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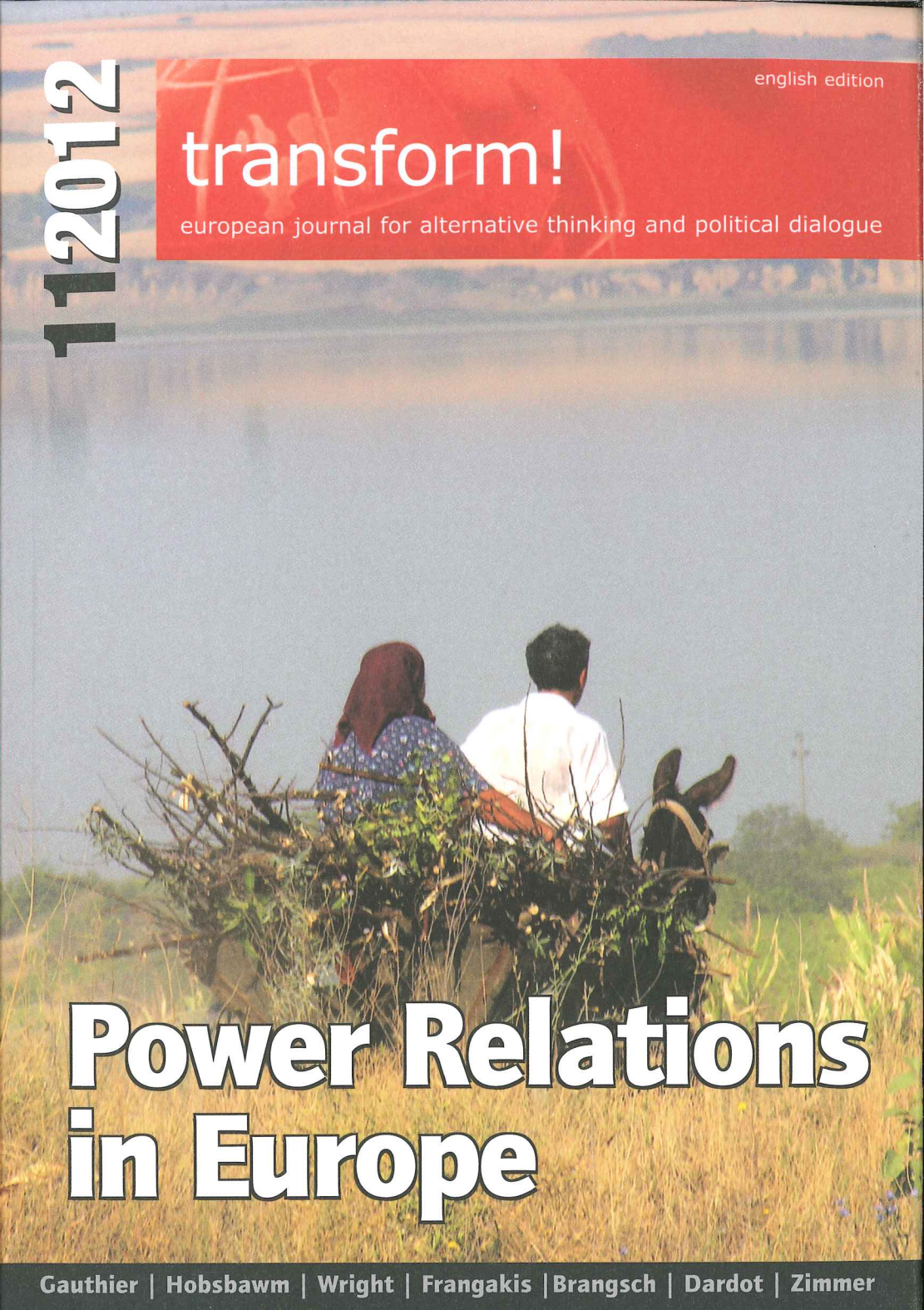
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Power Relations in Europe

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Class Struggle and Class Compromise in the Era of Stagnation and Crisis¹

Erik Olin Wright

In the decades following WWII, Social Democracy (broadly understood)² built and consolidated three main achievements:

1. A system of various forms of publicly supported social insurance to deal with a range of risks people experience in their lives, especially around health, employment, and income.
2. A tax regime sufficient to provide funding by the state for a fairly expansive set of public goods, including basic and higher education, vocational skill formation, public transportation, cultural activities, recreational facilities, research and development, macro-economic stability, etc.
3. A regulatory regime for the capitalist economy that curtailed a range of negative externalities of capitalist markets: pollution, product and workplace hazards, predatory market behaviour, etc.

These achievements were, at least in part, the result of what might be termed a *positive class compromise* between the capitalist class and popular social forces.³ Capitalists were basically left free to allocate capital on the basis of profit-making opportunities in the market, while the state took responsibility for correcting the three principle failures of capitalist markets: individual vulnerability to risks, under-provision of public goods, and negative externalities of private profit-maximising economic activity. While it would be an exaggeration to say that there was no contestation over these achievements – even in the most robust social democracies there was conflict over the scale and scope of each of these elements – nevertheless there was a loose

consensus that these were legitimate activities of the state and that they were broadly compatible with a robust capitalist economy.

This consensus no longer exists, even in the social democratic heartland of Northern Europe. Everywhere there are calls for rollbacks of the “entitlements” connected to social insurance, reductions of taxes and the associated provision of public goods, and deregulation of capitalist markets. This assault on the affirmative state has intensified in the face of the economic crisis that has gripped global capitalism in recent years. The rhythm and intensity of the crisis has varied from place to place: in the United States it was most severe in 2008-2009, while in 2012 it is most sharply present in Greece and other countries on the periphery of Europe. The details of this economic turmoil also vary considerably across capitalist countries, but there is a near universal sense that economic prospects are bleak, that life under capitalism for most people has become more precarious and is likely to stay that way for some time to come, and that in the wake of this crisis the state must retreat from its earlier expansive role.

So far the political left has not managed anywhere to mobilise a coherent positive response to the crisis. To be sure, there have been protests, sometimes massive protests, and some of these have unquestionably had an important impact on public debate; some may even have had a significant impact on elites, impeding their strategies for dealing with the crisis on their own terms. The protests have, however, mostly been defensive in nature – resisting draconian cuts to the social safety net, pensions, health, education, and other public programs – rather than mobilisations around a positive project for overcoming the crisis through a reconstruction or transformation of the economic and political conditions for social democratic ideals.

In this paper I will explore the broad contours of what such a positive project for a new progressive politics might look like. I will build the analysis around a contrast between the conditions facing progressive politics in what is sometimes called the “Golden Era” of capitalist development in most advanced capitalist countries in the decades following the Second World War during which the social democratic achievements were built and the which conditions the current era of stagnation and crisis. The central argument will be that the left has had its greatest durable successes when it is able to forge what I will call a *positive class compromise* within capitalism. The question, then, is what it would take – or even whether or not it is possible – to rebuild such a class compromise in the present.

The paper is organised as follows. Section I will present the theoretical tools needed for the analysis of positive class compromise. Section II will compare the conditions for class compromise in the relatively favourable era of the third quarter of the 20th century with the much less favourable condi-

tions at the beginning of the 21st. Section III will discuss the kinds of transformations needed to reconstruct on a new basis such favourable conditions. Section IV will conclude by examining how a positive class compromise within capitalism might also help point the way beyond capitalism.

Class compromise: theoretical tools ⁴

The idea of “class compromise” generally has a negative connotation on the left, especially among Marxists. It suggests opportunism and collaboration rather than militancy and struggle. This objection is grounded in the view that efforts to create class compromise block more radical transformations that would ultimately move us beyond capitalism in ways that would better serve the interests of the working class and other popular social forces. This objection will be addressed in section IV below. For the moment I will simply assume that for the foreseeable future it is not possible to break with capitalism, and thus improving the conditions of life for ordinary people depends upon forging the best conditions possible within the constraints of capitalism, and this depends upon the viability of class compromise.

To understand the idea of class compromise it is useful to begin by distinguishing between what can be called “negative class compromise” and “positive class compromise”. *Negative* class compromise refers to a situation in which there is a kind of balance of opposing class forces each capable of inflicting considerable costs on the other, but neither capable of decisively defeating the opponent. In such a situation it may be possible for the contending forces to accept a compromise in which each makes concessions in exchange for refraining from imposing damage on the other. “Compromise” in this case means that the outcome of struggles for each party falls somewhere between complete victory and complete defeat.

Positive class compromise means something quite different. In a positive compromise, in spite of their opposing interests, the contending forces find a way to actively cooperate in ways that open up some space for non-zero-sum gains. Active forms of mutual cooperation help both workers and capitalists to better realise their interests than is possible by simply extracting concessions through confrontation.

There is very good reason to be highly sceptical of this possibility. Descriptions of capitalism as a positive-sum game are typically made by defenders of capitalism who deny the fundamental antagonism of interests between capitalists and workers and who see class struggles as irrational and counter-productive. This kind of rhetoric is found in “trickle-down” economics accounts of capitalist investment and inequality: “a rising tide lifts all boats”, and this depends upon stable investments by capitalists, which depends upon profits,

etc. Nevertheless, I will argue as a broad generalisation that the left has been most successful in robustly institutionalising its gains for ordinary people when these gains have been consolidated within positive class compromises.

To understand the reasoning behind this argument, we need to examine the relationship between class interests and popular power.⁵ For the sake of simplicity I will focus on the interests of workers and capitalists, and ignore the complexity of various categories lumped together under the rubric “middle class” and various social categories that are marginalised from the main axis of the capitalist class structure.⁶ The relationship between the realisation of working class interests and popular power is straightforward, as illustrated in Figure 1: as popular power increases from weak levels of power to strong levels of power, the realisation of working class interests increases, at first slowly, then more rapidly. What is much less obvious is the relationship between the realisation of capitalist class interests and popular power. This is illustrated in Figure 2: Initial increases in popular power interfere with the realisation of capitalist interests. Indeed, initially, increases in popular power harm capitalists much more than they help workers, reflecting the fact that in social conflicts it is generally easier to impose harm on one’s opponents than actually deliver benefits for one’s supporters. Once popular power reaches a certain intermediary level, however, further increases of popular power are associated with increased realisation of the interests of capital. This upward sloping part of the curve is the crucial region of positive class compromise.

Figure 1: Working class interests and popular power

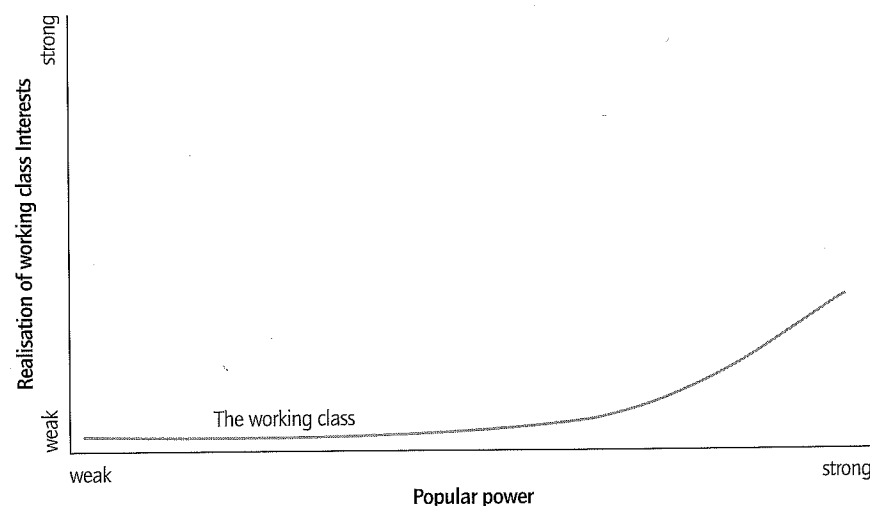
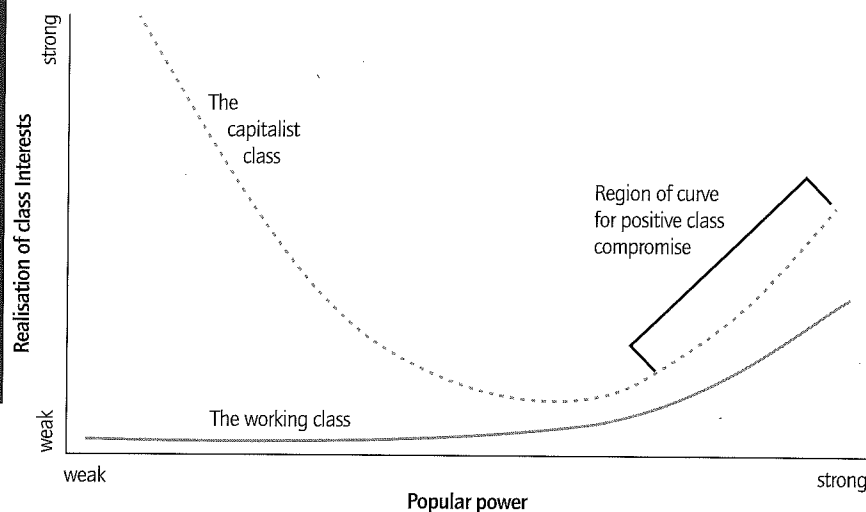


Figure 2: Working class interests, capitalist class interests and popular power



How is it possible that increases in popular power could be beneficial for capitalists? The core idea here is that certain kinds of problems faced by capitalists and capitalism are more easily solved under conditions of relatively strong popular power than under conditions of weak and disorganised popular power. The classic example of this is the role of organised labour – one of the key bases for popular power – in helping to solve certain problems posed by Keynesian macro-economic policy. Full employment, insofar as it implies high levels of capacity-utilisation and higher aggregate demand for the products of capitalist firms, potentially serves the interests of capitalists. But it also risks a profit squeeze from rapidly rising wages and spiralling levels of inflation. Keynes himself recognised this as a serious problem: “I do not doubt that a serious problem will arise as to how wages are to be restrained when we have a combination of collective bargaining and full employment”.⁷ The emergence and consolidation in a number of countries of strong, centralised unions capable of imposing wage restraint on both workers and employers was perhaps the most successful solution to this problem.⁸ In this sense, a powerful labour movement need not simply constitute the basis for a *negative* class compromise, extracting benefits for workers through threats to capital. If a labour movement is sufficiently disciplined, particularly when it is linked to a sympathetic state, it can positively contribute to the realisation of capitalist interests by helping to solve such macroeconomic problems.

There are many other concrete examples of how relatively strong popular power helps solve problems faced by capitalists. Because of pressures of prof-

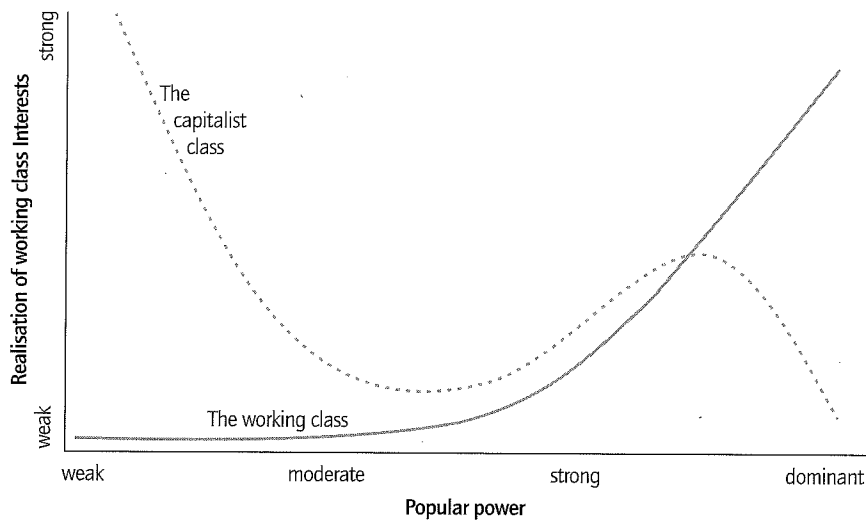
it maximisation, capitalists often operate under short-time horizons that are sub-optimal for their interests in the long term. Short-time horizons reduce the willingness of capitalists to support levels of taxation needed for the funding of public goods, including things that are critical for long-term productivity – education, training, infrastructure and basic research. High levels of popular power within the state can increase the production of public goods that are critical for training, innovation, and other elements of high productivity. Strong popular power can also potentially help block narrow rent-seeking behaviour by capitalists in the state, reduce corruption, and in other ways improve government performance.⁹

I assume that the basic shape of this curve linking popular power to capitalist interests is a reverse-J rather than either a symmetrical U-curve or J-curve. If the shape were a J-curve, then capitalists would have a strong, active interest in increasing popular power to the maximum possible. Opposition to doing so would reflect false consciousness on their part. If the curve were U-shaped, then capitalists would be generally indifferent about being on the left or right hand extremes of the curve. They certainly would have no reason to strongly oppose movements towards high levels of popular power once a moderate level had been reached. The fact that historically capitalists generally do resist expansions of popular power to high levels is evidence that the underlying curve has a reverse-J shape. What this means is that there are real costs imposed on capital by strong popular power – higher levels of income redistribution than capitalists would prefer, for example, or the creation of extensive public goods that may improve social well-being without directly benefiting capital accumulation – but that the stability of the economy and productivity-enhancing characteristics of positive class compromise make these trade-offs acceptable.

The reverse-J shape of the curve in Figure 2 assumes that popular power is not so strong as to call into question the foundations of capitalist power. If this were to occur, popular power would itself potentially become the dominant form of power. This would mean that the working class and other popular social forces would not simply be in a position to forge a positive class compromise with capital, but to subordinate capital. Such a situation would clearly threaten capitalist interests. This is illustrated in Figure 3.

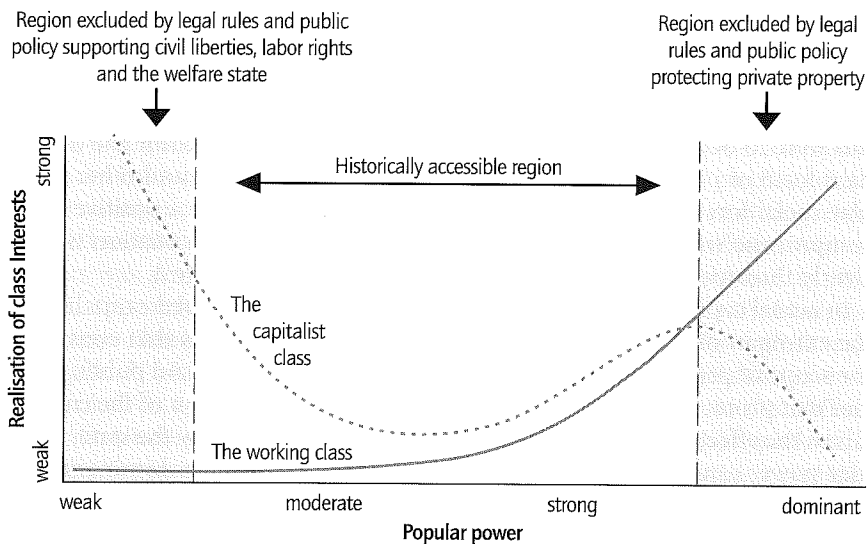
In actual capitalist economies – or, at least in stable developed capitalism – the extremes of the curve are excluded by strong institutions that constrain the scope of popular power. On the one hand, the legal rules and public policies that protect private property exclude the right hand region of the curves. Given the effective enforcement of capitalist property rights by the state, popular power cannot develop to the point where it can become dominant. On the other hand, legal rules and policies around civil liberties, rights of asso-

Figure 3: Class interests and popular power when popular power becomes dominant



ciation, labour rights and the welfare state exclude the extreme left hand region of the curve. The stable existence of these institutional conditions assures at least some capacity for popular mobilisation and power. The historically accessible region of the curve, as illustrated in Figure 4, thus covers the middle regions of popular power, from moderate to strong.

Figure 4: Excluded regions of Class Compromise Curve

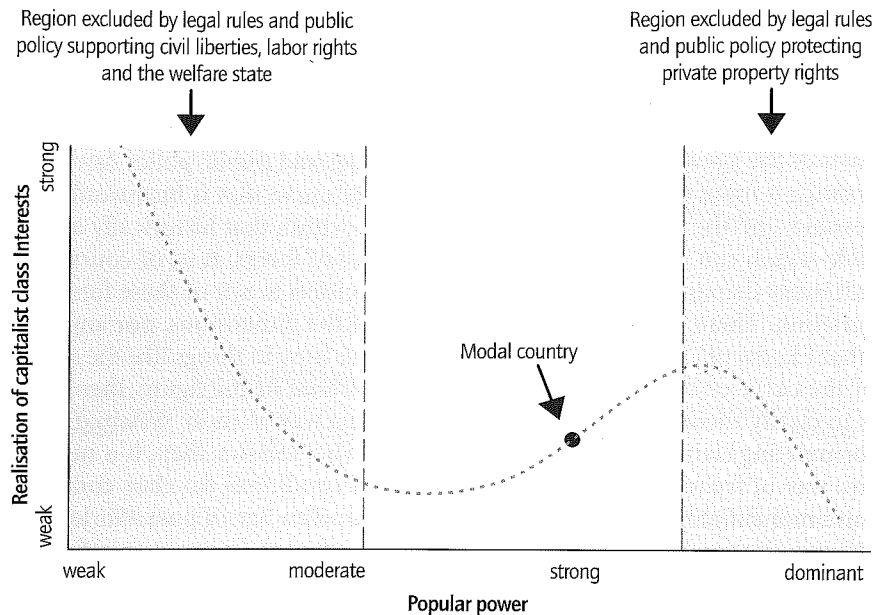


Conditions for class compromise in the Golden Age and the early 21st century

The relationships portrayed in Figure 4 provide a way of comparing the conditions for class compromise across time and place. A number of things in this figure can vary: the shape of the curve itself can vary, with more or less favourable slopes in the positive class compromise region of the curve; the parts of the curve that are excluded by legal rules and public policy can vary, creating a more or less favourable region of the curve that is historically accessible; and the specific location of a country within that historically accessible region can vary depending on the balance of forces. It is, of course, an extremely demanding research task to give precision to any of these forms of variation. There are no easy metrics for any of the dimensions, nor any way (that I know of) really to measure variation over time in things like the shape of the curve or the zones of exclusion. The purpose of the figure, therefore, is to clarify theoretical arguments and provide a way of more systematically formulating claims about changes over time. What follows, then, is a suggestive way of framing the contrast in the central conditions for class compromise in the highly favourable situation of the Golden Age of post-World War II capitalism and the much more difficult context of the current era of crisis and stagnation.

Figure 5 presents the class compromise curve in the Golden Age for the modal country in the developed capitalist world. Because of the strong institutionalisation of labour rights and the stable and relatively generous welfare state promoted by various forms of social democracy, the left region of exclusion was quite broad. So long as these rules of the game were in place, it was relatively easy for the labour movement and other popular social forces to achieve at least moderate levels of popular power. In terms of the shape of the curve, because of relatively positive conditions for capitalist growth and profitability, the upward sloping part of the curve rises to a fairly high level. From the point of view of capitalist interests, therefore, the class compromise part of the curve looks pretty attractive; it is certainly better to be somewhere on the upward sloping part of the curve than in the valley. While capitalists might still prefer to be well to the left, high on the downward sloping part of the curve, this region is – at least in the short run – inaccessible because of stable institutional rules. So, all things considered, a positive class compromise is a tolerable *modus vivendi*: capitalists make adequate profits; popular power exercised through the state creates public goods that strengthen capitalism and provide employment and income security; and labour movement power in the economy stabilises employment relations and supports strong productivity growth.

Figure 5: Capitalist class interests and popular power in the "Golden Age" of post-WWII capitalism in developed capitalist countries



While the configuration in Figure 5 may have been acceptable for capital, it was not optimal, or at least over time it came to be seen as suboptimal.¹⁰ In the course of the 1960s and early 1970s a series of contradictions in the regime of accumulation began to intensify and gradually made the positive class compromise less secure, especially in the United States: the welfare state expanded to the point where it began to absorb too much of the social surplus (from the capitalist point of view); wages were sticky downward and began to create a profit squeeze; global competition intensified with the development of Japan and Europe, which undermined the specific advantages of the US and the global financial system which it anchored. Into this mix, the debacle of the Vietnam War intensified fiscal problems for the US. And, to top it off, there was the oil price shock in 1973. Taken together, these economic and political processes eroded the stability of the Golden Age equilibrium in the United States and elsewhere.

These economic developments helped create the political context for the assault on the institutional foundations of class compromise beginning in the 1980s, an assault which came to be known as neoliberalism.¹¹ Neoliberalism, in turn, opened the door for a number of other dynamic developments

which accelerated in the last decades of the 20th century. Two are particularly important in the present context: globalisation and financialisation.

The globalisation of capitalism intensified along its many dimensions. This meant that the economic conditions in particular places and regions became less autonomously determined by what was happening in those places and more dependent upon what was happening elsewhere in the world. Of particular importance was the emergence of a global labour force that includes hundreds of millions of very low paid workers in developing countries competing within a relatively integrated global system of production in manufacturing and some kinds of services. Globalisation also contributed to the dramatic increase in immigration to the developed countries and the increased ethnic heterogeneity of their popular social forces.

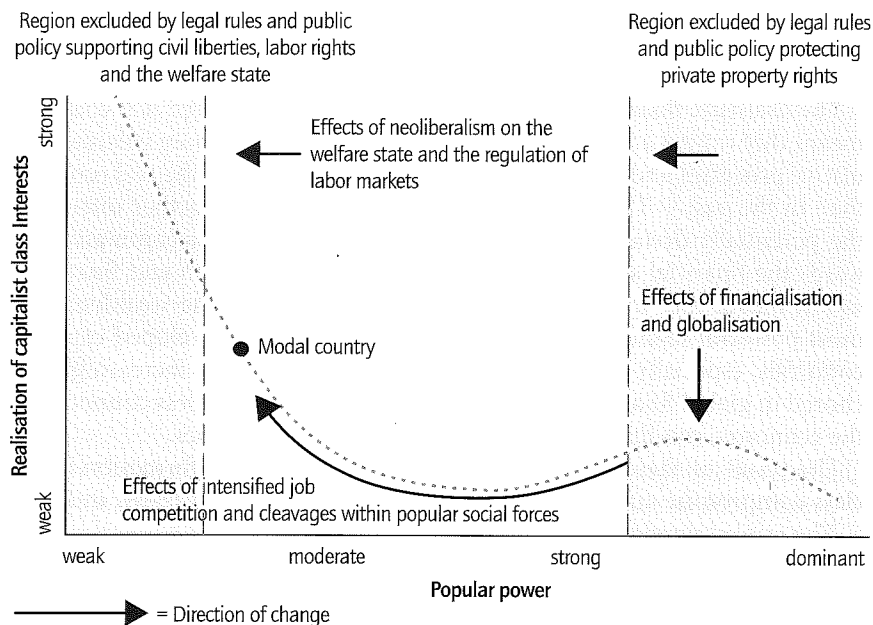
The dramatic financialisation of capitalist economies in the rich countries meant that capital accumulation became rooted in much more volatile speculative processes and less connected to the development of the real economy than in the past.¹² The globalisation of financial markets further intensified the potentially destabilising effects of the shift of capital accumulation towards the financial sector. The combination of globalisation and financialisation meant that from the early 1980s the interests of the wealthiest and most powerful segments of the capitalist class in many developed capitalist countries, especially perhaps in the United States, became increasingly anchored in global financial transactions and speculation and less connected to the economic conditions and rhythms of their national bases.

The result of these structural developments was a transformation of the class compromise curve and the regions of exclusion as illustrated in Figure 6. The critical developments are the following:

- The financialisation and globalisation of capitalism pushed the right hand peak of the class compromise curve downward. Basically, the value for many capitalists of a positive class compromise declines as the returns on their investments become less dependent upon the social and political conditions of any given place.
- Neoliberalism shifts the regions of exclusion at both ends of the class compromise curve. On the one hand, the aggressive affirmation and enforcement of private property rights creates impediments to the enlargement of popular power. On the other hand, the erosion of labour law in some countries (especially the United States), and the partial dismantling of the safety-net of the welfare state, reduces the region of exclusion on the downward sloping part of the curve, making more of that region strategically accessible.
- In the context of the above developments, the level of popular power within the modal country declines as a result of a number of interacting factors: the increasing competition for jobs within the working class as unemploy-

ment increases and job security declines; the increasing heterogeneity within popular social forces because of immigration which erodes mass based solidarities and open a political space for right-wing populism; austerity policies which increase the vulnerability of workers and make them more risk-averse; and aggressive anti-labour strategies by employers who take advantage of this vulnerability.

Figure 6: Capitalist Class interests and popular power in the era of stagnation and crisis



Taken together, these forces pushed the balance of class forces into the adverse downward sloping region of the class compromise curve.

Restoring Conditions for Class Compromise

I assume that an exit from capitalism is not an option in the present historical period. This is not because of any qualms about the desirability of a break with capitalism as an economic system, but because of a belief in the impossibility of any kind of viable ruptural strategy. This belief is rooted in the central dilemma of revolutionary transformation of capitalist democracies: As Przeworski argued in the 1980s, if a ruptural break with capitalism is attempted under open democratic conditions, then even under the most opti-

mistic of scenarios, it is extremely unlikely that a ruptural socialist political project could survive multiple elections.¹³ Because of the disruptions between the election of political forces attempting a break with capitalism and the stabilisation of a socialist economy, any plausible transition will be marked by a “transition trough” of sharply declining material conditions of life for most people and considerable uncertainty about future prospects. Under open, competitive democratic conditions, it is implausible that solidarity in the heterogeneous coalition that initially supported the rupture is likely to be sustained over the number of election cycles needed to complete a transition. A ruptural break with capitalism, therefore, can only happen under non-democratic conditions. But if a rupture with capitalism takes place under non-democratic conditions it is extremely unlikely that it would result in creating democratic, egalitarian socialism, as suggested by the tragic history of attempts at non-democratic revolutionary ruptures with capitalism in the 20th century. The only plausible ruptural scenarios are thus either a non-democratic rupture with capitalism that results in authoritarian statism rather than democratic socialism, or an attempted democratic rupture with capitalism which is reversed during the extended transition period. For the foreseeable future, therefore, even if we retain revolutionary aspirations for a world beyond capitalism we will be living in an economic system dominated by capitalism. The question is, on whose terms and in what form.

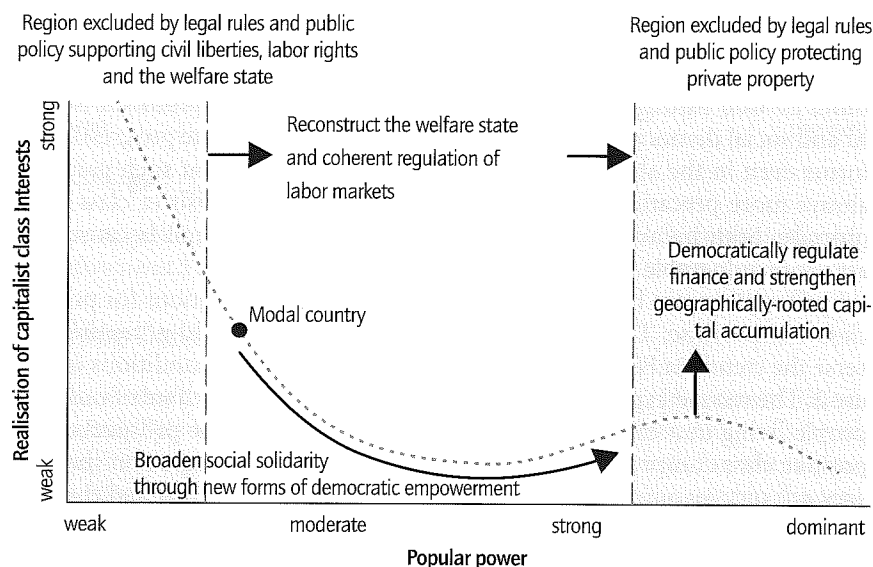
So long as the working class and other popular social forces live in a capitalist world, a positive class compromise offers the best prospects for securing the material welfare for most people. This does not mean that no gains are ever possible without a positive compromise – concessions can sometimes be won through struggles that result in negative compromises. Socialist and social democratic parties can win elections and initiate progressive reforms even in the absence of positive class compromise. But such gains are always more precarious than gains under conditions of positive class compromise, both because they encounter greater resistance, and because they are more vulnerable to counteroffensives.

I will explore two broad responses to the erosion of conditions for positive class compromise: The first examines strategies which could potentially reverse the trends in Figure 6 and reconstruct the favourable conditions in Figure 5. The second explores ways of potentially making the welfare of ordinary people living in a capitalist economy less dependent on the prospects for a positive class compromise with the capitalist class. My thoughts on these issues are very incomplete and tentative; I do not have a well worked through analysis of strategies of social transformation in the present era. I offer these ideas in the hope of contributing to the discussion of the dilemmas and possibilities we face.

1. Strategies which try to recreate conditions for positive class compromise

Figure 7 presents a rough guide to the kinds of transformations needed to restore conditions for positive class compromise. Here I want to specifically focus on the problem of the shape of the curve itself: are there plausible strategies and public policies that could affect the shape of the underlying functional relation between popular power and elite interests in ways that would help to improve the prospects for stable positive class compromise? Or is the current deterioration of the underlying macro-economic conditions for class compromise simply the inexorable result of the dynamics of capitalism operating behind the backs of actors and not amenable to strategic intervention?¹⁴ It is possible that the few decades after WWII were a happy historical anomaly in which conditions just happened to be favourable for the positive class compromise that underwrote economic security and modest prosperity for most people in developed capitalist countries. We may now be in the more normal condition of capitalism in which the best that can be hoped for are occasional periods of negative class compromise and in which most people adopt, as best they can, individual strategies for coping with the risks and deprivations of life in capitalism.

Figure 7: Transforming the conditions for class compromise



What I want to explore here is the less pessimistic scenario in which it is possible to forge new structural conditions for a more robust positive class compromise. I will not address the narrower political question of the prospects for actually mobilising the political forces with progressive ideological commitments necessary for implementing the policies required to create these conditions, but rather the question whether or not there are viable policies to be implemented – what policies should be implemented if progressive political forces were in a position to do so.¹⁵ If my diagnosis in Figure 6 is correct that the right-hand peak in the class compromise curve has declined because of forces unleashed by globalisation and financialisation, then what is needed are strategies which encourage geographically-rooted forms of capital accumulation and which impose effective democratic constraints on financial institutions.

Geographical rootedness

In terms of the problem of geographical rootedness, one promising line of thought on these issues is Joel Rogers' proposals for what he terms "Productive Democracy" (which he earlier referred to as "high-road capitalism").¹⁶ Rogers argues for the importance of concentrating attention on regional economies anchored in metropolitan areas, rather than on the national economy, and especially on the role of the local state in building local public goods capable of supporting high-productivity economic activities. The emphasis here is in producing a high density of productivity-enhancing infrastructures which creates incentives for capitalist firms to become more embedded locally: public transportation, education, research parks, energy efficiency, and much more. Strong local public goods are potentially particularly effective for small and medium sized firms, firms which are generally less geographically mobile and whose owners are more likely to have non-economic roots in the region.

A key element of these local public goods concerns training and skill formation, one of the classic collective-action problems faced by capitalist firms (because of the temptation to free-ride on the on-the-job training provided by other firms). Here is where strong unions can play an especially constructive role in the design of training programs and in coordinating skill standards that are essential for the portability of skills. Regional development strategies that focus on such public goods and that involve local collective actors (especially unions) in the deliberative problem-solving connected to those public goods could generate local conditions for positive class compromise with locally-rooted capital.

Changes in technology may make the anchoring of capitalist production in locally-rooted, high-productivity small and medium enterprises more feasi-

ble. One of the critical features of the era of industrial capitalism is strongly increasing returns to scale in production and distribution, since steep increasing returns to scale give large corporations a competitive advantage. The deep transformation of the technological environment of economic activity in the digital age has significantly reduced these returns to scale in many sectors. Consider publishing. While large publishers still are important, the per unit costs of publishing are much less sensitive to scale than they were even a decade ago, especially with the advent of electronic books. New technologies on the horizon for manufacture also suggest the possibility of much more linear returns to scale, which in principle could make small and medium firms much more productive and competitive. All of this may increase the prospects a productive democracy underwritten by local and regional public goods.

Public goods, of course, require taxes, and one view is that the taxation capacity of the state is seriously undermined by globalisation. If taxes rise, the argument goes, capital moves. This seems even more cogent an argument for local public goods: if local taxes rise to fund local public goods, then capitalist firms will simply move out of the jurisdiction of those taxes. Such arguments assume that taxation must always, directly or indirectly, raise the costs faced by capitalist firms. This, of course, may be the case, especially when the taxation is directly levied on profits. But in principle taxation can simply be a way of dividing the consumption of wage earners between their private consumption and their collective consumption through public goods and have little effect on profits of capitalist firms. Whether workers are willing to accept high or low taxation on wage earners depends, of course, on the degree of solidarity among wage earners and their confidence that the taxes so levied will be in fact used for such public goods. The tax constraint on creating the local public goods needed for a locally-rooted productive capitalism is thus much more political and ideological than narrowly economic.

Constraining Finance

In terms of the problem of financialisation, two things seem especially important to accomplish: The first is to redirect finance from a central preoccupation with speculative activity to investment in the real economy. While there is often no unambiguous line of demarcation between these two faces of the allocation of capital, one of the things that detaches the interests of investors from the conditions of life of ordinary people and thus makes positive class compromise less likely is the disengagement of investment from the real economy. In order to redirect finance towards the real economy, the state has to be able to impose real constraints on investment activity, and this requires at least partially impeding the global flow of capital. So long as capital can easily exit the jurisdiction of political authority, such regulation will al-

ways be precarious. This, then, is the second critical task: re-establishing the capacity of the state to effectively regulate finance and hold it democratically accountable. There are many proposals on the table to move in this direction: breaking up the largest financial institutions, both to undermine their power to manipulate regulatory authority and to remove their willingness to engage in excessive risk because of their "too-big-to-fail" status; explicitly recognising the public goods aspect of finance as grounds for creating a more vibrant sector of public and cooperative financial institutions – credit unions, cooperative banks, community banks; new forms of transactions taxes, like the Tobin tax, to impede the smooth global flow of finance for speculative purposes.

Taken together, public policies which help build a locally-rooted productive democracy and which render finance more democratically constrained would potentially move the class compromise curve in figure 6 in the direction of the Golden Age curve in Figure 5. Such policies, especially the ones that impinge on the power of finance, would certainly meet strong opposition by various elites. The problem, of course, is mobilising sufficiently strong and resilient political forces to overcome such opposition. Many of the same political economic structural developments that have generated an unfavourable class compromise curve have also contributed to undermining the power of popular democratic forces needed to push for these kinds of public policies.

2. Strategies which strengthen non-capitalist economic domains

Because of the political difficulty of instituting policies that would change the conditions for the class compromise curve as illustrated in Figure 7, it is worth exploring the possibility of strategies that respond to the adverse conditions for class compromise less by directly confronting the state and instead focus on ways of building alternatives in civil society and the economy itself. At the centre of my analysis in *Envisioning Real Utopias* of socialist alternatives is the idea that all economies are hybrids of different kinds of economic relations. In particular I argued that modern capitalist economies should be viewed as hybrids of capitalist, statist, and socialist economic structures. The synoptic description of such a hybrid economy as "capitalism" implies that the capitalist component is "dominant". The idea of positive class compromise is focused on power relations and class interests generated by the capitalist dynamics of the system. One way of approaching the problem of restoring conditions in which at least some of the benefits of positive class compromise can be realised is to strengthen the non-capitalist aspects of the economic structural hybrid.

Here are a few examples:

Worker cooperatives

By their very nature, worker-owned cooperative firms are geographically-rooted. The owner-employees in such firms have a stake in where they live, and thus they have a deep interest in creating locally-favourable economic conditions and supporting the public goods which make this possible. Although in most existing capitalist economies, worker cooperatives tend only to occupy small niches (in the United States in 2012 there were fewer than 400 worker cooperatives), there are instances of large, successful worker-owned cooperatives, most famously the group of 270 or so cooperatives known as the Mondragon Cooperative Corporation.

Of particular relevance in the present context is the fact that in the current economic crisis in Spain, Mondragon has fared much better than most of the rest of the Spanish economy: only one of the 270 cooperatives in the group has had to be dissolved. Many issues are involved in explaining the durability of the Mondragon cooperatives in the face of the crisis. Among other things, the Mondragon structure includes a system of cross-subsidisation of less profitable by more profitable cooperatives, which acts as a buffer when times are difficult. The common stakes of workers in the cooperatives and the relatively low level of internal inequality mean that the levels of solidarity and commitment among workers are quite high. The idea that "we are all in this together" is a reality, and thus workers are less resistant to the shared sacrifices needed to weather a crisis. But also, there are non-member employees in the cooperatives, and lay-offs of these employees also helped.

The existence of Mondragon as a successful, productive, large-scale complex of cooperatives shows that worker cooperatives need not be restricted to small, artisanal firms in marginal parts of the economy. In any case, given the decline in capital intensity in many domains of economic activity (especially because of the development of digital technologies) and the increasing possibilities of modularised forms of production, the scale constraints on worker cooperatives in many sectors are decreasing. One way of fostering a more geographically-rooted structure of capital accumulation would be to encourage the development and expansion of worker cooperatives.

Worker cooperatives are founded mainly in two different ways: either by a group of people getting together and collectively starting a firm on a cooperative basis, or by the workers of an established capitalist firm buying out the owners of the firm. The latter strategy is particularly relevant in contexts where aging owners of family firms face a "succession crisis" in which no one in the younger generation of the family wishes to take over the firm. One option in such a situation is for the workers to buy the firm. The problem, however, is that workers generally do not have sufficient savings to do so and thus, to buy the firm, they have to take on levels of debt which then impose

a significant burden on the subsequent viability of the firm. This problem is intensified in the broader context of macro-level economic stagnation.

What is needed for the co-operativisation of small and medium sized family firms, therefore, is some way for workers to assume ownership of the firm on a collective basis without taking on excessive debt that undermines the future viability of the firm. One possible source for such support might come from the labour movement. Traditionally, unions have been relatively hostile to worker cooperatives, seeing them as rivals for the allegiance of workers. In recent years there are indications of a change in this stance. In the United States the Steelworkers Union has been in discussions with Mondragon on the possibility of some kind of collaboration in creating worker cooperatives in the steel industry. In Cleveland, the initiative to create a cluster of cooperatives facilitated by the city government and other large public institutions has also received support from local unions. In Brazil, unions have been broadly supportive of cooperatives as well. Rather than being rivals, worker cooperatives may have the potential of being a complementary basis for the collective organisation of workers power. In places where the labour movement remains relatively strong, unions could help mobilise the capital needed for worker-buy-outs of small and medium firms.¹⁷

If the problems of credit market failures and undercapitalisation of cooperatives were solved, then it is possible over time not only for the number of cooperatives to increase, but for there to develop dense networks of cooperatives, meta-cooperatives (cooperatives-of-cooperatives), and other institutional arrangements of what can be termed a "cooperative market economy". On a regional scale this is what the Mondragon Cooperative Corporation has accomplished. Within the Mondragon complex there are a range of institutional devices which increase the viability of each of the individual cooperative enterprises: specialised research and development organisations; processes for cross-subsidisation of profits from higher- to lower-profit cooperatives; training and education institutions oriented to cooperative management and other needs of the firms in the network; and so on. A dense network of cooperatives connected to this kind of elaborated environment of specialised institutions creates a cooperative market economy enclave within the broader capitalist market.

Employee-majority ESOPs

ESOPs (Employee Stock Ownership Plans) are a hybrid form combining, in varying degrees, capitalist and participatory-democratic elements. There are approximately 4,000 firms in the United States with 100% employee owned ESOPs.¹⁸ In most firms with ESOPs, especially large firms, the employees only own a minority of shares, and often shares are concentrated in

management. Most 100% ESOPs are relatively small firms. Actual democratic governance rights vary across ESOPs, although in 100% ESOPs the employees do elect the board of directors of the firm (on a one-share one-vote basis). Nevertheless, ESOPs with a high percentage of employee shareowners are more geographically rooted than conventional capitalist firms. ESOPs can also be a transitional form between a conventional capitalist firm and a fully democratic worker cooperative (although, of course, worker cooperatives also, sometimes, convert to ESOPs), but they may also be a stable hybrid form that connects to the development of a substantial cooperative market economy sector much more amenable to the rehabilitation of the democratic affirmative state.

The social economy

The social economy constitutes economic activities organised by communities and various kinds of non-profit organisations directly for the satisfaction of needs rather than for exchange and profit. Most often social-economy organisations produce services, but in some contexts goods are produced in the social economy as well. The social economy has an ambiguous status with respect to the provision of public goods and reducing vulnerability, for often the social economy mainly serves to fill gaps caused by the retreat of the welfare state. This is one of the reasons why conservatives sometimes applaud the social economy (for example, in the advocacy of "faith-based initiatives" in the United States). But the social economy can also be at the centre of building an alternative structure of economic relations, anchored in popular mobilisation and community solidarity, especially when it receives financial support from the state. The Quebec social economy is an example of a vibrant social economy involving community-based daycare centres, elder-care services, job-training-centres, social housing, and much more. In Quebec there also exists a democratically elected council, the *chantier de l'économie sociale*, with representatives from all of the different sectors of the social economy, which organises initiatives to enhance the social economy, mediates its relation to the provincial government, and extend its role in the overall regional economy. The *chantier* enhances democratic-egalitarian principles by fostering economic activity organised around needs and by developing new forms of democratic representation and coordination for the social economy.

Solidarity finance

Another way of strengthening non-capitalist elements within a capitalist economy is by expanding the ways in which popular organisations are involved in allocating capital. Unions and other organisations in civil society often manage pension funds for their members. In effect, this is collectively

controlled capital that can be allocated on various principles. An interesting example is the Quebec "Solidarity Fund" developed by the labour movement initially in the 1980s. The purpose of these funds is to use investments deliberately to protect and create jobs rather than simply to maximise returns for retirement. One way the Solidarity Fund accomplishes this is by directly investing in small and medium enterprises, either through private equity investment or loans. These investments are generally directed at firms that are strongly rooted in the region and satisfy various criteria in a social audit. The Solidarity Fund is also involved in the governance of the firms in which it invests, often by having representation on the board of directors. Typically the investments are made in firms with a significant union presence, since this helps solve information problems about the economic viability of the firm and facilitates the monitoring of firm compliance with the side-conditions of the investment. Solidarity finance thus goes considerably beyond ordinary "socially screened investments" in being much more actively and directly engaged in the project of allocating capital on the basis of social priorities.

Solidarity finance can be considered a partial model for enhancing the geographic rootedness of regional market economies by tying investment more closely to people who live there. For this to be done on a scale that would make a significant difference, various kinds of support by the state may be important. In the Quebec Solidarity Fund there are generous tax incentives for people who invest through the fund, but a more vigorous form of solidarity finance could involve different kinds of direct subsidies to the fund by different levels of government. Such direct subsidy can be justified on the grounds that geographical-rootedness – rather than free-floating capital mobility – is a public good because of the ways this makes the regulation of negative externalities easier and creates greater space for linking the interests of owners, workers and citizens.

Solidarity funds need not, of course, be restricted to control by labour unions. Other associations in civil society and perhaps even municipalities could also organise solidarity funds. The key idea is to develop decentralised institutional devices that direct investment funds to those economic activities that are geographically rooted and whose long-term viability depends most upon the robustness of the regional economy. Solidarity funds can therefore be seen as a complement to the regional economic development strategies organised by the state advocated by Rogers.

Conclusion

Social democracy has, traditionally, not given much weight to strengthening non-capitalist forms of economic organisation. Its core ideology was to

support the smooth functioning of capitalism and then use part of the surplus generated within capitalism to fund social insurance and public goods. Capitalists were left relatively free to invest as they wished on the basis of private profit-maximising criteria. The state provided incentives of various sorts to shape investment priorities and certainly the state tried to create the public goods and regulatory environment that would be congenial to capital accumulation, but it generally did not attempt to nurture non-capitalist sectors and practices. The mainstream left throughout the developed capitalist world broadly supported these priorities.

It is uncertain whether or not it will be possible to reconstruct a political-economic equilibrium in which positive class compromise within capitalism could once again govern the terms in which the social surplus is allocated between private returns through capitalist investment and collective returns used to promote well-being through the affirmative state. But even if it is, given the long-term uncertainties of the trajectory of structural conditions in capitalism, the left should begin to seriously think about the desirability and possibility of expanding the space for non-capitalist alternatives within capitalist economies. ■

Notes

- 1) This paper is based on a presentation "Class Struggle and Class Compromise in the Era of Stagnation and Crisis" given at the Nicos Poulantzas Institute, Athens, Greece, in December 2011.
- 2) I will use the term "social democracy" to refer to the broad spectrum of progressive political parties within capitalist democracies. This includes New Deal Liberalism in the US, the Labour Party in Britain, as well as the various socialist and social-democratic parties on the European continent.
- 3) I use the somewhat vague term "popular social forces" here rather than "the working class" to emphasise the broad popular base of this compromise.
- 4) This discussion draws heavily on my earlier paper, "Working-Class Power, Capitalist-Class Interests and Class Compromise", *American Journal of Sociology*, Volume 105, Number 4 (January 2000): 957-1002, and also from chapter 11 of *Envisioning Real Utopias* (London and New York: Verso, 2010).
- 5) In my earlier work on class compromise I framed the problem in terms of the relationship between class interests and "working class associational power". In the present context I think it is more useful to more loosely refer to "popular power" as a more all-encompassing idea. Working class associational power – the power embodied in unions and working-class-based political parties – designates critical forms of popular power, but is not exhaustive of this idea. The expression "popular power" is meant to include all the ways in which popular social forces are able to advance their interests through different types of collective organisation and collective action.
- 6) It is always necessary in social analysis to decide how simple or complex the concepts need to be for particular purposes. In much of my work on class analysis I have deployed quite complex categories, arguing for a wide variety of "contradictory locations within class relations" as important for studying various issues. Here a simpler, polarised class concept will serve our purposes better.

- 7) Quoted in Andrew Glynn, "Social Democracy and Full Employment" (*New Left Review*, 1995, 211:33–55.) p. 37.
- 8) It is important to note that wage pressures in tight labour markets is a consequence of employers bidding up wages as they attempt to lure workers away from other employers. Wage restraint is a matter of disciplining capital, not just labour.
- 9) Of course, these positive effects of popular power may not occur: it can happen in some contexts that strong labour unions themselves participate in state-centred rent extraction.
- 10) It is difficult to resolve the question whether the kind of class compromise forged in the immediate decades after WWII was optimal for capitalist development from the point of view of capitalist interests, or simply good enough given the constraints. One view, advocated by Peter Swenson in *Capitalists Against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden* (Oxford: Oxford University Press, 2002), is that these post-WWII arrangements were actually optimal for capital and not really "compromises" at all. They had the appearance of compromises in which capitalists made concessions, but this was simply a ploy – in Swenson's view – to enhance their legitimacy.
- 11) I am using the term "neoliberalism" as a broad umbrella term for the attack on the form of the capitalist state that provided expansive public goods, strong social insurance for ordinary citizens, and systematic regulation against negative externalities, rather than a specific set of policies designed to unfetter markets through deregulation and other policies.
- 12) The idea of financialisation is perhaps less familiar to many people than globalisation. Financialisation refers to the shift of the profit-making activities within capitalist economies from the production of goods and services in the "real" economy to the buying and selling of financial assets of various sorts. Many factors contributed to this change, but the partial deregulation of financial markets certainly played an important role. For an extended discussion of financialisation, see Greta Krippner, *Capitalizing on Crisis: the political origins of the rise of finance* (Cambridge: Harvard University Press, 2011).
- 13) Adam Przeworski, *Capitalism and Social Democracy* (Cambridge University Press, 1985). The relevance of these arguments for the specific problem of prospects for democratic socialism in the 21st century is discussed in my book, *Envisioning Real Utopias*, chapter 9, "Ruptural Transformation".
- 14) These questions have a family resemblance to a classic concern in discussions of revolutions: Do revolutionary movements simply "seize the time" when windows of opportunity for revolutionary action occur – when "the conditions are ripe" – or can they actively contribute to creating those conditions? Of course, the preparation of revolutionary organisation ahead of time might itself be important in being able to seize the time, but this is quite different from imagining that revolutionary movements can themselves contribute to creating the critical social structural and economic conditions which make possible an effective challenge to the dominant class. Marx almost certainly believed that the laws of motion of capitalism determined the basic dynamic through which revolutionary situations occurred; the critical role for collective action was to take advantage of these opportunities: "History is the judge; the proletariat is the executioner" (quoted by G.A. Cohen in *Karl Marx's Theory of History*). Here our concern is not with strategies that foster revolutionary conditions, but strategies that foster favourable conditions for class compromise.
- 15) In many discussions of the current period a great deal of emphasis is given to the specific ideological currents within the elite and how these have been diffused through specific institutional processes. In the United States, for example, the discussion of the

rise of market fundamentalism and the intensifying hostility to the affirmative state has generally emphasised distinctive political processes within the United States such as the importance of corporate money in elections, the ideological effectiveness of right-wing think tanks, the specific manipulation of racism by the Republican Party, and so on.

These processes are obviously of considerable importance in the United States, but they fail to help understand the broad erosion of the vigorous support for the affirmative state across a wide range of developed capitalist democracies. It is conceivably the case that other countries have simply been affected by ideological currents generated within the United States, but it is more likely that there is some underlying political-economic process at play throughout developed capitalism which is driving these trends.

- 16) Joel Rogers, "Productive Democracy", in J. de Munck, C. Didley, I. Ferreras, and A. Jobert (eds.), *Renewing Democratic Deliberation in Europe: the challenge of social and Civil Dialogue* (Berlin: Peter Lang, 2012), pp. 71-92.
- 17) Because of the strong positive externalities for employment and economic stability of an expansion of the cooperative sector, it is possible that the state at the local or even the national level might find it advantageous to create specialised credit institutions for this purpose.
- 18) *A technical note on ESOPs*: ESOPs are formed in a variety of ways, some of which are more favourable to the interests of worker-employees than others. In the most advantageous ESOPs, workers do not allocate their own savings to purchase shares in the company. Instead, the shares are given as part of a benefit package and distributed to all employees rather than heavily concentrated in the professional and managerial staff of the firm.

