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Diebolt, Claude

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

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Empfohlene Zitierung / Suggested Citation:

Diebolt, C. (2002). Towards a new social structure of accumulation? *Historical Social Research*, 27(2/3), 85-99. <https://doi.org/10.12759/hsr.27.2002.2/3.85-99>

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Towards a New Social Structure of Accumulation?

*Claude Diebolt**

Abstract: The Social Structure of Accumulation (SSA) approach provides a new way of analysing the structure and development of capitalist economies and societies. The term SSA refers to the complex of institutions which support the process of capital accumulation. The central idea of the SSA approach is that a long period of relatively rapid and stable economic expansion requires an effective SSA. The SSA includes political and cultural institutions as well as economic ones. The institutions comprising an SSA include both domestic and international arrangements. Domestic institutions may include the state of labour-management relations, the organisation of the work process, the character of industrial organisation, the role of money and banking and their relation to industry, the role of the state in the economy, the line-up of political parties, the state of race and gender relations and the state of the educational system. International institutions may concern the trade, investment, monetary-financial and political environments. The development of the SSA approach was motivated by at least three analytical concerns: historical, comparative, and programmatic.

An historical concern suggests that individual economic systems, and the world system of which each is a part, go through periodic booms and periodic times of trouble. These alternating periods have been called 'long waves'. These long waves appear to be associated with the bunching of institutional changes, which take place in a discontinuous manner. Such patterns require an explanation.

* Cnrs, Université Montpellier I & Humboldt-Universität zu Berlin Laboratoire Montpelliérain d'Economie Théorique et Appliquée, Université de Montpellier I, UFR de Sciences Economiques, Avenue de la Mer, BP 9606, 34054 Montpellier Cedex 1, France. Tel.: 04.67.15.83.20., Fax: 04.67.15.84.67. E-mail: claude.diebolt@lameta.univ-montp1.fr
Another version of this paper was presented at the 11th World Congress of Comparative Education Societies, Chongju, July 2-6, 2001.

The SSA approach is not directed only at the problem of uneven economic expansion and discontinuous institutional change over time. It is also concerned with differences between the economic systems of various nations. The comparative concern suggests that, contrary to the view of traditional neoclassical economics, institutions and social structure make a difference to the functioning of economic systems. While Japan, Germany, the United States, Sweden and South Africa are all market-oriented economies, their structures and performances also differ considerably from one another. To explain these different outcomes, we need a theory that incorporates the institutional differences between countries.

A programmatic policy concern asks how new institutions develop and are consolidated. Why do some attempts to reform and transform the economy and social structure meet considerable success, while others have only a limited impact, and yet others fail completely? We need a theory that can help answer these questions.

Introduction

The social structure of accumulation school was formed at the end of the 1970s with the founding work of Gordon (1980), to which numerous contributions were added, including those of Gordon, Edwards and Reich (1982), Bowles, Gordon and Weisskopf (1983), Kotz (1987), Kotz, McDonough and Reich (1994), etc. This research was focused mainly on the development of capitalism. It proposes more specifically an interpretation of the long waves in economic activity, awarding an essential role to the institutional changes that have punctuated the contemporary history of developed capitalist countries. This school first claimed Marxism as its theoretical anchorage, but Marxism incorporating the contributions of various contemporary research – of Keynesianism and the institutionalist movement in particular.

Indeed, it is by using as a base a Marxian analysis renewed and enriched by outside contributions that the school of social structure of accumulation (SSA) drew up an original interpretation of the historical development of capitalism and of long waves with more specific reference to the case of the United States and special attention paid to the period following World War 2. This interpretation leads to programmatic reflection aimed at defining the main lines of a democratic alternative that would be credible for the United States.

With this as the starting-point, the article is in two parts. The first is a reminder of the basic principles underlying the specificity of the approach using

the social structures of accumulation. This is followed by an examination of the different facets of the post-war social structure of accumulation and the present-day depression.

I. Social structures of accumulation and long waves in economic activity

The social structure of accumulation school is an attempt to consider the relation between capital accumulation and institutions over a long period. The central concept of analysis is that of the *social structure of accumulation*, defined in a preliminary approximation as the specific institutional environment in which the capitalist accumulation process is organised.

The succession of different social structures of accumulation in a process of elaboration and decline of each of them makes it possible to interpret the long waves in economic and social activity.

1. The notion of social structure of accumulation

For the SSA school, the variations of rates of capital accumulation over long periods cause the long waves in socioeconomic activity. A steady, sustained accumulation of capital causes a long period of economic growth, whereas the slowing of accumulation causes stagnation and depression.

This being said, steady, sustained increase in capital accumulation is only possible if there is a favourable institutional environment, that is to say an operational social structure of accumulation. Thus, different institutions condition the activity of capital in the different stages of the accumulation process and have a direct, favourable influence on the development of the process. Depending on the case, they are institutions that have an impact on the whole of the capital accumulation process or institutions whose influence is only transitory. They are, for example, the institutions that ensure the supply of enterprises with raw materials at stable prices, those that determine the organisation of the production process or those that determine the evolution of final demand. The institutions are of various kinds – economic, political and ideological. They are mainly national institutions but may also be international institutions. The various institutions form an integrated ensemble. Interrelations exist between the institutions, with the result that the changes in each of the institutions forming a social structure of accumulation very probably have repercussions throughout the entire structure, causing instability in all the other constituent institutions.

2. The life cycle of the social structure of accumulation

Each SSA evolves with a movement of creation, consolidation, erosion and collapse. The forming of a new SSA is at the origin of a long period of sustained increase in accumulation and economic growth enabled by all the constituent institutions of the new SSA.

The main reason for the period of rise of capital accumulation initiated by the construction of a new SSA being relatively long is that the conditions favourable for capital accumulation have become institutionalised. However, the expansion phase allowed by the length of the existing SSA cannot be prolonged indefinitely. Indeed, it contains the seeds of its destruction and must therefore inevitably open the pathway to a long depression phase. This results in the erosion and then the collapse of the SSAs at the origin of a phase of instability and depression. The process is therefore endogenous.

What happens at the end of the depression? The forming of a new SSA is the result of a complex process that is economic, of course, but also political and ideological, and in which struggles between groups with divergent interests and the strategies of economic actors play an essential role. At first, each class or group tries to conserve the position gained, in spite of the unfavourable economic and social context. Structural preoccupations are still absent. This being said, as the depression continues and with pressure from the difficulties that it causes, the struggles acquire an increasingly structural orientation. As a consequence, coalitions form to win acceptance for one programme or another. The new SSA emerges when the confrontations between the different groups terminate either in the victory of a coalition and its programme or with compromises concerning a new programme. At all events, this complex process takes time and the stagnation and depression period is inevitably long.

The new SSA formed is necessarily different to the preceding SSAs, although it is possible that certain institutions are carried over from one SSA to the next, possibly with some modifications. The succession of different SSAs thus corresponds to an irreversible transformation of capitalism. Thus, the authors of the SSA approach explain that the last 150 years of the economic history of the United States has featured three distinct long waves in economic activity, lasting approximately 50 years. Each wave consisted of a rapid economic growth period and was associated with a different SSA.

- The first SSA covered the period running from the 1840s to the 1890s. It functioned until the 1870s, provoking rapid economic growth. It then collapsed, opening the way to a serious depression in the 1880s and 1890s.
- The second SSA lasted from the 1890s to World War 2. It collapsed during the 1930s and 1940s.

- The third SSA emerged during these years of depression and war and has lasted from World War 2 until the present day.

II. The post-war social structure of accumulation and the current depression

Analysis of the SSA of the post-war period and the current depression has been the subject of much individual or joint-author works, mainly by Bowles, Gordon and Weisskopf. Their central argument is relatively simple: the consolidation and then the erosion of the institutions forming the post-1945 SSA resulted successively in a strengthening and then a weakening of the power of the 'capitalist class' with regard to the other groups of economic agents. This governed the evolution of the profit rates of American businesses and hence capital accumulation rates and the economic growth rate from the beginning of the 1950s onwards.

The authors above report that the net after-tax profits of American business in the non-financial sector have displayed two distinct phases since World War 2; they had a clear upward trend from the early 1950s to the mid-1960s and, in contrast, a downward trend from the second half of the 1960s until the beginning of the 1980s. This change in profit rate is to be related to that of the power of the capitalist class over the other actors in economic life, which is itself conditioned by the post-1945 SSA institutions. The construction of this new SSA set up the institutional bases for a strengthening of the power of the capitalist class with regard to the other categories of economic agents with which it has relations. This allowed the increase in the profit rate observed until the mid-1960s, which in turn accounts for the strong, sustained capital accumulation that formed the base of economic growth after 1945. However, the erosion of the post-war SSA from the mid-1960s onwards resulted in a weakening of the power of the capitalist class and the constituent decrease in profit rate that was at the origin of the present depression.

1. The post-war social structure of accumulation

The authors show that the after-tax profit rates depend on six different factors whose increase, depending in the case, is the cause of an increase (+) or a decrease (-) of the profit rate: real wages (-), capital intensity (+), terms of trade (+), tax on profits (-), the rate of exploitation of the production capacity (+) and the input-output coefficients (-).

The variations of some of these profit rate determinants are the subject of conflicts between the American capitalist class and the other economic actors with whom the latter has relations, that is to say workers, foreign buyers and

sellers and possible anti-business coalitions, including national political actors. This is the case in particular of real wages, labour intensity, terms of trade and the tax levels on profits. The way in which these determinants of the profit rate change therefore depends on capitalist power with regard to the other groups of economic agents. A strengthening (or weakening) of the power of the American capitalist class should enable a favourable (or unfavourable) change in the determinants of the profit rate. Now, the power relationships between the capitalist class and the other groups of economic actors are conditioned by the SSA institutions, that is to say by the institutional environment conditioning the power of the capitalist class with regard to its potential challengers. The authors of the approach thus identify four sets of institutions in the post-1945 SSA that formed the ramparts of the American capitalist class with regard to foreign buyers and sellers and American workers and citizens.

- *Pax Americana* refers to the post-war international economic institutions and political relations that ensured the United States' dominant role in the world economy and established general international economic stability. Its economic power and military domination enabled the United States to set the rules of the game for the world economy, that is to say a liberal reorganisation of international economic relations, formalised in particular by the Bretton Woods agreements, reconstructing the world monetary system. These new rules enhanced the growth of US exports and the growth of investments by US multinational corporations all over the world. They enabled the American economy to obtain supplies of raw materials and energy on increasingly favourable terms, while US terms of trade (the ratio of the average price of exports to the average price of imports) improved.
- *The capital-labour agreement* defined new, much more structured relations mainly between the large corporations and a large fraction of American wage-earners. It was in fact a partially implicit agreement between the unions and the large companies in which company managements kept absolute control of decisions concerning the essential activities of the firms (organisation of production, choice of techniques, location of establishments, investment and trading policy) while the unions were recognised as being the legitimate representatives of the workers and the employees were involved in the fruits of growth of productivity in the form of increases in wages, greater job security and improved working conditions. However, this agreement concerned only a proportion of American workers. Most non-union workers, women and minorities were practically completely excluded, contributing to enhancing the power of the capitalist class by segmenting the labour market and dividing workers.
- *The capital-citizens agreement* covers the state's newly recognised role – that should not compromise the basic profitability of companies while

creating a new significant relation between the state and its citizens – and its increased involvement in economic and social life. This intervention had three main forms: (i) a macroeconomic policy aimed firstly at reducing economic instability and preventing a return to a serious depression of the type experienced in the 1930s, (ii) a considerable increase in public expenditure benefiting companies, and (iii) welfare programmes leading to at least partial coverage of certain needs of the population with regard to health services, unemployment benefit, education, etc.

- *The moderation of inter-capitalist rivalry* corresponds to the conservation of national oligopolistic structures and the limiting of exposure to foreign competition by US companies on the domestic market. According to the authors, the post-1945 SSA formed in this way gave the American capitalist class the institutional basis for a high degree of power and control with regard to the three other groups of economic actors that were its potential challengers. This resulted in rising profit rates stimulating the capital accumulation that formed the foundation of economic growth in the 1950s and 1960s in the United States.

In order to perform a statistical validation of this theory, the authors of the approach developed an econometric model of the post-1945 SSA that enabled them to estimate and test the key relations between the institutional environment constituted by the SSA that conditions the power of the capitalist class with regard to the other economic groups, the profit rate and capital accumulation. For this, they defined statistical indicators of the power of the capitalist class with regard to the other groups of economic agents corresponding to the four sets of institutions forming the post-war SSA: two indicators related to the capital-labour agreement, the cost of job loss and the index of workers' resistance; an indicator associated with the *Pax Americana*, the index of US trading power; two indicators related to the capital-citizens agreement, the index of government regulations and the index of the share of capital in taxes; two indicators related to the moderation of inter-capitalist rivalry, market tension of productions and the rate of penetration of imports. The data concerning these particular indicators of capitalist power were used to construct a synthetic indicator of the power truly exerted by the capitalist class (P), that makes it possible to represent the evolution of the power of the capitalist class with regard to American workers and citizens and to foreign buyers and sellers during the post-1945 period. It seems that this indicator P was first of all high during the 1950s and the early 1960s and then decreased strongly until the end of the 1970s. The econometric tests performed show that this evolution is correlated with that of the profit rate, which increased until the mid-1960s then decreased. They also show that the evolution of the profit rate in turn very strongly determines the capital accumulation rate. The capitalist power truly exerted may nevertheless vary under the effect of a change in the state of the

economy as reflected in the evolution of variables such as the rate of use of production capacities or real interest rates. The evolution of capitalist power truly exerted (P) can *a priori* therefore reflect both the changes in the post-war SSA and the conjunctural changes in the state of the economy. This is why the authors make a distinction between the capitalist power truly exerted or measured, P, and underlying or structurally determined capitalist power, P*, whose variations are independent of those of the economy. This index of underlying capitalist power, P*, increased distinctly from the beginning of the 1950s until the mid-1960s. It then fell markedly until the end of the 1970s before recovering slightly during the first half of the 1980s.

The authors of the approach deduce that the institutional structure of the SSA in the United States after 1945 was consolidated in such a way as to strengthen the politico-economic power of the capitalist class during the first two decades following World War 2, but a series of challenges in the mid-1960s began to undermine the SSA and erode the power of the capitalist class. Econometric tests also show that the evolution of the rate of profit is correlated with that of underlying capitalist power P*.

In the light of the relation established between the rate of profit and the rate of capital accumulation, the authors conclude that the following series of relations exists: underlying capitalist power and the state of the economy together determine the level of capitalist power measured, measured capitalist power and the state variables of the economy together determine profitability and profitability and the state variables of the economy together determine the accumulation rate.

2. The collapse of the post-war social structure of accumulation and the current depression

The long expansion phase associated with the post-war SSA was also a period of development of the contradictions inherent in the accumulation of capital and contradictions in the SSA institutions. The subsequent depression started in 1966 with the downswing of profit rates. The 1966-1973 period was thus the first period of the depression and that of the initial erosion of the SSA. It was characterised by increasing challenges to capitalist power, weakening the latter. The decrease in the rate of profit that started in the mid-1960s was the root of the depression as it led to a general worsening of US macroeconomic performances and in particular to a decline in capital accumulation. However, this initial decrease in profit rate is in turn explained by the corresponding decline in the power of the capitalist class in the United States to face the growing challenges of the country's working class, its citizens and foreign buyers and sellers.

The conditions for a weakening of capitalist power and the downswing in the rate of profit resulted first of all from the increased capital accumulation

enabled by the post-1945 SSA. On the one hand, the sustained growth of capital accumulation reduced unemployment, whereas capital exerts its power on workers mainly through the threat of unemployment. This weakened the power of the capitalist class to the benefit of the working class, resulting in a full employment profit squeeze. Because of the serious decline in capitalist control of workers and the weakening of the capitalist power exerted at the workplace, growth labour intensity and productivity slowed whereas wage raises increased because of the tensions created on the labour market by the increase in the level of employment, contributing to reducing the profit margins of business and the profit rate. On the other hand, the long phase of sustained growth of activity, inducing a strong increase in the demand for raw materials, finally strengthened the negotiating power of foreign exporters of raw materials (and especially oil exporters) with regard to American industrial capital. This enabled an increase in the prices of these raw materials that weighed unfavourably on the profit rate of industrial capital. Furthermore, the strong post-war economic growth enabled Europeans and Japanese companies competing with US companies to improve their competitiveness. The resulting increased competition exerted in the United States by foreign companies had a negative effect on the margins of American companies, especially as, in parallel, competition intensified between American companies in many industries. Finally, the strong economic growth in the 1950s and then the 1960s enhanced the development of claims by citizens' movements for the development of government welfare programmes whose funding finally weighed on profits.

However, the onset of the depression also resulted from the development of various internal contradictions in the SSA institutions that finally weakened it, resulting in the decrease in underlying power (P^*) observed from the second half of the 1960s.

First, the internal contradictions of the *Pax Americana*. The liberal international order formalised by the Bretton Woods agreements assumed both a strong US economy and US military strength, the first to impose the dollar as a key currency and the latter to stabilise the political relations necessary to impose US access to foreign markets and to ensure the uninterrupted circulation of dollars all around the planet. However, these two conditions were both complementary and contradictory. The maintaining of US military strength was finally in opposition with the maintaining of a strong US economy as military expenditure finally sapped the power of the economy. In addition, the overvaluation of the dollar inherent in the *Pax Americana* turned out to be contradictory by reducing the competitiveness of American products with regard to foreign products.

There were then internal contradictions in the capital-labour agreement. With the increase in wages, relative safe employment and an improvement in working conditions, wage-earners' preoccupations shifted to new questions such as those concerning education, health and security, decision-making at the

workplace and the content of work. However, these new preoccupations ran up against the vast bureaucratic control machines set up by the major companies to draw the best from the capital-labour agreement and sapped this agreement that assumed total control by management of the main operations of companies in return for pegging wages to the evolution of labour productivity.

Internal contradictions also arose in the capital-citizens agreement. This finally enhanced the development of very varied popular movements, such as environmental or consumer protection movements, the civil rights movement and movements for the defence of women's' rights or those of old people, etc. Depending on the case, these movements led to the strengthening of state regulations concerning various domains of economic and social life, thus contributing to increasing company costs, forming a factor in the decrease in profitability, or required the satisfaction of certain claims, obliging the state to increase its expenditure.

Finally, internal contradictions in the moderation of inter-capitalist rivalry were observed. Indeed, the oligopolistic structure of US industry reduced its capacity for resistance to foreign competition.

The depression continued and deepened during the 1970s and then in the 1980s, when American companies and then the federal government developed a counter-offensive aimed at beating the challenges with which the capitalist power was confronted. According to the authors of the SSA approach, the continuation of the depression was the result of the contradictions of the right-wing economic policy applied in the United States from the end of the 1970s onwards and that only succeeded in increasing truly exerted capitalist power at the cost of durable slowing of economic growth. This policy – referred to as the 'cold water' technique – consisted of cooling off the economy by combining budgetary rigour and monetary rigour. The aim was to restore the relations of power and privilege on which post-1945 economic order was based. In fact, according to the authors, US capital, in a context of high unemployment, won major political victories over the different groups of economic agents whose combined challenges had triggered the depression.

This policy formed the root of the economic stagnation combined with the major recessions in 1974-75 and 1980-82. The worsening of the state of the economy, marked in particular by an increase in interest rates and in the rate of use of productive capacity enabled an increase in truly exerted capitalist power P , whereas underlying capitalist power P^* continued to fall and only began to stabilise at the beginning of the 1980s.

III. From waste to economic democracy

Analysis of the post-war SSA crisis leads to an attempt at defining the main lines of a policy aimed at emerging from the depression. This corresponds to

the defining of a democratic alternative that can in particular eliminate the wastage that reduces the efficiency of the US economy at the expense of the meeting of the needs of the greatest number.

1. Wastage

According to the authors of the approach, the way in which the US economy functioned within the framework of the post-1945 SSA generated much wastage as a result of the priorities and the structure of economic power after World War 2. The authors compare the American economy to those of the other developed countries and to its own recent past and examine the performances of businesses that have innovated in labour organisation and show several categories of wastage generated by the functioning of the US economy. The most serious wastage consists of lost gains in productivity resulting from the hierarchical control system characteristic of large American corporations. This wastage could be eliminated by replacing the control system by a system of worker participation in decisions and work organisation together with profit-sharing. There is then wastage resulting from a higher rate of unemployment in the US than in other developed countries (e.g. northern European countries) and that resulting from poor use of the labour force with, in particular, a distinctly higher proportion of non-productive workers – such as those supervising workers – than in other countries. Wastage also results from excessive US military expenditure with regard to what would seem reasonably necessary for the satisfactory defence of the United States and its allies in a context marked by the Cold War. Finally, the deficient organisation of the health system and possibly of the education system in the United States results in wastage and wastage also occurs in the use of energy.

2. An alternative

According to the authors of the SSA approach, eliminating this waste requires the establishment of a more democratic and egalitarian system in the United States. In short by a democratic alternative characterised by (partial) changes in the American political and economic system that may nonetheless result in considerable improvements. These changes have the common feature of having been used before in one form or another with good results.

This democratic alternative responds to three fundamental objectives:

- *sustainable* improvement of the standard of living of the population, that is to say not at the expense of the natural environment or at the price of international debts;
- a strengthening of democracy and solidarity within the United States and co-operation in relations with the rest of the world;

- the promotion of greater justice, with particularly high priority for the most underprivileged people.

In fact, this alternative is a requirement in the face of market failures that require democratic approaches to address the continual imbalances and instability of the American economy and the inadequacies of a government threatened by private interests or bureaucratisation. This means strengthening the democratic character of the state and the control exerted by citizens on its functioning. It must result in the implementation of a programme for economic democracy with the overall aim of combining social progress and economic efficiency in a self-maintained development logic as social progress enhances the growth and productivity that in turn generate the resources required for the funding of this social progress. From the economic point of view this corresponds to the adoption of very varied measures such as the raising of real wages, the reduction of military expenditure, the decrease in real interest rates, a new tax policy aimed at reducing the budget deficit by the ending of tax relief for wealthy households, greater worker participation in the organisation of work and in the management and ownership of companies, an active environmental conservation policy, increased public investment (in health, education and vocational training, in the creation of transport infrastructure and scientific research and research & development), management of international trade founded on bilateral and multilateral collaboration with the USA's trading partners.

The authors of the approach lay special stress on the sustainability that should be presented by economic growth and hold that the economy has reached the limits of exploitation of the environment, with as a result a strong increase in the human and economic costs of the degradation of the environment and the need to rethink the ethics of economic growth. This democratic alternative should thus make it possible to provide new, effective responses to several very important problems faced by the US economy and more specifically government and foreign trade deficits, the slow increase in productivity and the stagnation of investment. The innovative nature of the economic democracy outlined by the authors raises a fundamental question with regard to feasibility. It is to be expected that the implementation of this economic democracy programme meets opposition from the business world and from the wealthy people who today have considerable influence on the state and on national political life. Whence the need for the democratisation of political life in the United States. The authors propose various measures that they think would accelerate movement towards more democratic political life, such as measures aimed at entering the names of all citizens on electoral rolls, the public funding of elections to Congress in order to reduce the dependence of politicians on private sources of funding, the adoption of measures aimed at reducing the influence of the media and wealth on debates concerning ideas, with for example the pure and simple limiting or banning of televised political publicity, the democratisation of certain institutions and in particular the reduc-

tion of the political interdependence of the governors of the Federal Reserve System by combining control by Congress and the executive of the FED, and strengthening of the powers of local communities with regard to local investment and the environment.

Conclusion

An essential question arises at the beginning of the twenty-first century: is this the dawn of a new SSA? The doubt remains for Reich (1997). But Lippit (1997) no longer has any doubt. The reconstruction of a new SSA began in about 1980, meaning that the United States is close to having a new, established SSA. Lippit makes a distinction between the seven constituents of the new SSA:

- Capital has strengthened its power with regard to labour. This is seen for example in the stagnation of real wages, the recovery of the profitability of businesses, the waning of trade unionism and a very distinct decrease in the number of industrial disputes.
- The financial institutions have undergone changes favouring investment. This concerns in particular the change of attitude of the Federal Reserve Bank. Since the 1980s, the latter has applied an inflation control policy that has led to deflation in parallel with a decrease in interest rates, with a positive effect on investment.
- Deregulation is now affecting very important sectors such as transport, telecommunications and financial services. In parallel, movements aimed at opposing the extension of the constraints of environmental regulations are observed in all industries, improving the yield on investments.
- Companies have undergone strong restructuring enhanced by the use of new computer-related technologies, resulting in a strong decrease in costs enhancing competitiveness.
- A consensus has been reached between the two major political parties with regard to the need to reduce the government's role in the economy; tax revolts and the movement for a balanced budget have contributed to this process.
- New international agreements have been concluded that enhance trade and international investment.
- The capital markets are now much more favourable towards small innovative companies.

Nevertheless, if the constitution of a new SSA in the United States has reached an advanced stage, I put forward the hypothesis that its components are not all in position. The complete construction of the new SSA requires certain further conditions such as fresh progress in the liberalisation of trade and inter-

national investment, fresh progress in the re-balancing of the national budget, various reforms such as that of the tax system to reduce fiscal pressure on savings and investment and the essential reform of the educational system in order to prepare men and women for the qualifications required for the new technologies.

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