible not only expansion of factories and the reserve army of labor, but introduced machines into the production process. The increasing demands of the working class, however, put a crunch on a potential increase in the rate of surplus value. As the demands of the working class grew more intense, capitalists waylaid them by introducing labor-saving devices. The ensuing contradictions in the process of accumulation during this era produced economic crises characterized by a rise in the organic composition of capital and an accompanying fall in the rate of profit. To restore conditions favorable to accumulation, capital had to be restructured as a whole. Thus, the technology which facilitated the impediments to the accumulation process (rising organic composition of capital), also served as the solution to this structural constraint; in the form of increasing concentration and centralization of capital and more labor-saving devices to militate against labor organization.

Like the latter part of the nineteenth century, the turn of the century was marked by a continued rise in the organic composition of capital and increased concentration and centralization of capital. But sometime in the first quarter of the twentieth century, Wright estimates a slow down and stabilization of the organic composition of capital. However, he contends that because of capital and labor-saving devices and monopoly power itself, the rate of exploitation increased. So, the "rise of monopoly capital" era had the following features: "tendency for the surplus to rise more rapidly than consumption demand with a resulting tendency toward consumption/realization crisis." The concomitant social crisis was a growth of labor movements particularly in the monopolistic sector of the economy, with socialist and communist leanings. Thus, economic crisis under monopolistic conditions tend to be the consequence of underconsumption due to either a stabilization or slower rise of organic composition of capital and a tendency of surplus value to rise. The structural solutions to these contradictions came in the form of deficit government spending designed to expand aggregate demand, thereby absorbing the surplus. This temporary restorative mechanism(Keynesian policy), combined with bureaucratic techniques implementing complex job hierarchies, promotion structures and collective bargaining helped to quell militant labor movements(Wright,1975). Figures showing the decline in

*The organic composition of capital is a ratio that is designed to reflect the salient aspects of technology that impinge on the rate of profit.

utilized productive capacity and rise in unemployment from 1929 to 1941 vividly portray the economic crisis of the "rise in monopoly capital" period in the United States. The economic magnitude of government purchases as a percentage of GNP reflects the attempts to ameliorate this crisis via government spending(Dowd,1974).

Though economic policies promoting made-work and waste programs (especially military spending), were originally instigated to cope with the problem of excessive surplus in the '30's', the policies in the long-run, generated inadequate levels of surplus value. According to Wright, since State expenditures tend to be unproductive in the sense of not producing surplus value, there is a tendency for the level of unproductive spending to expand more rapidly than the capacity of the system to increase the rate of productivity. Furthermore, the dominant role of the State in regulating the economy plays another significant part in producing contradictions in what Wright calls the period of advanced monopoly capital. The State in advanced monopoly capital severely limits the mechanisms of crisis mechanisms by not only underwriting inefficient and unproductive corporations that would otherwise fold; but also by underwriting the low productivity of other economic sectors in order to avoid catastrophic disruptions in the economy as a whole(i.e. railroads). Thus, the structural constraints in advanced monopoly capital(i.e. the demise of inefficient, unproductive economic sectors), manifest as high unemployment levels and chronic inflation. "Stagflation" is further exacerbated by the internationalization of capital which desolves national government capacity to effectively regulate their economies.

The evolution of Marx's "laws of motion" in the American capitalist setting have placed the U.S. at this juncture in its economic history. Wright claims that qualitatively new forms of State intervention are required and that:

> The emergent solution to these problems of the ever-expanding reproductive costs of monopoly capitalism relative to the growth in productivity, is to move from simple Keynesian interventions in the economy to active state involvement in the production process(Wright,1975:35).

Wright point out that unfortunately our traditional political system, rooted in "pluralist interest-group demands, special interest subsidies, military production," militate against the growth of new forms of STate intervention.

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THE RELATIONSHIP OF THE STATE TO ECONOMIC DEVELOPMENT: THE UNITED STATES SINCE 1920

by

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The purpose of this study is to illustrate a line of theoretical thought concerning the relationship between the State and twentieth century American economic development. The broad contours of interplay between the State in American society and the economy are traced for the period between 1920 and the present. The overarching concern of this paper is to develop an explanatory schema which contributes to fledgling Marxist theories of the State in three ways:

1) by synthesizing new departures with components of conventional theories, formerly treated as mutually exclusive lines of thought,

2) by viewing the processual development of the economic system and the United States in specific historic situations and,

3) by employing a dialectical approach to the analysis of the State and capitalist development.

In developing such a framework of analysis, instrumental and structuralist theories are examined and found to have insufficient explanatory powers. Several alternative approaches, incorporating elements of conventional theories of the State, are then analyzed and employed in a study of the State in twentieth century American capitalist society. These alternative perspectives are:

1) an examination of the internal structures of the State(policy-making mechanisms)

2) a dialectical view of State accumulation/legitimation processes.

3) an analysis of the State in terms of the two-fold function of State expenditures(accumulation and legitimation).

4) an examination of the State as a warfare system.

5) observations of the State as a "relatively" autonomous sector of the economy.

In using this framework for the analysis of interaction between the State and economic development, several conclusions have been made regarding the State in the specific historic context of the U.S. from

1920 to the present. With the evolution of capitalism from a competitive to a monopolistic system, the State's role in maintaining and creating the conditions of capitalist accumulation became more obtrusive and explicit. The development of permanent state bureaucracies with extensive economic managerial roles, has gone hand-in-hand with the expanded role of the State in capitalist accumulation. The evolution of the State budget as a primary Keynesian tool for economic growth and stabilization, has been a concurrent part of this process as well. Inflationary State finance has thus, become the chief means by which economic crises tendencies are ameliorated, economic growth is boosted and economic stabilization is assured. It is observed, however that today there exists a structural gap between State managerial policies and economic and political realities. Those very policies which once assured a stable economy, contribute significantly to economic instabilities today. Military spending and the particular character of State militarism are used to illustrate the adverse effects of State managerial policies geared toward "national security."