

**DEPARTMENT OF POLITICAL SCIENCE
AND
INTERNATIONAL RELATIONS
Posc 150**

STATE -CAPITAL RELATIONSHIP

- I. CONTENTS:
- A. State and capitalism
 - B. Case study: Social Security
- II. SOME GENERALIZATIONS ABOUT THE STATE AND CAPITALISM:
- A. Reprinted from last week.
 - B. ✱(This is a major point) Many analysts feel it is a mistake to think of government (the state) and the capitalist economic system as totally separate entities that frequently fight with one another.
 - 1. What we have in the United States is not pluralist democracy, but **capitalist liberal democracy**.
 - i. Liberal democracy:
 - 1) Political rights are preeminent.
 - 2) ○Rights extend to bodies such as corporations.
 - ii. ○Capitalism
 - 1) Semi-market place.
 - a) Economic activities run from fully competitive to fully monopolistic.
 - 2) Core versus periphery sectors.
 - 3) Vertical and horizontal integration.
 - 4) Managerial class(es) versus owners.
 - 5) Cross-national ownership, management, capital flows (investments)
 - 6) Decisions have national and economic consequences.
 - 2. See Figure 1 on page 4.
 - C. ✱Capitalism is not self-sustaining
 - 1. It needs supports that must be supplied by coercive external forces, namely states.
 - i. See the Tragedy of Commons argument.
 - ii. ✓Support for airlines.
 - D. ✱Consequently, the two—the state and capitalism—cannot be separated.
 - 1. Thought experiment: imagine 21st century capitalism with 18th century size and style government.
 - i. Could it—the capitalist system—exist?
 - 2. Another thought experiment: Suppose you wanted to reform fundamentally government. Wouldn't you have to remake entirely the economic **and** political systems?
 - i. It wouldn't be enough simply to “take over” the present

government.

III. SOME SPECIFIC MANIFESTATIONS OF STATE CAPITALISM:

- A. Functions of the state.
- B. The role of “state managers”: reproduction of structures of accumulation.
 - 1. Management of the business cycle.
 - i. ○Price stability
 - ii. Aggregate supply
 - iii. Productivity growth.
 - iv. Tools: the Federal Reserve Bank, congressional fiscal policy.
 - 2. Direct and indirect support
 - i. Subsidies and aid to specific industries.
 - ii. Tariff and trade policy.
 - iii. Research and development
 - iv. "Infrastructure" (e.g., roads, harbors, airports)
 - 1) ✓Highway construction.
 - 3. Provision of "human capital" (schools, health, job training)
 - i. Who or what segment of society is pushing hardest for educational reform
 - ii. Supply of trained, "disciplined" labor to enhance productivity
 - 4. Social harmony
 - i. Labor management conflict.
 - ii. ✱Legitimation: capitalism depends on acceptance which minimum welfare programs help create.
 - iii. Hence the intended and unintended consequences of social “welfare” programs
 - 1) Most government benefits go to middle and upper classes.
 - 2) But those that help the poor have the (latent or unintended) function of defusing social unrest, discontent, and conflict.
 - 3) ○The role of consumption in our society.
 - iv. Case in point, Social Security

IV. SOCIAL SECURITY:

- A. Misperceptions:
 - 1. ✱Not a pension plan
 - i. Rather, a collective and mandatory insurance program.
 - ii. Insures against old-age poverty, loss of dignity, disability, spouse and dependent hardship.
- B. Overview of the program
 - 1. ○Pay-as-you-go and prepaid plan.
 - 2. ○Beneficiaries.
 - 3. ○Progressive Benefits (OASDI) paid for by payroll taxes (FICA), a *regressive* tax.
 - i. Payroll taxes are regressive: “poor” pay higher percent than rich.

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- ii. Benefits are regressive: poor receive relatively more than rich.
- iii. It is social security. .
- iv. Surpluses are saved.
4. ✳It is meant to be a social benefit, not a system of *individual* retirement accounts.
- i. An inter-generational social compact.
- ii. It can be interpreted as an effort to promote social harmony, defuse anger against capitalism, foster legitimacy, and add to consumption.
- C. ○Entitlement (mandatory) program.
1. Expenditures are determined by formulas established by law.
2. Amounts are not determined by Congress.
3. “Conditions” determine spending levels.
- D. ○Structure
1. Payroll tax (FICA)
2. Benefits.
3. Surplus put in a trust fund.
- i. Must be used to buy government bonds.
- ii. These bonds appear in the books as income for the government.
- iii. They really represent a promise (an IOU) that one part of government (Congress) will repay another part (Social Security trustees) the “loan” plus interest.
- E. The debate
1. Myths:
- i. It is going broke.
- ii. Government is stealing from funds.
- F. Situation and trends under current law.
1. By 2037 trust fund will be empty.
2. Social security will only be able to pay 70 percent or so of what it currently promises.
- G. Bush proposal.
1. Allow individual, voluntary retirement accounts.
- i. Some of current payroll taxes would be diverted to individual retirement accounts.
2. The fears: it will speed up date at which outlays exceed income.
- H. Alternative proposals: divert money from general revenue into social security.
- i. Use some of surplus from non-mandatory budget to fund social security.
- V. NEXT TIME:
- A. Constitution
- B. Reading:
1. Work on Drew as noted.

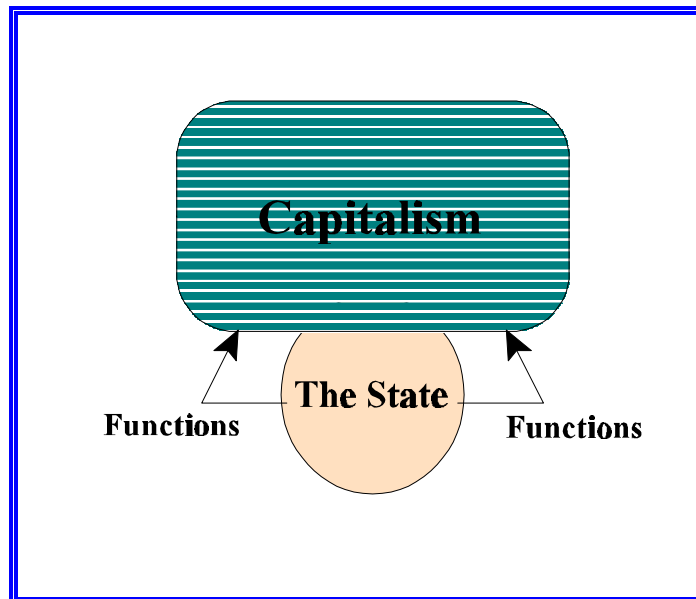


Figure 1: State Supports Capitalist System