BOSTON UNIVERSITY
Global Development Policy Center
Economics in Context Initiative

The Power of Capital: An Introduction to Class, Domination, and Conflict

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An ECI Teaching Module on Social and Environmental Issues in Economics

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Suggested citation: Reuss, Alejandro. (2020) “The Power of Capital: An Introduction to Class, Domination, and Conflict.” *An ECI Teaching Module on Social and Economic Issues*, Economics in Context Initiative, Global Development Policy Center, Boston University, 2020.

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1. INTRODUCTION

1.1 Economics and Power Relations

Social scientists and other observers often describe various actors, such as wealthy individuals, large corporations, governments, or international institutions, as exercising **power** over others. The term "power," however, is used so widely that those using it do not always define precisely what they mean by it. Individuals may have to figure out what a particular commentator means by "power" by observing who they view as exercising power, or what kinds of actions they think of as uses of power.

The German sociologist Max Weber (1864-1920) offered one of the most famous definitions of power as the "probability that one actor within a social relationship will be able to carry out their will despite resistance, regardless of the basis on which this probability rests."[1] Three useful aspects of this definition are:

1) One social actor's power only exists in relation to other actors. The claim that a particular actor has "power" must be defined by both what this actor has the power to do and in relation to whom they can do it.
2) Power exists in situations where the objectives of different actors are in conflict. Weber defines power by the ability to overcome resistance, which implies that it is used against an actor who has opposing aims.[2]
3) Power is defined by the ability of an actor to achieve a desired outcome, which means that it must be asymmetrical. If two actors are in conflict, the power of one to cause a certain outcome cannot coexist with the power of the other to prevent it.

Economic relations between different individuals or groups can be power relations. In human history, there have been many different forms of economic organization, each characterized by distinctive kinds of power relations. This module is about forms of power that are characteristic of **capitalist** economies. Capitalist economies are defined by three features:

1) Production goods (things used to produce other things, such as land, buildings, and machines) are privately owned and can be bought and sold in markets.
2) Labor power (a person's ability to do work) is bought and sold in markets, primarily in the form of some people agreeing to work for others for pay.
3) Goods and services are produced for sale in markets, with the aim of private profit.[3]

[1] Weber, 1978, pp. 53.

[2] This aspect of the definition is problematic in at least two ways. First, it suggests that the actor over whom power is exercised is capable of some "resistance" action. However, such resistance may be deterred in highly asymmetrical power relations. Second, it suggests that the actor over whom power is exercised consciously opposes the actor exercising power. One actor's power over another, however, could include the power to influence the other's beliefs, in such a way as to get the latter to accept the aims of the former without opposition.

[3] Bowles, et al., 2018. Bowles, *et al.*, include wage labor (one person working for someone else for pay, in a formally voluntary exchange) as a defining characteristic of capitalism. An alternative definition includes any form

While capitalism has only existed for about 500 years, it has spread and transformed societies around the world and is the dominant economic system in the world today.

1.2 Outline of the Module

This module presents an overview of economic class, class power, and class conflict—all of which are key themes in **radical economics**.[4] It addresses some aspects of economic power in capitalist societies today, highlighting relations among actors that are *not* regarded as power relations in mainstream (or "neoclassical") economics. It is by no means, however, a comprehensive account of economic aspects of power. This module will focus on economic "classes" and the kinds of unequal power relations that exist between people in different economic classes in capitalist economies, such as business owners and managers on the one hand and nonsupervisory workers on the other. Unequal power relations also exist along lines of gender, race, ethnicity, and other kinds of social groups. "Class power" relations should be understood as part of a larger picture—one piece in an interlocking jigsaw puzzle—of power in contemporary societies.

The following three sections of this module focus on class power in the workplace, class power in the political sphere, and how conflicts between classes in both the workplace and the political sphere can change these power relations. Section 2 focuses on the unequal power relations between employers and the people who work for them for pay ("the wage labor relation"). Section 3, on capital and politics, addresses the ways that business owners and managers can convert their economic power into political power, particularly to further their common class interests rather than narrower company or industry interests. Section 4 focuses on conflict and change—especially on workers' collective action and how it can alter or could even abolish unequal "class power" relations.

1.3 Economics and Market Relations

If people are to exist together in societies, they must develop ways to govern their interactions, including in **economic** aspects of social life.[5] They must determine who will control resources needed for production, what kinds of goods will be produced, who will do the work, who will get to use the goods that are produced, and so on. Different societies are characterized by different answers to these questions, and also on different types of institutions that generate these answers.

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of *commodified* labor (any system through which labor power can be obtained by purchase in markets). By this definition, capitalism with wage labor and capitalism with slavery constitute different varieties of capitalism.

[4] Radical economics is a school of economic thought inspired by the 19th century German philosopher, economist, and revolutionary Karl Marx (1818-1883). Marx emphasized the unequal power relations and conflicts of interests between different economic classes, the balance of power between them as bringing about important economic outcomes, and the conflicts between them as driving transitions from one economic system to another. Later radical economists have extended these concepts to the analysis of other unequal power relations, including those based on gender, race/ethnicity, and nation.

[5] The economic sphere can be defined as the aspects of a society that have to do with the production and distribution of goods and services, and economics as the "study of how the productive and distributive aspects of society are organized" (Riddell et al., 2005).

Markets are one kind of institution in which people interact and through which they generate economic outcomes. When economists talk about "markets" they are not referring to physical locations, but to patterns of exchange between different actors. Each participant in a market exchange offers some kind of good (or service) that can be transferred to (or performed for) the other, on the condition that something else is transferred in return. If each agrees to the particular transfer and each receives what was offered, a "market exchange" has taken place. Many such exchanges, involving the same type of good or service, constitute a "market."

While people may think of markets, exchanges, or money when they think about "the economy," market exchange does not define economic life. Markets are obviously very important in capitalist economies. (Note that markets are mentioned in each of the three features listed in the definition of capitalism given earlier.) However, markets had relatively little importance for most of human history, and they are not nearly as important in other modern economic systems. Even in capitalist economies, markets coexist with various non market relations.

Few, if any, economists dispute the importance of markets in capitalist economies. Economists of different schools of economic thought, however, have very different views of markets. (See Box 1.) In **neoclassical economics**, the dominant school of economic thought in the United States and worldwide, competitive markets play a central role. Mainstream economics textbooks present the **perfectly competitive market** as an ideal and use it as a reference point to describe other market structures (which are defined by the ways they differ from perfectly competitive markets). Among the characteristics defining a perfectly competitive market are:

- There are large numbers of buyers and sellers ("atomistic buyers and sellers").
- The goods offered by each seller are identical to those offered by all other sellers ("homogenous goods").
- No buyer or seller can unilaterally affect the overall market price ("price taking").
- All buyers and sellers have perfect and complete information about anything (present or future) that would affect their decisions ("perfect information").
- There are no costs for market participants, apart from what they transfer to the other party, in an exchange ("no transaction costs").
- There are no effects of their transactions on any other party ("no externalities").[6]

If all these assumptions were to hold, it would be hard to see how one market participant could exercise power over another. For example, no buyer is obligated to buy from any particular seller (or to buy at all), just as no seller is obligated to sell to any particular buyer (or to sell at all). A seller cannot impose a higher price than that offered by other sellers, because other sellers offer identical goods, the buyer is aware of all other offers, and there is no cost to the buyer of choosing a different seller. No seller (or buyer) can take advantage of a buyer (or seller) who has incomplete or incorrect information, and thereby impose a bargain that favors the former at the expense of the latter. No market participant can impose any cost on a non-participant that the latter does not have the power to refuse; nor can any non-participant obtain a benefit from a market participant that the

[6] Tilly, 2017.

latter does not have the power to withhold. In neoclassical economics, then, the model of the perfectly competitive market is largely one devoid of power relations.

This does not mean, however, that neoclassical economists deny the existence of economic power altogether. They do recognize that other market structures exist, including where participants exercise "market power." **Market power** refers to the ability of a market participant (whether a seller or a buyer) to unilaterally influence the market price. If there is only one seller in a market, for example, this "monopolist" can impose a higher price than that of a perfectly competitive market. If there is only one buyer, this "monopsonist" can impose a lower price than in a perfectly competitive market. In markets characterized by a small number of sellers (oligopoly) or buyers (oligopsony), sellers or buyers may also be able to influence market prices in their favor. Market power may even exist where there are many sellers, but different sellers offer non-identical goods (monopolistic competition).[7]

In neoclassical theory, the exercise of market power by one party over another does not imply that the latter party has entered the relationship *involuntarily* or is left *worse-off* by the transaction. Consider the relationship, in a monopoly market structure, between a monopolist and a buyer. This is a voluntary relation, in that the seller can choose to sell or not sell, and the buyer can choose to buy or not buy. If a rational, self-interested, and well-informed buyer accepts the offer, this means that it must leave them, at the very least, no worse off than they were before engaging in the market exchange. Neoclassical economists, nevertheless, describe this as a power relation, in which the seller exercises market power over the buyer. Two actors engaging voluntarily and benefiting mutually from a transaction, then, does not preclude the exercise of power by one over the other. This conclusion may not be that important to neoclassical economists, but it is very important to radical economists.

In any society, the control of resources is a major factor in determining what kinds of markets exist, what economic outcomes result, and what kinds of power relations exist between participants. Both neoclassical and radical economists recognize that control over resources ultimately relates to nonmarket processes.[8] Neoclassical economists describe the "initial endowment" of resources as being established outside the realm of (or "exogenous" to) economics.[9] Treating the possession of resources like land or labor as a given, they skip ahead to describing the kinds of exchanges people will make on the basis of these endowments. For radical economists, in contrast, the control of resources and historical conflicts over this control are central to the narrative—especially in determining who will have power over whom in a society. The violent separation of poor farmers from their land, for example, figures prominently in radical economists' accounts of the origins and spread of capitalism, because this explains how some

[7] One of the most important radical economists of the 20th century, Joan Robinson, was a pioneer of the theory of "monopolistic competition." See Robinson, 1933.

[8] For people to engage in market exchanges they must possess something they can offer to someone else. What people possess, and can offer for exchange, depends in part on previous market transactions. Tracing a sequence of market transactions into the past, one must ultimately arrive at an initial establishment, by nonmarket processes, of control over some resource.

[9] Neoclassical economists recognize that the kinds of market exchanges in which people will engage, and the outcomes of these exchanges, depend on: 1) their *preferences*, 2) their *endowments* of factors of production , and 3) the *technologies* available to them. It treats each of these three issues as "exogenous" to the economic sphere. (Himmelweit, et al. 2001, pp. 10.)

people got land while others became landless and dependent on wage employment.[10] In an agricultural society, if most people own their own land, they can work on it to produce crops for consumption or sale. However, if most of the land is controlled by a few people, non-owners might have to rent land from the owners or work for them for wages. The non-owners might not want to be tenant farmers or wage workers but, lacking any land of their own, have no other way to make a living. The market exchanges into which people enter voluntarily, thus, depend on power relations between them.[11]

In the view of radical economists, power relations between the parties in a market exchange do not require anyone to exercise market power (in the sense this term is used by neoclassical economists) over anyone else. For example, it is not necessary for there to be only one employer (or just a few employers) in a particular labor market for employers to exercise power over workers. The property-less are not obligated to work for any particular employer, but they may have little alternative but to work for some employer. The owners, taking advantage of this need, can impose conditions on the non-owners in exchange for letting them use their property. If they rent to the non-owners, the owners require that the renters pay them part of the revenue from the sale of the output that the latter produce. If they hire the non-owners as wage workers, the owners pay the workers' wages, but take the entire output as their property and keep the profit from its sale. Either way, the renter or wage worker has to split the proceeds with the property owner.

Radical economists describe these not only as power relations but also as relations of *exploitation*. In economics, the concept of exploitation is associated with one party using their power over another to obtain something for nothing, or to obtain something over and above the value of what they give the other in exchange. (Different schools of economic thought define this baseline value differently, and so come to different conclusions about which kinds of relations are exploitative and which are not.) Neoclassical economists rarely use the concept of exploitation, and when they do it is usually rooted in the exercise of *market* power.[12] In radical economic theory, in contrast, exploitation is a central concept. Radical economists focus on the ways that one party's exercise of power can allow them to appropriate wealth that another produces by their labor (as the owners appropriate part of the wealth produced by the workers in the example above). They do not, however, assume that the former must exercise *market* power over the latter. Land, machines, buildings, and other material resources may be just as necessary as labor for producing new wealth, but this does not mean that the *owners* of these resources produce new wealth. In the view of radical economists, the owners' control of wealth that has been produced in the past allows them to appropriate new wealth that they do not produce.[13]

[10] Marx, 1977, pp. 877-895.
[11] Roemer, 1988.
[12] Economic historians Roger L. Ransom and Richard Sutch argue that, in the post-Civil War southern United States, store keepers exercised market power over sharecroppers (charging them higher-than-normal "credit prices"). They characterize this relation as "exploitative," calculating a "rate of exploitation" equal to about one-sixth of the sharecroppers' incomes (Ransom and Sutch, 2001).
[13] Different radical economists, with different underlying theories about the origins of wealth, still agree with the conclusion that capitalists appropriate wealth that they do not produce. (See Marx, 1977, pp. 307-319, and Robinson, 1952).

BOX 1: ECONOMICS: THREE SCHOOLS OF THOUGHT

Modern economists of various schools of thought can trace their lineage back to "classical" British economics of the late 18th and early 19th centuries, especially the work of Adam Smith (1723-1790) and David Ricardo (1772-1823). Different schools of economic thought, however, have embraced different aspects of classical economics and developed in very different directions.[14]

Neoclassical economics, originating in Western Europe and the United States in the late 19th century and then spreading to other parts of the world, embraced the aspects of classical economics that emphasized individual rationality and self-interest, mutually beneficial market exchanges, and the role of competitive markets in bringing about socially desirable outcomes. Neoclassical economists do not claim that, even in a world in which all markets were perfectly competitive, economic outcomes would always be optimal. They argue, however, that competitive markets are "self-correcting," that they tend to move toward optimal outcomes through the self-interested actions of market participants-without need for any coordinating authority. When markets deviate from the perfectly competitive market model-i.e., when there are **market failures** - neoclassical economic theory recognizes that government interventions can at least theoretically improve on market outcomes. To a great extent, however, neoclassical economists downplay the significance of market failures, view economic policies that "distort" market outcomes with suspicion, and tend to support "free market" policies.

A second school of thought includes economists who argue that market failures- like large firms exercising market power, producers or consumers creating pollution that harms third parties, or market participants lacking complete information-are much more pervasive and important than neoclassical economists recognize. They see much greater potential for government intervention to improve economic outcomes by addressing market failures through appropriate policies. They also question whether competitive markets necessarily bring about desirable outcomes at the level of the whole economy. In their view, economic crises such as the Great Depression of the 1930s or the recent Great Recession belie the doctrine of the optimal self-correcting market. The British economist John Maynard Keynes (1883-1946), among others, argued that capitalist economies could get stuck in a vicious circle of low demand, low output, high unemployment, and low incomes, necessitating government action to boost overall demand during economic downturns. While those belonging to this second school of thought do not generally oppose the capitalist economic system, they argue that well-devised government interventions can often improve economic outcomes.

Radical economics represents a third major school of economic thought. The German philosopher and economist Karl Marx (1818-1833), the most important figure in the history of radical economics, developed aspects of classical economic thought focused on the production of wealth and its division among the different economic classes in capitalist societies. Radical economists' description of capitalist economies does not depict individuals meeting in markets as rough equals engaging in voluntary and mutually beneficial transactions. Rather, they describe capitalist society

[14] An excellent summary of the same three broad schools of thought described here can be found in Carson et al., 2015.

as divided into different classes, with opposing economic interests, in conflicts ranging from immediate bargaining outcomes (wages, hours, working conditions etc.) to the overall in institutional structures governing economic life. Radical economists recognize the dynamic characteristics of capitalism (e.g., investment in expanded production, technological innovation, etc.), but also its predatory and chaotic nature—such as exploitation of labor, "boom and bust" economic cycles, global wealth and power inequalities, and environmental degradation. Radical economists see central problems of capitalist societies as inherent to the capitalist system, and therefore are skeptical that they can be fixed—by government interventions or other measures—without fundamental system change.

1.4 Non market Relations and Power

As important as market relations are in modern societies, there are also important kinds of **non market relations**. Within a household, for example, the division of labor among different members may be determined by traditionalist ideas defining some tasks as "women's work" and others as "men's work" rather than market calculations. In patriarchal societies, the burdens of unpaid household labor generally fall disproportionately on women, who may face social pressures to put the interests of other household members before their own.

Like market relations, nonmarket relations may involve the exercise of power by one party over another. In patriarchal societies, for example, women may not be able to own property in their own right, to work for pay or otherwise obtain their own income, to practice certain occupations, or to get an education that would make certain kinds of careers possible. Such restrictions can buttress patriarchal power in the household by reducing the alternatives available to women and making them reliant economically on male household members.[15]

Nonmarket power relations may involve the use of force (or threat of force) by one actor against another. The labor systems of slavery and serfdom, for example, clearly rely on force exercised by the "masters" or "lords" over the slaves or serfs. Even today, slavery and other forms of "unfree labor," though much less prevalent relative to wage labor than they once were, have by no means been eradicated.[16] In patriarchal societies, male household heads may be permitted both by law and social norms to engage in some forms of violence against women or children. Laws and norms restricting or prohibiting family violence are relatively recent, and by no means universal.[17]

The exercise of political (state) power can be seen as a particular case of nonmarket power relations relying on force or the threat of force. State officials can issue commands that must be obeyed and that can be enforced by violence (arrest, imprisonment, etc.). Max Weber famously described the state's "*monopoly* of the *legitimate* use of physical force in the enforcement of its order" as the defining feature that distinguished it from other social institutions.[18] The radical social scientist

[15] See Folbre, 1994.
[16] See Albert et al., 2018.
[17] See Folbre, 2001; and Folbre, 2015.
[18] Weber, 1978, pp. 54.

(and friend and collaborator to Karl Marx) Friedrich Engels, more succinctly, defined the state as consisting of "armed men … prisons, and institutions of coercion of all kinds."[19]

Political power, to be sure, can be used for broad public benefit. Governments may collect taxes, for example, to finance public schools or provide social insurance programs. But political power can also be used for self-serving purposes. State officials, who directly exercise political power can use it to enrich themselves, or to enrich others who exercise influence over them. In describing the use of political power for economic ends, neoclassical economists emphasize **rent seeking**—attempts to obtain an "excess return" above the competitive market level—by individuals and interests groups.[20] A rent seeker might use political influence to obtain economic rents directly, such as through cash payouts or contracts that pay more than the competitive market price, or indirectly, such as through policies that protect them from competition, and allow them to impose higher prices on private buyers. Government policies that restrain competition figure prominently in neoclassical economists' accounts of the origins of market power.

Radical economists, too, recognize that force or the threat of force can be used for economic purposes, referring to this as **extra-economic coercion** (meaning coercion that relies on pressures beyond those created by economic conditions). The violent dispossession of peasant farmers, for example, appears prominently in radicals' accounts of the origins of wage labor—as a process that has repeated over and over as capitalism has spread around the world.[21] Some radical economists emphasize, too, that the global rise of capitalism was founded on extra-economic coercion in the forms of colonialism and slavery.[22]

However, radical economics is focused more on the ways that voluntary contractual relations can be relations of power and exploitation. They emphasize, for example, that wage labor does not rely on extra-economic coercion in the same ways as other class systems, like slavery or serfdom.[23] Under wage labor, workers need not be coerced to submit to the employer's authority and to produce wealth that the employer appropriates; the simple and pervasive fact that they do not have any other way to make a living is sufficient. The very concept of "extra-economic coercion," indeed, implies that there is such a thing as "economic coercion," that people routinely enter into formally voluntary relations due to economic duress.

Radical economists also recognize that market exchanges—especially those between employers and workers—give rise to important *nonmarket* power relations. Capitalist enterprises relate to the outside world through market relations, buying inputs and selling output, but they do not function internally on the basis of market exchange. Different departments of a company, for example, do not bid competitively for the services of the corporation's employees, for machinery and materials the firm owns, etc. These resources, rather, are allocated by plans devised by those who control the company (owners, top managers, etc.).[24] Over the history of capitalism, this realm of planning has grown enormously. Capitalist enterprises may once have been "islands of conscious power in

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[19] Quoted in Lenin, 1975.
[20] Hirshleifer, et al., 2005.
[21] See, for example, Arrighi, 1970.
[22] See Williams, 1944.
[23] Wood, 2011.
[24] Coase, 1937.

a sea of unconscious cooperation,"[25] but the capitalist corporations of our time are no longer small islands surrounded by vast oceans of market exchange. The largest have become continents of planning.[26]

The capitalist enterprise, radical economists emphasize, functions not only by planning but specifically by top-down command. Marx famously wrote that, when owners of capital and owners of labor power encountered each other in labor markets, their relations appeared to be governed by the principles of freedom, equality, property, and self-interest. Each was just a buyer or seller in the market, free to engage in an exchange or to refuse; each having the same legal rights as the other; each offering what they owned; each concerned only with their own interests. Once an exchange was made, however, the two characters became transformed: the owner of capital became the boss and the owner of labor power became a subordinate.[27] When people sell their ability to do work to an employer (a market exchange), they submit to the power structure of the capitalist enterprise—to commands issued by owners or executives at the top, interpreted and transmitted down through multiple layers of management, and ultimately to the workers in the factory, office, or other workplace. They enter, in other words, into a whole set of *non market* power relations.

2. CAPITAL AND WAGE LABOR

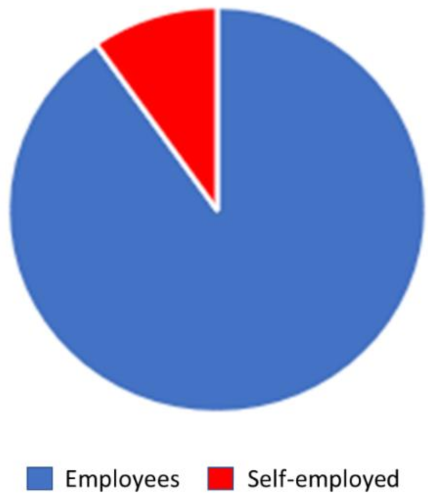
The rise of capitalism over the last 500 years has created complex changes in economic power relations. In some cases, capitalism supplanted economic relations that relied on extra-economic coercion, such as serfdom. It also spurred the expansion of other coercive relations, especially slavery. In other cases, capitalism supplanted economic relations in which workers exercised considerable autonomy, such as self-employed small farmers and craftspeople or traditional rural communes. Capitalism has also relied on and reinforced pre existing relations of domination and subordination, such as the unpaid labor of women in the patriarchal household.[28] Finally, under capitalism **wage labor** has increased dramatically, becoming the dominant labor system in the for-profit private enterprise.

Of the employed population in the United States, about 90% are wage and salary employees.[29] Less than 10% are self-employed, working at their own or a family-owned business.[30] The vast majority of employees (about 80%) work for private businesses, but most businesses usually only employ family members. Out of about 15 million private businesses, only about 5 million businesses have even one employee.[31] Out of these, over 4.5 million (about 90%) have fewer than 20 employees, and only account for about one-sixth of total private employment in the United

[25] D.H. Robertson, quoted in Coase, 1937, p. 388.
[26] See Galbraith, 1971.
[27] Marx, 1977, p. 280.
[28] See Folbre, 1994, pp. 91-125.
[29] The term "employed" is used here as it is used in official U.S. government statistics, denoting anyone who works "for pay or profit" whether self-employed or as a wage or salary employee.
[30] Even this figure probably overstates the extent of independent business ownership, as people who work for wages are increasingly "misclassified" as independent contractors. See Weil, 2017.
[31] Bureau of Labor Statistics, Distribution of private sector firms by size class: 1993/Q1 through 2018/Q1, not seasonally adjusted (bls.gov/web/cewbd/table_g.txt).

States. Meanwhile, there are only about 50,000 businesses with 250 or more employees, but together these larger private businesses employ over 65 million workers (about 55% of total private employment).[32]

Figure 1. *Civilian employment, employees and self-employed, United States, April 2019*



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis (fred.stlouisfed.org).

2.1 Radical Economics and "Classes"

Terms like **class** or "economic class" are used differently by different social scientists. Often, class is defined on the basis of income, occupation, education, or other factors. Defining class on the basis of income, for example, a social scientist might describe a class structure composed of lower-income, middle-income, and upper-income classes, with certain threshold incomes defining the boundary between one class and another. Those who emphasize occupation might view people who do "manual" labor or are employed in so-called "blue collar" occupations (such as manufacturing, mining, construction, transportation, etc.) as members of one class and those who do "mental" labor or are employed in "professional" or "white collar" occupations (such as business managers, engineers, doctors, lawyers, teachers, etc.), as members of a different class. Others might define people with different levels of formal education—those without a high-school diploma, high-school graduates without a college degree, college graduates without a more advanced degree, those with graduate or professional degrees, etc.—as constituting different classes.

Radical economists are certainly interested in outcomes like the distribution of income, and inequalities in occupational and educational opportunities. They may also be interested in how these outcomes reflect and perpetuate an underlying class structure. However, radical economics does not *define* class based on these criteria. The most important class distinction in capitalist

[32]Bureau of Labor Statistics. Distribution of private sector employment by firm size class: 1993/Q1 through 2018/Q1, not seasonally adjusted (bls.gov/web/cewbd/table_f.txt); Bureau of Labor Statistics. Distribution of private sector firms by size class: 1993/Q1 through 2018/Q1, not seasonally adjusted (bls.gov/web/cewbd/table_g.txt)

societies for radical economists is the distinction between the capitalist class and the working class. This is not the same as the class structures defined by incomes, occupation, or education levels.

In defining the boundaries between the capitalist class and working class, different radical economists have emphasized different aspects of class relations:

1) *Property relations*. Society is divided between the propertied capitalists, or the "owning class," and the propertyless workers. The capitalists own the means of production (land, factories, machines, etc.). The workers may have some property of their own, but they do not own enough wealth that allows them to make a living without working for someone else for pay.
2) *Contractual relations*. Workers and employers are bound together by wage-labor contracts. The capitalists are the "employing class," as they hire other people to work for them for pay. Wage workers, meanwhile, work for someone else for pay and therefore are employees.
3) *Power relations*. In this view, society is divided between the "dominant" capitalist class (sometimes described as the "ruling" class) and the "subordinate" working class. The capitalists exercise power over the workers, at least in the workplace, directing what they will do and how they will do it (or appointing managers and supervisors to do so). The workers, on the other hand, have little choice but to obey (at least to the minimum degree consistent with keeping their jobs).[33]
4) *Exploitation*. The most distinctive way in which radical economists describe class relations is by distinguishing between a "producing class" (whose members produce wealth by their own labor) and an "exploiting class" (whose members appropriate at least some of this wealth without producing it).[34] In capitalist societies, workers produce wealth through their labor, but only obtain part of the new wealth created in the form of wages, salaries, or other labor compensation. Property owners, meanwhile, appropriate part of this new wealth in the form of profits from ownership of businesses, rent from land or structures, interest from loans, dividends from stocks, etc.[35]

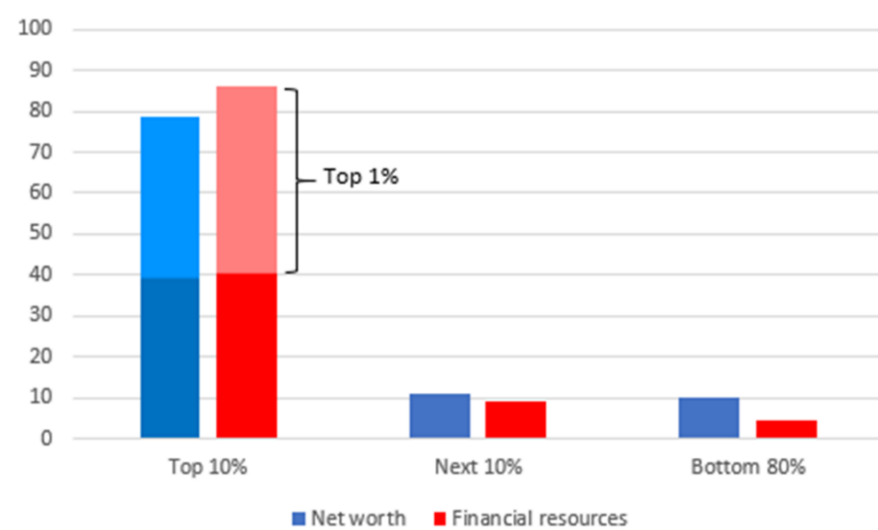
2.2 Wealth Inequality and Labor Contracts

The unequal distribution of **wealth** is a key factor in understanding why capitalist societies are divided between people who own businesses and people who work for them for pay. Ranking all U.S. households by net worth—the total monetary value of their assets (what they own) minus the total monetary value of their liabilities (what they owe)—the top 1% accounts for about 40% of total wealth and the top 10% accounts for over 75%.[36] The concentration of wealth at the top is even more dramatic if we look at wealth based on financial resources—net worth excluding the

[33] The term "ruling class" might imply no more than "ruling" the workplace. However, it usually implies that the capitalist class holds a dominant position in entire national economies and political communities, subjects discussed in Section 3.
[34] See Wolff and Resnick, 1987a; and Wolff and Resnick, 1987b.
[35] Some radical economists describe compensation of business executives as deriving from *control* of capitalist businesses, even without formal legal ownership, and so as analogous to profits rather than to the wages and salaries of ordinary workers. See, Kalecki, 1938, p. 97.
[36] Wolff, 2017. Table 2: The Size Distribution of Wealth and Income, 1962-2016, p. 44.

person's primary residence and vehicles. By this measure, the top 1% accounts for over 45% of total wealth, and the top 10% owns over 85%.[37] Financial resources are different from other kinds of assets for two main reasons. First, for most people, ownership of a primary residence or vehicle generates little or no direct income. Ownership of financial resources (such as a business, securities like stocks or bonds, or real estate other than a primary residence) can, however, yield property incomes (profits, dividends, interest, rent, etc.). Second, primary residences and personal vehicles are important elements of economic security for those who own them, and few people liquidate such resources for the purposes of starting a business.[38] Hence, financial resources are better estimates of wealth available for business investment than net worth.

Figure 2. *Percent of Wealth, by Ranking Group, United States, 2016*



Source: Wolff (2017), Table 4: Mean Wealth Holdings by Wealth or Income Class, 1982-2016, p. 46.

While the top 10% own almost half of the financial resources, the average financial resources for people in the bottom 40% are actually negative, meaning that on average they owe more than they own. Assets owned by members of this group (excluding primary residence and vehicles) average about $20,000 less than liabilities. Moving up in the ranking, the next (middle) 20% have average financial resources of less than $20,000, the 20% above that have about $140,000, and the average financial resources for the top 20% are over $2.5 million. Furthermore, the top 10% own average financial resources of over $4.5 million and the top 1% own almost $25 million.[39] These figures help explain why wage employment is so prevalent. Most people simply lack the financial resources necessary to establish a business of their own above a very small size, or otherwise secure enough non-labor income to live on.[40] They also help explain differences in rates of business

[37] Wolff, 2017, pp. 6, 44.
[38] Small Business Administration (sba.gov).
[39] Wolff, 2017. Table 4: Mean Wealth Holdings by Wealth or Income Class, 1982-2016, p. 46.
[40] Surveys of business owners bear out the importance of financial resources as a source of business investment. Nearly 60% of owners surveyed reported using personal savings to finance their business, 6% reported using other personal assets, and 3% reported using home equity. By comparison, only 8% reported using a bank loan and 8% reported using personal credit cards (Small Business Administration, sba.gov).

ownership by demographic group. Among white people in the United States, for example, the self-employed account for almost 11% of total employment; among African Americans, about 5%. This difference can be traced to the large and persistent racial wealth gap in the United States.[41] (See Box 2.)

BOX 2: THE RACIAL WEALTH GAP

In the United States, there are large inequalities in average wealth between different racial/ethnic groups. The median net worth for whites (about $140,000) is over 40 times that for African Americans (about $3,000); median financial resources for whites (almost $50,000) are over 500 times as for African Americans (about $100). Among white households, just over 15% have zero or negative net worth; among African American households, this number is over 35%.[42] Several factors contribute to the size and persistence of the racial wealth gap:

- *Persistent effects of historical dispossession and discrimination.* The wealth of each generation depends on wealth inherited from previous generations. All factors contributing to racial disparities in income and wealth in the past (slavery, land dispossession, political disenfranchisement, etc.) contribute to the racial wealth gap today.
- *Current income inequalities.* The median household income for African Americans (about $35,000) is less than 60% that for whites (about $60,000).[43] Unequal opportunities, such as educational and employment discrimination both past and present, contribute to the current racial income gap.
- *Institutional barriers to the conversion of income into wealth*. Numerous studies note that African Americans have lower wealth, on average, than their white counterparts—even controlling for factors such as education, employment, and incomes.[44] The racial wealth gap is explained in part by institutional barriers for African Americans to convert incomes into wealth, such as discrimination in home mortgage, business, and farm lending.[45]

2.3 Property, Power, and Incomes

The word **property** is often used to refer to things—a piece of land, a house, a car, or a television—but property should also be understood as a social relationship between different members of society, and specifically as a set of powers that one member of society exercises in relation to others.[46] In capitalist societies, to say that a landlord "owns" a piece of land, an industrialist "owns" a factory, or a lender "owns" money, for example, means that each has the power to exclude others

[41] Hipple and Hammond, 2016.
[42] Wolff, 2017. Table 4: Mean Wealth Holdings by Wealth or Income Class, 1982-2016, p. 46.
[43] Wolff, 2017. Table 13: Household Income and Wealth by Race and Ethnicity, 1983-2016, p. 56.
[44] Darity, Jr. et al., 2018, pp. 6, 8, 9.
[45] See Oliver and Shapiro, 2006; Lui et al., 2006.
[46] Cronon, 1983, p. 58.

from taking or using their property without permission. For example, a landlord's rental income derives from the power they exercise over people who do not own their own land. If a landless person wants to farm that land, they have to pay the owner for the privilege.

In 2017, property income in the United States topped $4 trillion, or nearly one-third of total household disposable income.[47] This might not be of such great concern if property, and therefore property income, were distributed rather equally across the population. The distribution of income-bearing assets (such as businesses, stocks, bonds, real estate, etc.), however, is highly unequal. The top 1% of the wealth distribution, for example, accounts for over 55% of the ownership of "investment assets," including 53% of stocks and mutual funds, 65% of other financial securities, 66% of business equity, 40% of non-home real estate, and 51% of trusts. The top 10% accounts for over 90% of all investment assets, and over 80% of each of these specific types of assets.[48] As a result, the distribution of income from property is also highly unequal. According to Congressional Budget Office (CBO) income data, in 2015 the top 10% of U.S. households (ranked by income before taxes and transfers) received over 80% of business income; the top 1%, over 50%. The top 10% received nearly 90% of capital income (capital gains, interest, rent, and dividends, less the capital share of corporate taxes); the top 1%, nearly 65%.[49]

2.4 Threat of Job Loss

Under conditions of wage labor today, employers do not typically rely on extra-economic coercion. They do not generally hold workers against their will, or use violence or threats of violence to get them to work hard. The employer's power over workers, rather, depends on the worker's need to keep their job and the employer's power to take it away—that is, on the threat of job loss.

An employer's authority to fire a worker is not always absolute. It may be constrained by law (e.g., restrictions on firing without legitimate cause) or by contract (e.g., collective bargaining agreements between employers and labor unions). The strength of such constraints varies in different capitalist countries, due to differences in labor union size and strength, influence of labor-based political parties, and other factors. In the United States, such constraints are weak: The legal doctrine of "at will" employment establishes the authority of employers to dismiss a worker, unless otherwise prohibited by contract, for "good cause, bad cause, or no cause at all" (excepting prohibitions against some forms of discrimination or retaliation).[50] Meanwhile, only 6.5% of private-sector wage and salary workers are covered by collective bargaining agreements, and few other workers have individual contractual protections against being fired.[51]

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[47] Board of Governors of the Federal Reserve System (US), Households and nonprofit organizations, disposable income, net (IMA); Households and nonprofit organizations, property income (received) (IMA). Data retrieved from FRED, Federal Reserve Bank of St. Louis (fred.stlouisfed.org).
[48] Wolff, 2017. Table 10: The Percent of Total Assets Held by Wealth Class, 2016, p. 53.
[49] CBO, 2018. Additional Data for Researchers (households_ranked_by_inc_before_trans_tax_table_05_components_inc_before_transfers_taxes_1970_2015.csv); definitions from "The Distribution of Household Income, 2014," Congressional Budget Office, March 19, 2018.
[50] Muhl, 2001.
[51] Barry Hirsch and David Macpherson, Union Membership and Coverage Database from the CPS (unionstats.com).

For most workers, the threat of job loss is very real and the consequences of job loss would be dire. The average cost of job loss depends on average labor compensation, average unemployment duration, average "replacement income" from social insurance and other government programs during the period of unemployment, and average "reemployment income" for workers after a period of unemployment. The **cost of job loss** is calculated as the average labor compensation for one year minus replacement income while unemployed minus re-employment income after re-employed.[52]

- *For most people, losing their job means losing most of their income.* Most people have little or no income from property, so their incomes come overwhelmingly from labor. For the bottom half of Americans by income, between 90 and 95% of market income comes from wages and other labor compensation. For the next forty percent of the population above them, the figure is between 80 and 85%.[53] Moreover, the labor income for the vast majority of workers comes from only one job—less than 5% of all U.S. employees simultaneously held two or more jobs at any time during 2018.[54]
- *Workers who lose their jobs are unlikely to find another job right away.* The mean unemployment duration in the United States, since 1975, has never dipped below 10 weeks, even at the peaks of business cycles. Between 1975 and 2007, the mean unemployment duration averaged almost 16 weeks. Since 2008, the year the Great Recession began, it has averaged over 29 weeks.[55]
- *Replacement income during a period of unemployment is likely to be lower than normal labor income.* Workers who have lost their jobs may be able to obtain replacement income from public "safety net" programs such as unemployment compensation, but these benefits can be significantly lower than the unemployed workers' usual wages. In the United States, the unemployment insurance benefit has historically been less than half of average weekly wages.[56]
- *Reemployment income is likely to be lower than pre-unemployment income.* When an unemployed worker finds a new job, moreover, it usually does not pay as much as the previous job. Numerous studies show post-unemployment earnings declines of 30% or more (compared to pre-unemployment wages) that can persist for years after reemployment.[57]

Many different factors affect the potency of the threat of job loss, some of which are under the control of the employer. For example, the easier it is for employers to replace workers, the easier it is for them to make a **credible threat** to terminate any individual worker. Employers may engage in "deskilling," restructuring the labor process to rely less on workers with special training and

[52]Schor and Bowles, 1987, pp. 584-592.
[53] Thomas Piketty, Emmanuel Saez, Gabriel Zucman, Distributional National Accounts Data, Appendix tables II: distributional series (http://gabriel-zucman.eu/usdina/).
[54] Multiple jobholders by selected characteristics, Labor Force Statistics from the Current Population Survey, Bureau of Labor Statistics (bls.gov).
[55] Bureau of Labor Statistics, Average (Mean) Duration of Unemployment, retrieved from FRED (fred.stlouisfed.org).
[56] United States Department of Labor, Employment & Training Administration, UI Replacement Rates Report (oui.doleta.gov/unemploy/ui_replacement_rates.asp).
[57] Davis and von Wachter, 2011, p. 12.

more on so-called "unskilled" workers who are more easily replaced. [58] Employers can also increase the cost of job loss by giving seniority raises, or by offering benefits (like health or retirement) that workers lose if they lose their jobs.[59] They can require that workers sign non-compete agreements—preventing them from working in the same industry for some period of time if they quit or are fired—likely increasing their unemployment duration and reducing their reemployment income in the event of job loss.[60]

The threat of job loss also depends on broader political and economic outcomes, not directly within any individual employer's control. Legal restrictions on employers' power to terminate workers, for example, reduce the credibility of the threat of termination. Increases in "safety net" programs like unemployment benefits reduce the cost of job loss by increasing workers' replacement income while unemployed. So does the replacement of employer-provided benefits with public benefits (like public health insurance or health-care provision, or public pensions) that are not dependent on employment, and that workers do not lose even if they lose their jobs. Government policies boosting overall demand or directly creating employment, meanwhile, can reduce the cost of job loss by reducing the average unemployment duration, resulting in an increase from replacement income to reemployment income sooner.

Numerous studies have shown that the cost of job loss has substantial effects on the balance of power between workers and employers. Radical economists Samuel Bowles, David Gordon, Juliet Schor, and Thomas Weisskopf note that, in the course of business cycles, wage growth moves in the opposite direction from the cost of job loss, while business profits move in the same direction. Labor productivity tends to move in the same direction as the cost of job loss, since a higher cost of job loss gives employers greater leverage to impose increases in the pace of work. The frequency of worker collective action, like strikes, tends to move in the opposite direction from the cost of job loss, since workers who have less to lose are more likely to risk confrontations with their employers.[61]

2.5 Monitoring and Discipline

The threat of job loss lies at the foundation of a larger system of workplace rewards and punishments. Employers do not generally threaten to fire workers to get the workers to do what they want. Their ability to make lesser threats, however, depends on the power that the threat of job loss gives them over workers. Workers cannot usually escalate conflicts with employers or managers (for example, when they have suffered mistreatment by managers), since continued escalation is likely to end in their getting fired.

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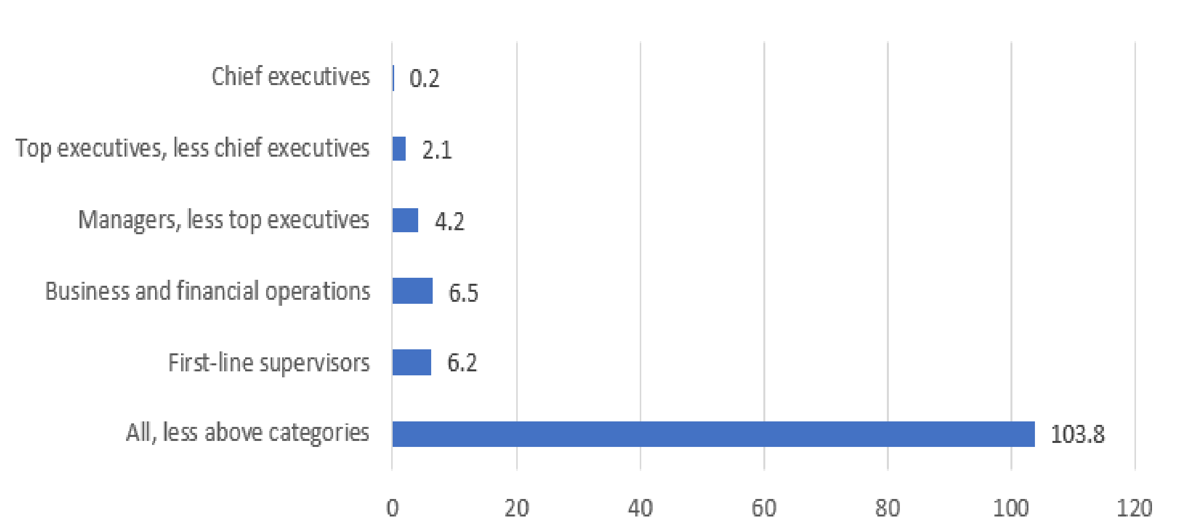
[58] Braverman, 1974, pp. 188-189.
[59] Healthcare reforms making health insurance available independent of employment, economists estimate, result in reduced labor supply and increased wages because workers become less reluctant to leave their jobs. See Miller, 2014.
[60] Based on large, representative surveys, researchers find that about two-fifths of U.S. workers have signed a non-compete agreement at some point, and about one-fifth were constrained by a non-compete agreement at their current job. (Starr et al., 2015).
[61] See Schor, 1985; Weisskopf et al., 1983; Bowles et al., 1986; Schor and Bowles, 1987, pp. 584-592.

Rewards are benefits conferred selectively on those engaging in a particular behavior, and so induce people to engage in that behavior. **Punishments** are harms inflicted selectively on those engaging in a particular behavior, and so induce people to refrain from that behavior. In the capitalist workplace, rewards such as bonuses, raises, and promotions, and punishments such as reprimands, demotions, suspensions, and firings, create a system of incentives inducing workers to do what employers want. For rewards and punishments to work, the employer's action (punishment or reward) must be predictable. If layoffs were determined by random lottery, for example, then layoffs could not function as punishments. In addition, the employer's action must be contingent on some behavior within the workers' control. Workers must believe that that their behavior can change the likelihood of different outcomes. For example, they must believe that, if they are punctual, work hard, do high-quality work, and "go the extra mile," they will not be laid off during episodes of downsizing.

In order to implement such a system of rewards and punishments and control workers' behavior, the employer must also have a system of monitoring. Large modern corporations employ too many people to be monitored directly by the owners, so they typically have many layers of management, arranged in a hierarchical "pyramid" structure. According to Bureau of Labor Statistics (BLS) data, of the nearly 123 million private-sector workers in the United States, about 103 million (about 85%) are in non-managerial positions. While some of these workers are high-autonomy professionals, most are low-autonomy workers at the base of the workplace pyramid. Immediately above them are about six million "first-line" supervisors responsible for directly monitoring and disciplining the workers on the shop floor. Next comes a similar number of business and financial operations employees; these employees, while not classified by BLS as supervisors or managers, help control the overall operations of private firms. Next are about four million managers, followed by about two million top executives, and on the very top about 160,000 chief executives. (See Figure 3.)

Figure 3. *Private Employment by Occupational Category, United States, May 2018*



Source: Occupational Employment Statistics, May 2018. National Occupational Employment and Wage Estimates by Ownership, Cross-industry, Private Ownership Only, Bureau of Labor Statistics (bls.gov).

As these data indicate, capitalist enterprises have created a truly vast apparatus of workplace control. In the United States, the army of managers and supervisors, arranged in a military-like chain of command, numbers about 20 million. Employees at each level issue commands to those immediately below, monitor their work, evaluate their performance, and dispense rewards and punishments accordingly. Those at the very top exercise the most power, making large strategic decisions. Their directives are interpreted, with successively less discretion, down through the various layers, ultimately reaching the workers at the bottom, who exercise the least autonomy.

BOX 3: WORKPLACE CONTROL IN HISTORICAL PERSPECTIVE

The last two centuries of capitalist development have been marked by at least three major transformations in the monitoring and control of labor.

- *The factory system.* Workers who were brought together in factories , in the 18th and 19th centuries, initially used much the same technology they had used as independent craftspeople. The factory, however, allowed employers to monitor many workers simultaneously.[62]
- *The detailed regimentation of the labor process*. The "**scientific management"** movement of the late 19th and early 20th centuries recognized that employers could not maximize the pace of work so long as workers controlled the details of the labor process. The solution, they argued, was for managers to gain detailed knowledge of the production process, establish detailed instructions that workers must follow, and enforce the highest sustainable pace of execution.[63]
- *The machine pacing of work*. Machine pacing, culminating with the moving assembly line of the early to mid 20th century, forces the worker to keep up with the machine—its pace set by owners or managers.[64] If workers push themselves hard and keep up with the machine pace, the employer benefits. If some workers cannot or will not maintain the pace, employers can identify them and respond in ways ranging from reprimands or threats to termination.

3. CAPITAL AND THE NATIONAL STATE

The idea of a "pure" free-market capitalism, in which the **state** plays no role in economic life, is completely mythological. Any capitalist system requires a state, and one with considerable powers. For example, capitalist economies require private property rights, and thus a legal system to define and enforce property rights. Other critical government functions include provision of infrastructure, enforcement of contracts, regulation of employer-employee relations, regulation of

[62] Marglin, 1974.
[63] Braverman (1974), pp. 90, 98-99, 113-114, 118-119.
[64] Braverman (1974), pp. 195, 222-223.

competition between capitalist enterprises, and stabilization of the macroeconomy. The state is indispensable to capitalist class interests.

The state can also, however, conceivably act against capitalist class interests. Suppose the political party in power decided to make incursions against capitalist property, rather than protecting capitalist property rights. The capitalist class cannot just enjoy its economic power and remain indifferent to the exercise of political power. It may attempt to control or constrain state policy, to prevent actions that impinge on capitalist class interests, and to bring about actions that further these interests. To understand these processes, it is important to take a closer look at the *mechanisms* through which economically dominant groups, like the capitalist class, obtain political power, and the *purposes* for which they seek and use political power.

3.1 The "Ruling" Class

The phrase "ruling class" has been used—especially by radical social scientists—to refer both to the economically dominant class (also called the owning or exploiting class) and to the group that exercises political authority (also called the **ruling elite**). But these are better thought of as distinct concepts. The ruling elite does not include the entire economically dominant class, and it could include some people who do not themselves belong to this class.[65] The economically dominant class may, however, use its power to ensure that political power remains largely in the hands of elites it considers reliable.

One way that the economically dominant class may attempt to control state action is to ensure that the ruling elite is drawn from its own ranks. In this case, the members of the ruling elite are likely to share similar economic interests, upbringing and education, and social connections as the economically dominant class as a whole. The capitalist era has included many political regimes in which the owning classes have dominated politically. Aristocratic political systems existed before the rise of capitalism, but in many countries persisted even as capitalism transformed economic life. Classes whose economic dominance and political power traced back to earlier periods (e.g., land owners) often continued to play a disproportionate role in politics, even as their economic importance was eclipsed by other classes (e.g., merchants, industrialists, bankers, etc.). In some societies, they persisted as the ruling elite because they served as reliable guardians of the economic interests of the newly dominant classes.[66] Even under representative systems of government, people from dominant economic class and social backgrounds may dominate the ruling elite by a variety of means, both formal (such as property qualifications for voting or holding public office) or informal (such as wealth, prestige, or social networks).

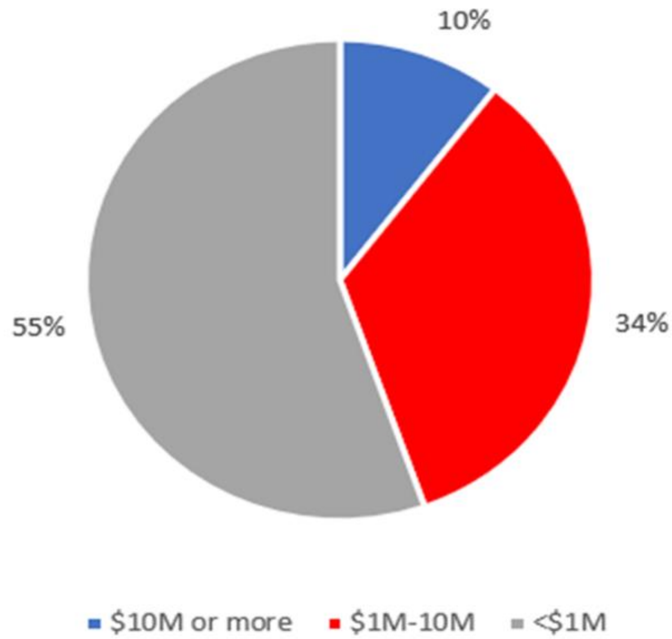
In the United States today, members of Congress are over five times as likely to have at least $1 million in personal wealth than U.S. adults in general. (See Figure 4.) In 2016, almost 45% of all members of Congress had net worth of $1 million or more, and 10% had net worth of $10 million or more, not including personal residences and other non-income assets. By comparison, less than 8% of U.S. adults had net worth of $1 million or more including residences.[67]

[65] See Mills, 2000, pp. 277.

[66] See Guttsman, 1974.

[67] Credit Suisse Research *Institute, 2019.*

Figure 4. *Net Worth, Members of Congress, 2016*



Source: "Top Net Worth," Open Secrets, Center for Responsive Politics (opensecrets.org/personal-finances/top-net-worth).[68]

Even when the ruling elite includes people from non-elite classes, institutions through which people rise into positions of political power—including educational institutions, large corporations, law firms, political parties, the armed forces, etc.—may ensure that it reliably guards the interests of the economically dominant class. Such institutions may recruit individuals from non-elite backgrounds, educate them in dominant-class values, promote those who show great promise as leaders, and socially integrate those who reach positions of high authority in the dominant class. People who reach top executive positions in a corporation, for example, are likely to have absorbed values compatible with the economic interests of others at the top of the corporate hierarchy. They may believe that business should be devoted primarily to private profit, either on the grounds that this serves the greater social good or that the greater good is not their responsibility. Or they may believe that profit is compatible with broader social responsibility (that it is possible for a company to "do well by doing good"). However, it is unlikely that many in positions of high power believe that private profit is incompatible with and should be sacrificed for the social good.[69]

[68] Detailed methodology described at opensecrets.org/personal-finances/methodology
[69] See Mills, 2000; Domhoff, 1967, and subsequent editions.

3.2 Insulation of State Institutions

The spread of representative government and the expansion of voting rights made it more complicated for the economically dominant class to ensure that the ruling elite would either be drawn from its own ranks or composed of people trusted to serve its interests. However, even in what are generally thought of as democratic countries important parts of the state may be insulated from the broader public. In some countries, for example, judges are appointed (rather than elected) to lengthy or even lifetime terms and may have the power to block the policies of elected governments. Modern states also rely on unelected bureaucracies whose personnel (except at the very top) do not change very much, regardless of the political parties in elected office. Elected governments may have to compromise on their political programs in order to gain the cooperation of these bureaucracies, or risk having basic government functions break down.[70]

Another way that political decision-making can be insulated from popular pressures is for access to government office to depend on resources that the economically dominant class controls disproportionately. Candidates for elected office, for example, may require financial resources to mount effective campaigns, and may seek donations from monied elites. The more political candidates' chances depend on the money they can raise, the more influence those who finance political campaigns have over who gains government office and what policies they adopt. Wealthy individuals, large companies, or industry organizations may contribute to politicians' campaigns on the expectation that those politicians will return the favor.[71] This need not take the form of an explicit *quid pro quo* in which the candidate promises to do what the donor demands in exchange for donations. Instead, campaign donors may expect more general "access"—the implicit promise that the elected officials receiving their donations will give a sympathetic hearing to their policy desires. If the politicians do not live up to such expectations, the donor may decide not to contribute to those politicians' subsequent campaigns.

Social scientists have found that the actions of policy makers, indeed, correlate with the desires of campaign donors. Political scientist Amy McKay, for example, studied the language that U.S. senators used in amendments they introduced to recent health-care reform legislation. She found that legislators were about 3½ times as likely to introduce amendments matching the language used by an interest group if the interest group had hosted a fundraising event for the legislator than if it had not. Moreover, amendments backed by such interest groups were twice as likely to make it into the final legislation as other legislative amendments. The organizations hosting these fundraisers were, predictably, companies and industry organizations with vested interests in the policy outcomes. Overall, McKay's findings paint a picture of companies and industries bending outcomes to suit their interests. Such power-wielding extends even to legislation—like the Affordable Care Act, which was the focus of her research—affecting millions of people and provoking enormous public controversy.[72]

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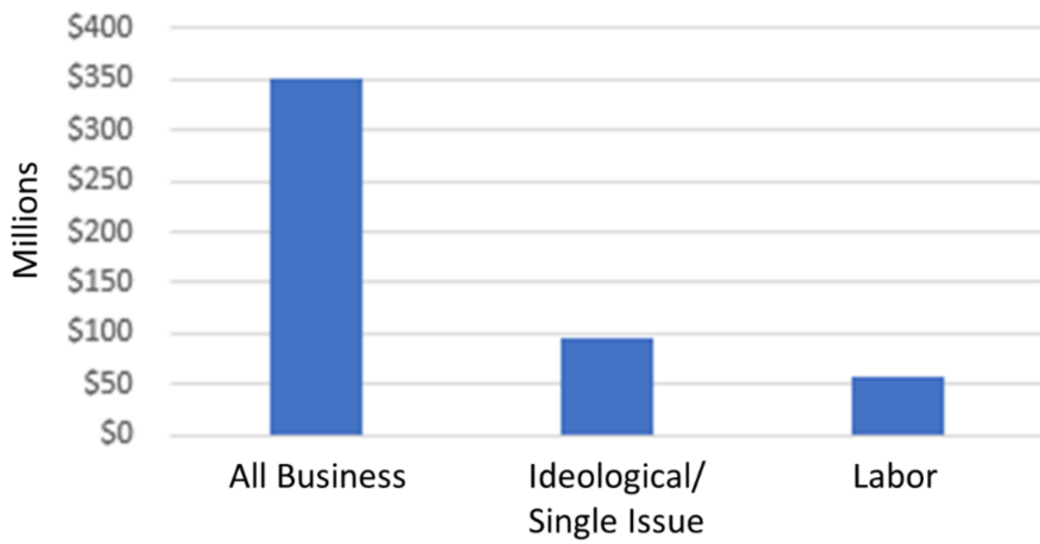
[70] The armed forces are a special case of great importance. So long as the military chain of command remains intact, the high command of the armed forces has a capacity for the use of violence typically unmatched by any other group. If this high command is drawn from the ranks of the economically dominant class or is socialized to defend the existing social order, it may oppose the actions of a government that it sees as threatening that social order.
[71] Corporations are barred, by U.S. law, from direct campaign contributions to candidates. They can, however, fund campaigns by founding legally separate political action committees (PACs).
[72]McKay, 2018.

Research by political scientists Martin Gilens and Benjamin I. Page suggests that this is not an isolated instance. Gilens and Page studied 1800 distinct issues, over more than twenty years of recent U.S. history (1981-2002), comparing actual policy outcomes to the results of public opinion polls. In each case, polling data described not only whether an individual was for or against a proposed policy change, but also their income group. Their analysis showed that the policy preferences of middle-income people had virtually no correlation with actual policy outcomes. In contrast, when high income individuals opposed a policy change, it was unlikely to pass; when they favored it, much more likely to pass. Gilens and Page conclude that "economic elites and organized groups representing business interests have substantial independent impacts on U.S. government policy, while mass-based interest groups and average citizens have little or no independent influence."[73] Figure 5 below illustrates that business political action committees (PACs), associated with particular companies, industry organizations, etc., far outstrip the contributions to candidates' campaigns by other kinds of PACs.

Figure 5. *PAC Contributions to Federal Candidates, by PAC Type, United States, 2017-2018*



Source: Center for Responsive Politics, PACs by Industry (opensecrets.org).

3.3 Narrow Versus Broad Interests

Much of the neoclassical economic literature on business political action focuses on narrow firm- or industry-specific **rent-seeking** behavior. A particular company, for example, may craft its political strategy to obtain lucrative government contracts, or an industry organization to get favorable tax or regulatory treatment for its member businesses. Radical social scientists, however, are more interested in economic interests that unite the members of a broad economic class—such as the capitalist class as a whole—and in collective action to further these broad class interests. Some radical theorists of the mid-20th century expressed skepticism of the capacity of the capitalist

[73] Gilens and Page, 2014.

class to generate a "class conscious" elite out of its own ranks. Individual capitalists, they argued, primarily sought and used political power to pursue their own narrow interests. Moreover, not being experts in public policy themselves, ordinary capitalists did not necessarily understand what policies would promote their broad class interests. Political action to further the shared class interests of the capitalist class, these theorists argued, required political elites acting with considerable autonomy from the immediate demands of the capitalists themselves.[74]

More recent events, however, inspired new research on capitalist collective action, and its influence on the balance of political power in capitalist societies. In the 1970s and 1980s, capitalists in a number of countries mobilized behind a broad class agenda including policies to weaken existing labor organizations and make new organizing more difficult, weaken the social welfare state, reduce regulation on business, reduce taxes on corporations and high-income individuals, prioritize low inflation even at the cost of higher unemployment, and eliminate barriers to international trade and investment. Radical economists have described the triumph of this agenda, in the United States and elsewhere, as ending an era of **regulated capitalism** and ushering in a new era of **neoliberal capitalism**.[75]

Several factors help explain why capitalists mobilized so dramatically and successfully. First, they were responding to what they perceived as serious economic and political threats. The 1970s and 1980s were periods of crisis in the capitalist world economy with slow growth, high unemployment and inflation, and declining profits in many high-income countries, and high international indebtedness and severe depression in many low-income countries. The atmosphere of crisis helped galvanize capitalists to put aside narrow interests that divided them, and instead unite behind a broad class agenda.[76] Second, capitalists in many countries were united by strong social networks (through kinship, elite schools, social clubs, and corporate networks). Radical social scientists have pointed to such networks as promoting class cohesion.[77] Third, small groups of giant capitalist corporations stood to capture large benefits from neoliberal policy agenda, and were willing to bear significant costs of political action to bring it about. While this agenda especially furthered big business interests, it also delivered benefits for a much broader group of business owners and managers.[78]

[74] See Poulantzas, 1978; Block, 1987.
[75] See Kotz, 2015. The term "neoliberalism" comes from a somewhat archaic use of "liberalism" to refer to an ideology favoring minimal state intervention in some area of social life. In this sense, "economic liberalism" is used interchangeably with terms like "free market" or "*laissez faire*" economic policies. The term "liberalization" is used today, in a similar vein, to mean deregulation (as in "labor market liberalization" or "financial market liberalization".
[76] Useem, 1984; Clawson and Clawson, 1987, pp. 201-217.
[77] See Useem (1984); Domhoff (1967), and subsequent editions.
[78] Political scientist Mancur Olson (1971) argues that in groups with a common interest in collective action of some kind, the members who stand to benefit the most will bear a disproportionate share of the costs of that collective action, or what he colorfully calls a "systematic tendency for 'exploitation' of the great by the small." The leading role of the largest capitalist corporations in business political action—which might also benefit other business owners and managers—can be thought of as an example of this phenomenon (Olson, 1971, p. 29).

BOX 4: THE CAPITALIST MOBILIZATION IN THE UNITED STATES

The capitalist political mobilization in the United States in the 1970s and 1980s, included three major forms of political activity, as described by radical sociologists Dan Clawson and Mary Ann Clawson[79]:

1) Capitalists dramatically increased their contributions to "think tanks" that were instrumental in developing a broad economic policy agenda favoring big business interests. Among the organizations they financed were the American Enterprise Institute (AEI), the Heritage Foundation, the Hoover Institution, and the Institute for Contemporary Studies.
2) They increased the scale and changed the patterns of their campaign contributions. Before the late 1970s, corporations largely exhibited "pragmatic" contribution patterns supporting powerful incumbents who could deliver narrow company- or industry-specific benefits. By the late 1970s or early 1980s, they shifted toward "ideological" contribution patterns supporting candidates who favored what corporate leaders deemed general "pro-business" policies.
3) They increased their capacity to influence both policymakers and public opinion on broad policy issues. Existing business organizations grew dramatically in membership. The chief executives of many of the largest U.S. nonfinancial corporations, meanwhile, formed their own exclusive new organization—the Business Roundtable. This new group quickly made a major impact on U.S. economic policy, including the defeat of consumer protection and labor law reforms in the 1970s. It would also play a prominent role in the adoption of the North American Free Trade Agreement (NAFTA) in the early 1990s.[80]

3.4 The Collective Economic Power of the Capitalist Class

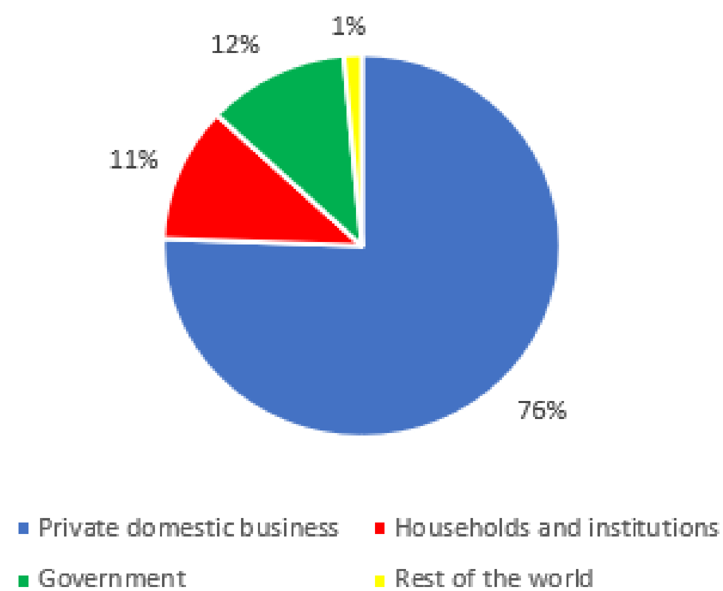
All the mechanisms by which the economically dominant class secures political power, described thus far, emphasize the capacity for conscious political action. Some radical social scientists emphasize, however, that the capacity of the economically dominant class to control or discipline the state does not require consciously coordinated political action. The capitalist class's control over investment and employment, they argue, is sufficient to prevent the ruling elite from acting against capitalist interests—and even to ensure that it maintains conditions favorable to these interests.

In the United States, for example, the private business sector accounts for over three-fourths ($12.5 trillion) of the total national income (nearly $17 trillion). Government at all levels accounts for less than $2 trillion, and households and nonprofit organizations also account for less than $2

[79] Clawson and Clawson, 1987, pp. 201-217.
[80] Vogel, 1989; MacArthur, 2000.

trillion.[81] (See Figure 6.) Out of total nonfarm employment of nearly 150 million workers, private businesses accounted for about 125 million (about 85%).[82] Of these, nearly 60 million were employed by about 23,000 large companies (with over 500 employees).[83] The economic fate of millions, in other words, can hang on the decisions of private business owners and managers, and disproportionately on a relatively small number who head very large companies. If business decision makers simultaneously decide to curtail spending, this can cause output, employment, and incomes to plummet. For this reason, the political authorities of even large countries have strong reasons to avoid policies that business decision makers could see as a threat to business interests. The Polish radical economist Michal Kalecki in his influential article "Political Aspects of Full Employment" (1943), argued that business control over the levels of investment and employment "gives the capitalists powerful indirect control over government policy: everything which may shake the state of confidence must be carefully avoided because it would cause an economic crisis."[84]

Figure 6. *National Income by Sector, United States, 2017*



Source: Bureau of Economic Analysis (bea.gov), National Income and Product Accounts, Table 1.13. National Income by Sector, Legal Form of Organization, and Type of Income.

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[81] Bureau of Economic Analysis, National Income and Product Accounts, Table 1.13. National Income by Sector, Legal Form of Organization and Type of income. On an expenditures basis, as a percentage of GDP (around $21 trillion), government accounts for about $3.5 trillion, or 17%. The difference is that, in this accounting, government purchases of goods and services from private businesses count in the government column.

[82] Bureau of Labor Statistics, All employees, thousands, total nonfarm, seasonally adjusted, All employees, thousands, total private, seasonally adjusted (bls.gov).

[83] Bureau of Labor Statistics, Table F. Distribution of Private Sector Employment by Firm Size Class, 1993/Q1 through 2018/Q1, Not Seasonally Adjusted (bls.gov); U.S. Small Business Administration, Firm Size Data (www.sba.gov/advocacy/firm-size-data).

[84] Kalecki, 1943. Kalecki does not define the "state of confidence," but it makes sense to think of it as the overall evaluation, on the part of business owners and managers, of the economic and political conditions affecting their power and profits.

Business owners and managers, unsurprisingly, tend to dislike public policies that impinge on their profits or power. This does not mean that they will react to every unfavorable policy by curtailing investment or employment. The history of capitalism shows that the system is compatible with a wide range of institutional frameworks—some of which have included policies that capitalists did not like, and yet were compatible with strong economic performance in terms of high growth, low unemployment, low inflation, etc.[85] Owners and managers of large businesses, however, have sometimes engaged in **investment strikes** when faced with what they saw as grave threats to their interests. One such instance, described by economists Jeffrey Sachs and Charles Wyplosz, followed the election of a Socialist-led government in France in the early 1980s. Sachs and Wyploz conclude that, despite the government's attempts to spur capitalist investment, its policies of income redistribution and labor-relations reform "prompted a crisis of confidence among investors," which resulted in a sharp drop in the French stock market and large-scale capital flight from France. The resulting economic crisis, in turn, forced the government to retreat from its reform program.[86]

The view that the capitalist class can exercise political power through its collective control over investment and employment means that it does not "rule" *only* by virtue of political institutions that allow it disproportionate power. Such institutions (e.g., insulation of state institutions from popular influence, electoral systems allowing considerable "power of money," etc.) can be reformed without fundamentally changing the capitalist economic system. The capitalist control over investment and employment, on the other hand, is inherent in capitalist economies. This does not mean that capitalist political dominance can never be abolished. Many radical social scientists question, however, whether this connection between economic and political power can be eliminated without the replacement of capitalism by some other form or economic organization.

3.5 The Geography of Power

Economy-wide investment strikes are unusual events. In part, this may simply be due to governments avoiding policies that could provoke them. In addition, such moves are costly for the capitalists themselves, since dramatic cuts in investment and employment mean reduced production and profits. If large corporations can locate operations in multiple different political jurisdictions, however, they may be able to reduce investment and employment in a particular political jurisdiction, where conditions are unfavorable, without having to curtail their overall operations. Instead, they can relocate operations to another jurisdiction. Under such conditions, the investment strike can remain just as damaging to the people of the jurisdiction affected, while being much less costly to the capitalists themselves.

Once large U.S. companies began operating on a national scale, in the late 19th and early 20th centuries, their geographic mobility largely neutralized the regulatory powers of individual states. If the owners and managers of these companies found regulations in one state to be burdensome, they could move operations to another. Economic historians Naomi Lamoreaux and William J. Novak argue that state governments "found it increasingly difficult to move [with regulatory policy] against corporations whose operations were national in scope without harming their own

[85] Marglin, 1990.
[86] Sachs and Wyplosz, 1986.

economies." They suggest that an effective response to corporations that operated on a national scale required "national legislative and administrative regulation." To effectively regulate capitalist businesses, in other words, regulatory authorities had to operate on at least the same geographic scale as capital. [87]

In more recent times, the increasing international mobility of capital has similarly altered the relationship between capitalist businesses and entire countries. If business owners and managers consider conditions less favorable in one country than in another due to government policy, labor organization, etc., they can relocate their operations accordingly. Capitalist businesses can benefit even without relocating operations if, for example, their threats to do so spur governments or labor to give into their demands.

Some critics of capitalist globalization have argued that it gives rise to a "**race to the bottom,**" in which competition for capitalist investment between different countries forces each to accept conditions more profitable for investors but worse for their residents. This argument can be applied to several institutional and policy conditions, including taxation, environmental regulation, and labor relations. Labor issues are especially prominent because labor costs are a large component of total business costs and the labor costs vary considerably between different countries. Capitalist companies therefore have an incentive to relocate operations to countries with lower labor costs, and the implicit threat to do so is credible. This may deter governments from adopting policies that could increase labor costs (e.g., regulation of wages or other conditions of labor, social welfare benefits, protections for labor organization, etc.), and deter workers from organizing and from pressing economic demands.[88] Economists across a wide range of theoretical backgrounds—from neoclassical to radical—view the international mobility of capital as a significant contributor to the worldwide decline in the labor share of total income over the last half century.[89]

The triumph of what critics have called "**corporate globalization**" or "globalization under the domination of capital" illustrates two important points about the distribution and the uses of power. First, the restructuring of the global economy illustrates the power of large capitalist corporations. In many societies, important social groups have aligned on opposing sides of these issues. The owners and managers of large corporations have fought in favor of this restructuring, while labor, environmental, and other non-business groups attempted to block or alter it. Mostly, the large corporations have won.

Second, it was the culminating phase of a period of restructuring of capitalist economies around the world in ways that the owners and managers of large corporations had aimed at. The restructuring of national economies and of the capitalist world economy in recent decades delivered more favorable economic outcomes for capitalists—notably, an increased share of total income—but it did more than that. It also changed the underlying distribution of power in society. At a critical juncture when it was possible to alter institutions dramatically, owners and managers of large capitalist businesses used their power to tilt the balance of economic and political power further in their favor.

[87] Lamoreaux and Novak, 2017.
[88] See Bronfenbrenner, 1997.
[89] Dao et al., 2017.

BOX 5: THE POWER OF FINANCE

The crash of the housing-market bubble in 2008 detonated the deepest and longest economic crisis in the United States since the Great Depression of the 1930s. It also pushed many of the largest U.S. financial institutions to the verge of bankruptcy. Several of the largest banks had invested heavily in mortgage-backed financial securities, which became virtually worthless due to the housing crash and large-scale mortgage defaults. Other financial institutions had made loans to these banks, and depended on those loans being repaid to meet their own obligations. Some giant insurance companies had insured banks against default on loans they had issued, and so were also endangered.[90]

In response, U.S. policymakers pushed through a large-scale "bailout" of banks, insurance companies, and other financial institutions. The federal government paid hundreds of billions of dollars to banks for the now-worthless "toxic assets." They extended trillions more in low-interest loans.[91] These policymakers argued that, without such a bailout, the financial system would collapse and plunge the economy into a severe depression.[92] This argument was summarized in the phrase **"too big to fail"**—the financial institutions were so large and had such a large impact on the economy as a whole that the government had no choice but to bail them out.

Opponents of the financial bailouts argued that they were unfair, as families who lost their homes and workers who lost their jobs in the recession did not get bailed out.[93] They also argued that bailouts were bad public policy, since they would encourage financial institutions to engage in excessive risk-taking in the future.[94] Critics saw the deregulation of finance in the 1980s and 1990s, and the non-regulation of new kinds of financial securities and financial trading, as creating the system-wide instability that led to the crash. Some argued for a far-reaching re-regulation of private financial institutions.[95] Others argued for the federal government to take direct ownership of the "too big to fail" financial institutions, either temporarily or permanently.[96] While some new regulations (including the Dodd-Frank Act) were put into place, there was not a dramatic re-regulation of finance.[97]

One possible interpretation of policymakers' actions is that they were directly influenced by the political power of large financial institutions. In this view, large financial institutions and politicians doing their bidding exaggerated the threat of a second Great Depression to justify the bailouts.[98] Another possible interpretation is that policymakers really were constrained by the structural power of large financial institutions. In this view, government officials—independent of any allegiance to high finance—dared not adopt policies impinging on the financial institutions' interests, because the consequences for the economy as a whole would be too dire. Though

[90] MacEwan and Miller, 2011, pp. 140-141, 168-175; McDonald and Paulson, 2014.
[91] Herszenhorn, October 2008; MacEwan and Miller, 2011, pp. 166-171; Ivry et al., 2011.
[92] Herszenhorn, September , 2008.
[93] See, for example, Barofsky, 2012; Wolff, 2012.
[94] Trumbull, 2009; Duchin and Sosyura, 2014.
[95] Stiglitz, 2008; Crotty and Epstein, 2008.
[96] Krugman, 2009; Moseley, 2009.
[97] See Epstein and Montecino, 2015.
[98] Baker, 2013; Baker, 2014.

different radical social scientists have taken different views of this issue, either perspective implies that large financial institutions exercise great political power.

4.CONFLICT AND CHANGE

Radical economists view employers and workers as having opposed interests. Employers want to pay lower wages, while workers want higher wages. Employers want to raise the pace of work, while workers may dislike such pressures. Employers may want workers to work longer hours, while workers may want a shorter working day and working week, and more paid vacation. Radical social scientists argue that such opposing interests are inherent in capitalist societies.

By themselves, however, opposing interests do not guarantee meaningful **conflict**. Imagine two groups with opposing interests, one all-powerful and the other completely powerless. Any attempt by the powerless group to confront the powerful one would be futile at best, and self-destructive at worst. While radical social scientists describe capitalist societies as inherently involving unequal power relations, especially between capitalists and workers, they do not generally subscribe to the view that capitalists are all-powerful and workers powerless. Rather, they emphasize conflicts or "struggles" between the capitalist class and the working class—in which important outcomes do hang in the balance—and that presumes that each of the groups can exercise at least some power.

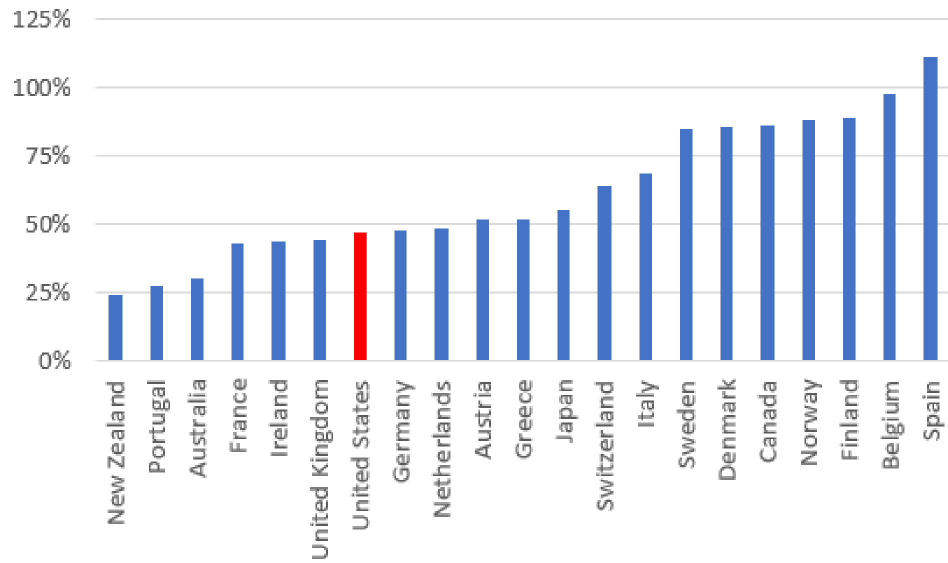
The most influential founding figure in radical economics, Karl Marx, argued that capitalist development itself would foster workers' collective power. The working class would grow with the growth and expansion of capitalism, ultimately forming the majority in capitalist societies. Workers would be concentrated in large enterprises and in large cities, which would facilitate their collective organization. They would be essential to all industry and commerce, and so would have the power to shut down operations in individual capitalist enterprises, whole industries, even entire economies—if only they could organize and use their collective power to do so.

This forecast, at the dawn of the industrial era when the working class was in its infancy, proved extraordinarily prophetic. In the 19th and 20th centuries, workers' organizations emerged on a large scale in many capitalist countries. In all highly industrialized countries, labor unions encompassed at their peak at least a substantial minority of wage workers; in many of these countries, a majority. Unions dramatically reshaped bargained outcomes (wages, hours, working conditions, etc.) between workers and employers. In many countries, workers formed political parties that rose to national-level influence. Such parties shaped national-level economic policy—including protections for labor organization, regulation of labor conditions, growth of the social welfare state, etc. In some countries, workers' movements gave rise to organizations dedicated not just to reforming capitalism, but to replacing the capitalist system altogether (what radical social scientists call **social revolution**).[99] By any accounting, working-class movements have had enormous impacts on the economics and politics of the capitalist world.

[99] To date, no such movement has triumphed in a highly industrialized capitalist county. There have, however, been social revolutions led by self-proclaimed workers' parties in lower-income capitalist countries and similar near-revolutions in higher-income countries.

In recent decades, however, there has been a comparative decline of workers' movements. In most high-income capitalist countries, unions are smaller and weaker today than they were a half century ago. As shown in Figure 7 below, in nine of the 21 selected counties, union density has declined to less than 50% of its 1980 level. In seven countries, union density has remained at 80% or more of its 1980 level. And only one country has seen an increase in union density during this period.[100] Additionally, labor-based political parties in many countries have declined in mass support and political influence. Movements for the replacement of the capitalist system are less significant today than they were—at least in some high-income countries—in the early to mid 20th century. The declining power of workers' movements have resulted in declining economic outcomes for workers. In various countries, ordinary workers' incomes have stagnated, income inequality has risen, social mobility has declined, and economic insecurity has increased.

Figure 7. *Union Density, Selected Countries, 2016-2017 Relative to 1980*



Source: J. Visser, ICTWSS Database. version 6.0. Amsterdam: Amsterdam Institute for Advanced Labour Studies (AIAS), University of Amsterdam.

4.1 Conflictive Bargaining

Radical economists view labor relations outcomes—wages, hours, employer-provided benefits, health and safety conditions, the pace of work, etc.—as being determined by conflictive bargaining processes. In the course of bargaining, parties may make offers and counteroffers, bluffs or threats, appeals to justice or right, and so on. The outcomes depend on the relative bargaining power of the parties involved.

[100] In most countries, it is possible for workers to be covered without being union members. Union coverage data paint a less negative picture than union density. For 10 of the 21 selected countries, the union coverage rate in the most recent year (2014-2017) was equal to or higher than in 1980. Four countries had less than 50% of union coverage compared to the 1980 rate, and data was unavailable for the last country. (J. Visser, ICTWSS Database. version 6.0. Amsterdam: Amsterdam Institute for Advanced Labour Studies (AIAS), University of Amsterdam.)

The balance of power in a bargaining situation depends, in part, on action that each can take without leaving the relationship, known as their **inside option**. Each party in a bargaining relation can threaten an inside option that inflicts some harm on the other party, as a way to get a more favorable bargain for themselves. A worker, for example, may do the minimum amount of work required to keep their job, or may choose to do more than this minimum, perhaps in expectation of future reward. The employer may promise raises, promotions, or other benefits to a worker, in return for this extra effort. A worker who feels that their employer has reneged on such a bargain may continue to work hard enough to keep their job, but no longer voluntarily do more than the minimum. (Refusing to "go the extra mile" is the worker's inside option.) This scenario implies that workers have some power—they can withdraw the extra effort without job loss or other severe adverse result. The employer, meanwhile, is not all-powerful—they cannot get the worker's maximum effort without giving something up.

A party to a bargaining relationship may also have the ability to leave the relationship altogether, known as their **outside option**. The bargaining relationship also depends on the best alternative available to each party in the event of a breakdown in this relationship, known as the **fallback position**.[101] Either party can threaten to withdraw from a bargaining relation in order to strike a more favorable bargain, but the less attractive their fallback position the less bargaining power they will have. A worker's fallback position, for example, is equal to their replacement income (while unemployed) plus their reemployment income (after reemployed). For most workers, this fallback position is significantly worse than staying at their current job.[102] This helps explain why few workers quit their jobs unless they have another job lined up, why a worker's individual threat to quit is usually not very credible, and why most workers have relatively low individual bargaining power with their employers. On the other hand, the employer's fallback position is having to hire a replacement for a worker who leaves. Unless a worker possesses essential and indispensable skills, their quitting is unlikely to seriously disrupt the employer's operations, so the fallback position for the employer is usually not as dire as for a worker.

Worker organization can add a new dimension to the bargaining relationship , now also between a *group* of workers and the employer. Employers who refuse to make concessions to labor union demands (or who demand concessions from organized workers) risk more than having a single disgruntled worker who might withhold extra effort or even quit their job. They might risk the morale of some substantial part of the workforce, and face organized collective actions like coordinated work slowdowns or the workers' collective withdrawal of their labor—a **labor strike**. The collective strength of unions—their ability to enforce protections for workers against employer retaliation and even to establish procedures for redress of worker grievances—means that workers no longer have to either accept existing conditions or quit their jobs. As labor economists Richard Freeman and James Medoff put it, unions give workers a way to exercise some "voice" in the workplace.[103]

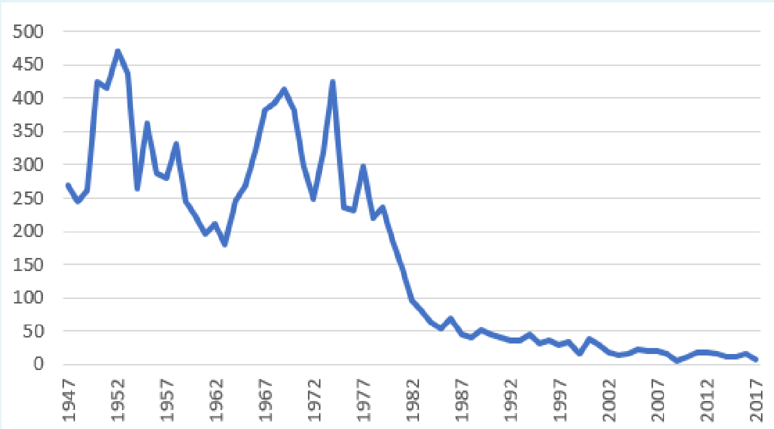
[101] Bowles, 2004; Himmelweit, et al., 2001, pp. 158-159.
[102] This is another way of saying that the cost of job loss, which is just the difference between the bargained outcome and this fallback position, is substantial.
[103] Freeman and Medoff, 1984.

While an individual worker quitting will usually not disrupt an employer's operations very much; a labor strike involving a substantial group of workers might.[104] In other words, workers' ability to withhold their labor collectively can dramatically worsen the outcome for the employer in the event of a bargaining impasse. A strike that disrupts the employer's operations and results in loss of profits (or even the credible threat of such a strike) can induce an employer to make concessions on wages and other labor conditions as demanded by the workers. Labor strikes are not the only form of workers' collective action, but they are among the most important. Unions have rarely grown dramatically, notes economic historian Gerald Friedman, except during periods of elevated strike activity, or "strike waves."[105] Where unions are already established, argues labor lawyer Joe Burns, their power depends on the credible threat to strike and to shut down employers' operations.[106]

BOX 6: STRIKE DECLINE IN UNITED STATES

In the 1970s and 1980s, the frequency of strikes declined precipitously in the United States, and has remained at low levels since then. (See Figure 8.) In the 1970s, large employers increasingly responded to strikes by firing the workers and hiring permanent replacements. The potential gains from strikes were suddenly overshadowed by the increased risk of large losses. In the face of this employer escalation, unions largely retreated, avoiding strikes altogether.[107] The strike decline was not the result of a decrease in the degree to which workers' and employers' interests conflicted, but rather a change in the balance of power between the two.

Figure 8. *Work Stoppages, 100 or More Workers, United States, 1947-2017*



Source: Bureau of Labor Statistics, Economic News Release, Table 1. Work stoppages involving 1,000 or more workers, 1947-2017 (bls.gov).

[104] An April 2019 strike at the U.S. supermarket chain Stop & Shop, for example, cost the chain's parent company between $90 and $110 million in just 11 days (Associated Press, April 2019).
[105] Friedman, 2008, pp. 67-71.
[106] See Burns, 2011.
[107] Burns (2011), pp. 61-68.

Union workers enjoy substantial advantages, in terms of bargaining outcomes, relative to their non-union counterparts. In the United States, for example, the "union wage premium" (the difference between the wages of workers covered by union contracts and those of similar workers who are not, controlling statistically for differences in occupation, education, and work experience) is over 13%.[108] Union members enjoy more substantial employer-provided benefits than non-union workers.[109] Among workers who receive employer-provided health insurance, the employer contribution is (on average) over 75% more for union workers than for non-union workers. Similar patterns exist for employer-provided retirement benefits. Union members get more paid vacation, holidays, and sick days than their non-union counterparts, and they are more likely to enjoy protections against arbitrary, discriminatory, or retaliatory employer action than non-union workers. Safety and health conditions are also better in unionized workplaces than in non-unionized ones.[110]

4.2 Barriers to Labor Organization and Collective Action

If the advantages to workers of unionization are so significant, it makes sense to wonder why it is not more prevalent. Barriers to worker organization include:

1) *The "free rider" problem*. One barrier to collective action, by any group, is that members of that group consider only their own individual interests, and not the interests of other group members. Participation in labor collective action can be costly and risky for the individual (in time and effort, wages forgone during a strike, risks of employer retaliation, etc.). If an individual only thinks about their own interests, and the success of collective action only depends to a small extent on the individual's contribution, the rational decision for that individual is to refrain from involvement (avoid personal costs and risks) and benefit if others' action is sufficient to achieve success ("free ride"). If all the members of a group follow this logic, none will contribute and the collective action will fail. For this reason, labor organization requires that workers not think primarily in terms of individual interests, but rather collective identity and interests.[111]

2) *Divisions between sub-groups*. In some ways, all wage workers share a common position in the structure of a capitalist economy, and this is what defines them as a class.[112] There is no guarantee, however, that a particular sub-group of workers—even if they feel a sense of common identity and interests—will exhibit comparable solidarity with other workers. Historically, labor unions have sometimes sought, for example, to organize only members of particular occupations, or skill levels. Even more disturbingly, some labor organizations championed the interests of some demographic groups—male workers, white workers, native-born workers, etc.—to the exclusion of and at the expense of others. Such actions helped secure material privileges, such as access to higher-wage jobs, for the favored groups relative to the

[108] This is the effect of union contract coverage, controlling statistically for work experience, education, geographic region, industry, occupation, race/ethnicity, and gender. Bivens, *et al*. (2017).
[109] Bivens, et al., 2017. Almost 95% of workers covered by union contracts have employer-provided health insurance, compared to only about 67% of non-union workers. The gap in health coverage was reduced, but remained significant, after controlling statistically for "other characteristics that may affect benefits coverage—such as sector (public or private), industry, region, employee status (full- or part-time), and establishment size."
[110] Ibid.
[111] Olson, 1971, pp. 11-12; Friedman, 2008, pp. 24, 59.
[112] See Thompson, 1963.

excluded groups. It was also a way for these groups to secure and guard their superior social status over the workers they excluded.[113]

3) *Opposition by other actors*. A considerable body of social science literature assumes explanations for strength of labor movements—the rate of unionization, the influence of labor-based political parties, etc.—depend exclusively on workers' preferences. Economic historian Gerald Friedman points out that this assumption is unwarranted. Whether workers are members of any kind of labor organization depends not only on workers' desire or determination to organize, but also on what employers and government officials want and their power to oppose workers' organizing efforts.[114] Unionization campaigns are less likely to succeed, for example, if employers actively oppose them and if the political and legal conditions for union organization are more hostile.[115] Recent survey research in the United States points to a large gap between the actual level of unionization and workers' desire for unionization. About half of non-union workers (excluding supervisory employees) say that they would vote in favor of a union if they could.[116] If all the U.S. workers who wanted to join unions actually became union members, that would raise the country's union membership from about 15 million workers to about 70 million.[117]

Barriers to labor collective action, such as these, are always present, so by themselves they do not explain the decline of unions or other forms of labor organization in recent decades. Nor do they explain the relative weakness of labor organization in some countries relative to others. The strength of these barriers, however, can vary from one period to another or between different countries.

4.3 Politicization of Class Conflict

Conflicts between workers and employers are not limited to the workplace. Rather, they frequently take broader political form. In the last couple of centuries, the struggles of wage workers against their employers have given rise, in many capitalist countries, to **political parties** self-identifying as "workers'" or "working class" parties, appealing to wage workers as their main constituency, and offering political programs that (in their view) champion workers' shared class interests. (Such parties have variously called themselves "labor," "social democratic," "socialist," etc.) Over this period, thanks to the growth of the working class, the spread of representative government, and the expansion of voting rights in many capitalist countries, the opportunities for self-described workers' political parties to gain widespread support and win government office increased as well—with some such parties even holding high positions in government for substantial periods of time.

Among the main reform objectives pursued by workers' movements have been the improvement of the economic bargain for workers—including increased wages, reduced work hours, improved

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113 White workers' hostility toward and exclusion of African American workers, argued radical sociologist W.E.B. Du Bois (1868-1963), was driven not only by material interests but also by their attachment to a "psychological wage" from knowing that there was a group below them in status (Du Bois, , 1995 [1935]); Du Bois, 1933.

114 Friedman, 2008, pp. 57.

115 Goldfield, 1987.

116 Kochan, et al., 2018.

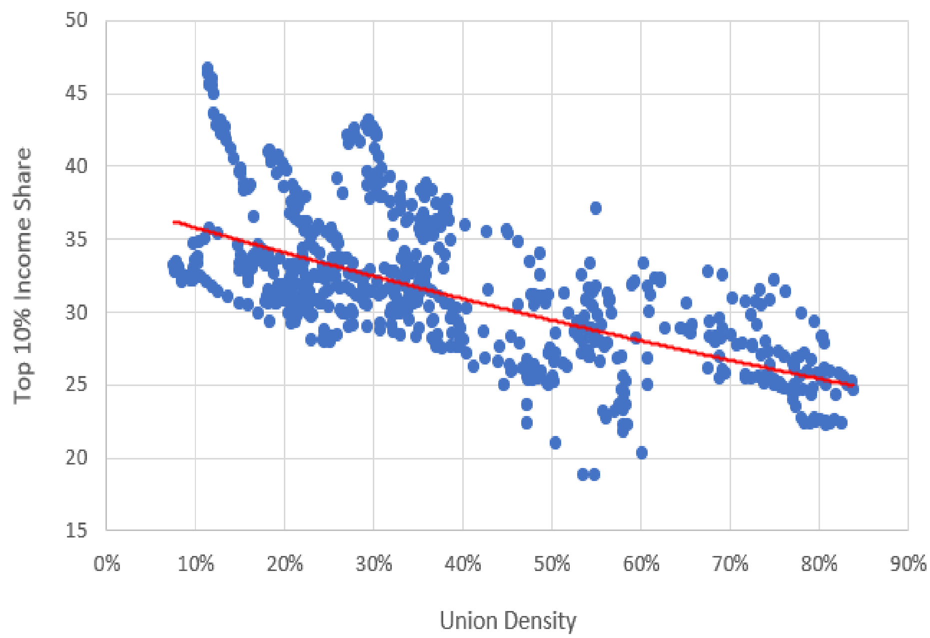
117 This calculation is based on a figure of around 140 million U.S. wage and salary employees, about 80% of whom (110 million) are non-supervisory workers.

working conditions, increased economic security, and reduced economic inequality. While some of these objectives can also be pursued at the workplace level, there are significant advantages to their pursuit through political action. Organization at the workplace level—such as unionization and collective bargaining with a particular employer—primarily benefits the workers who belong to the union.[118] That may leave many workers on the outside looking in.[119] By comparison, legislative or other forms of political action—establishing minimum wage laws, maximum hours laws, workplace health and safety standards, public "social insurance" programs, and so on—can in principle benefit all workers in an entire political jurisdiction.[120] This does not mean, however, that workers' organization at the workplace level is superfluous, or that workers would be better off pursuing organization and action only at the political level. High levels of workers' organization and active participation at the workplace level can contribute to working-class organization and strength on the political level. In many cases, the very existence of working-class political parties is an outgrowth of workplace struggles and organization.

Countries with higher labor **union density** (union membership as a percentage of overall employment) tend to have a more equal income distribution. As shown in Figure 9, the higher the union density in a country, the lower the income share of the top 10% tends to be. Part of this effect is due to unions bargaining for higher compensation, and since workers tend to have lower incomes than capitalists, this tends to redistribute income "downwards." In addition, unions tend to push up the incomes of lower-income workers more than they do the incomes of higher-income workers, and so reduce income inequalities among wage owners.[121] Fluctuations in labor union size and strength, accordingly, are associated with ups and downs in the inequality of incomes before taxes and transfers. Much of the correlation between union density on income inequality, however, comes from post-market income redistribution—such as taxes disproportionately paid by those with higher market incomes and transfers disproportionately benefiting those with lower incomes.[122] Such whole-economy outcomes can be seen, at least in part, as indirect effects of robust workplace organization. Large and dynamic unions contribute to working-class political organization, which in turn contribute to change at the economy-wide level. Overall, union density explains over 40% of the variation in the income share of the top 10% across different countries and years.

[118] Gains in union organization can certainly have positive impacts on non-union workers as well (Bivens, *et al*.). Employers of non-union workers, for example, may raise wages to undercut calls for union organization. This positive impact on wages of non-union workers, however, is typically less than for the unionized workers themselves.
[119] In the United States, for example, the historical high-water mark of union membership was only about one-fourth of all employed workers.
[120] In practice, the extent of such policies (in terms of wage workers and other covered) has varied dramatically between different countries and between different eras in a given country's history. Sociologist Theda Skocpol contrasts the relatively "universalist" social welfare states of Western Europe in the second half of the twentieth century—largely promulgated by labor-based political parties—with the "bifurcated" welfare state of the United States. See, for example, Skocpol, 1995.
[121] Jaumotte and Osorio Buitron (2015).
[122] Ibid.

Figure 9. *Union Density and Top 10% Income Share, High-Income Capitalist Countries, 1970-2011*



Source: Jaumotte and Osorio Buitron (2015). Data provided by Jaumotte and Osorio Buitron for author's data visualization. Each point represents the combination of union density and top 10% income share for a particular country in a particular year. Trend line is exponential.

Workers' political organization and strength, by the same token, can have a large impact on the balance of power between workers and employers at the workplace level. The ability of workers to form unions and engage in other forms of workplace collective action depends on the political environment for labor relations. Labor laws influence, for example, the circumstances under which workers can form unions, actions employers can take to prevent workers from organizing, workers' ability to strike, etc. In recent decades, labor union membership and collective-bargaining agreement coverage have declined in almost all high-income capitalist countries. However, the extent of the decline has varied considerably depending on domestic labor relations policies. [123] All these counties may share common conditions negatively impacting union size and strength (declining employment in high-unionization industries, increased international mobility of capital, etc.). The variation in union density and coverage trends across different countries, however, suggests that differences in the political and institutional environments of different countries are responsible for big differences in labor-relations outcomes.

4.4 The Future of Labor

Some social scientists have argued that the decline of labor movements, in the United States and other high-income capitalist countries, is due to large structural changes of comparable significance to those that led to its rise in the first place. Evaluating these arguments is important

[123] Schmitt and Mitukiewicz, 2011.

because, if they are correct, labor movement decline is not a temporary outcome of political conditions, but a deep tendency that is unlikely to be reversed anytime soon.

1) *Deindustrialization*. In this view, working-class organization is essentially a reaction to the conditions of factory labor. The decline of manufacturing and other industrial employment relative to office, retail, services, etc., therefore, has inevitably contributed to the decline of unions, labor-based political parties, and other forms of worker collective action.[124] Several observable facts belie this view. First, nearly all high-income capitalist countries have experienced declining industrial employment (as a percentage of total employment). In some countries, however, workers in non-industrial occupations have been far more successful in forming or joining labor unions than in others. Second, even in the United States, public sector union density has increased during the same period that private sector union density has plummeted. This belies the idea that workers in the non-factory settings typical of the public sector (e.g., teachers, office workers, fire fighters, etc.) are uninterested in labor organization. Third, as mentioned earlier, a large percentage of non-union workers in the United States, most of them outside historically high-unionization sectors like manufacturing, say they would favor unionization if they had the opportunity to do so.
2) *Automation*.[125] In this view, the labor movement is likely to decline in the future because, as workers are replaced with machines, the working class will decline. In capitalist economies, however, the ability to produce the same output in fewer hours of work (rising labor productivity) does not typically result in fewer workers producing the same amount of goods, nor even the same number of workers producing more goods, but larger numbers of workers producing disproportionately larger quantities of goods.[126] Since 1950, output per hour worked (labor productivity) has more than quadrupled in the United States, yet the percentage of the working-age population employed in the money economy is higher now than in any year prior to 1985.[127] Even if a machine existed that could replace a certain kind of worker, employers might still choose to hire workers (for example, if wages are low enough). If workers could easily be replaced with machinery, however, this could indeed undermine their bargaining power against their employers and even their ability to organize at the workplace level.
3) *Globalization*. The international mobility of capital has increased dramatically in the last few decades. The relocation of manufacturing to low-income countries often figures into the deindustrialization argument, and has the same central failing: It assumes that other kinds of workers are not interested in or capable of labor collective action. In addition, this

[124] The description of this trend as the "decline of the working class" identifies the working class only with factory, manufacturing, or "blue collar" labor. Radical social scientists, in contrast, typically define the working class in ways that include workers across a wide variety of sectors and occupations, as described in part 1 above.
[125] To some extent, this is an underlying factor in the relative decline of industrial employment, and so a component of the previous argument.
[126] In the United States since 1950, for example, the size of the employed population has increased from about 56 million to about 159 million, or by less than three times (Civilian Employment Level, Bureau of Labor Statistics data, Federal Reserve Bank of St. Louis (fred.stlouis.org)). In the same span, real gross domestic product (GDP) has increased from about $2.2 trillion to about $19.1 trillion, or by almost nine times (Real Gross Domestic Product, Bureau of Economic Analysis data, Federal Reserve Bank of St. Louis (fred.stlouis.org)).
[127] Nonfarm Business Sector: Real Output Per Hour of All Persons, Bureau of Labor Statistics data, Federal Reserve Bank of St. Louis (fred.stlouis.org); Employment-Population Ratio, Bureau of Labor Statistics data, Federal Reserve Bank of St. Louis (fred.stlouis.org).

> argument does not really support the view that the working class, or even just the industrial working class, is declining worldwide—only that the geographic distribution has shifted from global North to global South. There are arguably more industrial workers in the world than ever before.[128] The international mobility of capital, however, may undermine the bargaining power of workers. Employers can search the globe for cheap and controllable labor. If workers are relatively organized and powerful in one country, employers may decide to locate their operations in another. Moreover, workers can face considerable obstacles to organization—including to the development of group identity and cohesion—even when they work in close proximity to one other. These challenges are compounded when employers establish operations across many different countries, so workers are separated by vast distances.

Two major developments in the second half of the twentieth century promoted capitalist triumphalism—the idea that the future would no longer include any meaningful challenge to the power of the capitalist class or to the permanence of the capitalist system. The first was, ironically, a major crisis of capitalism in the 1970s. An era of unusual stability and growth of high-income capitalist economies, in the quarter century following the Second World War, gave way to economic stagnation, high unemployment, and high inflation. Advocates of "free market" or "neoliberal" capitalism, ascendant especially in the United States and United Kingdom, claimed that excessive government intervention in the economy and excessive power of organized labor were responsible for the crisis. With support from large corporations and wealthy individuals, neoliberal politicians succeeded in gaining office in numerous countries. In most countries, the political tide shifted against labor (in some, very dramatically).

The second was the collapse of the state-controlled "command" economies of the Soviet Union and its client states. Since at least the 1940s, ruling elites in the high-income capitalist countries of the U.S.-led "West" and the so-called "state socialist" economies of the Soviet-led "East" had viewed each other largely as rivals. The dictatorial systems of government in the Soviet Union and its client states in Eastern Europe eroded the appeal of the "Soviet model" as an alternative to capitalism. By the 1960s and 1970s, moreover, the Soviet Union and other countries of the "East bloc" went into a period of economic stagnation. This contributed to the decline of regime stability in those countries, and ultimately to regime collapse in the late 1980s and early 1990s. In the capitalist West, politicians and commentators (especially the most vociferously pro-capitalist) declared this a definitive triumph of capitalism over the rival socialist system. At the height of the hubris, some hypothesized that this could even be the "end of history"—that human civilization had arrived once and for all at the single universal economic and political system of capitalist democracy.[129]

In this period of capitalist triumphalism, when large capitalist corporations have largely gotten the economic policies they wanted, the capitalist system's contradictions have been dramatically laid bare. Economic inequality has reached historic high-water marks. Economic policies favoring owners and managers have certainly exacerbated the problem. Increasing wealth inequality, far from being anomalous, however, is the normal long-run tendency of capitalism.[130] Business cycles

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[128] Ness, 2015.
[129] This view is especially associated with political philosopher Francis Fukuyama (see Fukuyama, 1992a,b. For a critical view, see Miliband, 1992.
[130] Piketty, 2017.

have taken extreme "boom-and-bust" form. With rising inequality creating a chronic problem of inadequate demand for goods and services, booms are increasingly driven by increased borrowing and asset bubbles. Financial deregulation has increased risk-taking and financial fragility, with crashes detonating crises of the real economy. Recent recessions have been deep and prolonged, with massive unemployment and loss of potential output. "Business as usual" under capitalism has often involved environmental degradation. It is abundantly clear now that it involves potentially catastrophic climate change.[131] The relative lack of government action to confront this threat, at least in part, reflects the political influence of capitalist corporations whose power or profits would diminish as a result. Predictions of a world settling into a universal consensus around capitalist democracy seem rather absurd today, with increasing social conflict and political polarization around the world.

If one had to sum up the most recent period in the history of capitalism, it is above all the freeing of capital from constraints. Large companies are less tied to one particular country. They can locate their operations where government policies are favorable. Capital is less tied to a particular industry, through resources specific to a particular kind of production. Instead, it increasingly takes financial—or "liquid"—form and can be easily shifted from one industry to another. Capital is increasingly untethered from any particular group of workers. Capitalist companies have increasingly rolled back protections for workers, so they can easily fire workers, or employ contingent (temporary, contract-based, low-job-security) labor. They skip from one place to another seeking, as economic historian Jefferson Cowie puts it, "new reservoirs of controllable labor."[132]

As Cowie points out, however, capital's thirst for profit "had its own subversive logic … the integration of production into the economy and social life of the new site irrevocably turned the community into a new place of conflict."[133] When they establish capitalist relations of production in new places, capitalist companies also bring the very conflicts that they sought to escape. If all goes as planned, the employers come to a new place, employ new workers, and succeed in imposing low wages, a high and increasing pace of work, the discipline of the capitalist workplace. But then the workers tend to react in similar ways as workers have in the past—seeking power in collective action and confronting the capitalists at both the workplace and political levels. Other past and present social movements, not always based in the workplace or on class identity, have pushed back against the power of capital on a wide range of issues—rising inequality, economic instability, environmental degradation, and so on. There is little reason to doubt that such movements will continue in the future. In the view of radical social scientists, none of this is due primarily to forces outside the capitalist system, but rather to the internal contradictions of the capitalist system. As long as capitalism continues to exist, capitalist societies will continue to see meaningful conflict (likely involving both attempts to reform capitalism and attempts to replace the system altogether), because of the one thing that capitalism can never escape—itself.

[131] See Boyce, 2019.
[132] Cowie, (2001), p. 5.
[133] Cowie (2001), p. 4.

DISCUSSION QUESTIONS

Section 1

What do social scientists mean by “power”? What are some important kinds of relations in society that, in your view, involve someone exercising power over someone else?

Both neoclassical and radical economists describe some economic relations as involving the exercise of power. How do their accounts of economic power differ from each other?

What is a capitalist economy? Can an economy have markets and not be a capitalist economy? What kinds of nonmarket processes are also important in capitalist economies?

Section 2

What do radical economists mean by “class”? How does this differ from other ways of thinking about economic or social classes?

What are some key facts about the distribution of wealth in the United States today? How does the distribution wealth help explain the kinds of market exchanges in which people engage?

What is the “cost of job loss”? In the view of radical economists, what role does the cost of job loss play in the power that employers have over workers?

Radical economists describe capitalist firms as having a “hierarchical,” “top-down,” or “authoritarian” structure. In your view, is such a structure necessary in modern economies?

Section 3

If the capitalist class is so powerful economically, why cannot it “just enjoy its economic power, blithely indifferent to the exercise of political power”?

What is the difference between the “dominant class” of a society and the “ruling elite”?

In what ways is it possible for “dominant classes” to convert their economic power into political power?

What are different purposes for which capitalists can use political power? What is the difference between the use of political power for “rent seeking” purposes versus the pursuit of “class interests”?

Section 4

How can workers’ organization change the balance of bargaining power between them and their employers? How can it change economic outcomes on the whole-country level?

Why have workers' movements historically involved organization on both the workplace and the political levels? What are the relationships between workplace and political organization?

What factors might explain the decline of labor unions in recent decades? In your view, does this signal continued long-run decline or are there reasons to believe that these trends could be reversed?

Are there major negative features of capitalist economies? In your view, can such problems be effectively addressed through reforms to the system or would its replacement be necessary?

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KEY TERMS AND CONCEPTS

Capitalism – An economic system characterized by privately owned enterprises, which own production inputs, employ workers, and sell the output with the aim of profit.

Class – A kind of social relation between groups with distinct positions in the economic structure of a society; in radical economics, defined by unequal power relations and conflicting interests.

Conflict – Different actors' pursuit of opposing aims, with outcomes determined by their relative power.

Corporate globalization – Policy changes, especially elimination of regulations on international trade and investment, enhancing corporations' power in relation to national governments and workers.

Cost of job loss – The difference between a worker's actual annual income and their income in the event of job loss (replacement income while unemployed and reemployment income thereafter).

Credible threat – In a conflictive relation between two parties, a threat that one party can make to the other that the latter believes that the former would actually carry out.

Economy – The aspects of a society related to the production and distribution of goods and services.

Extra-economic coercion – Control by one actor over another, not based on economic conditions leading them to engage in voluntary exchanges; especially control based on violence or threat of violence.

Fallback position – The condition of a participant in a bargaining relationship, in the event of the breakdown of the relationship (also known as the "threat point").

Inside option – A possible action of a participant in a bargaining relationship, reducing benefits to the other participant without withdrawing from the relationship altogether.

Investment strike – The curtailment of investment (and usually employment) by a large number or private businesses simultaneously, especially in response to unfavorable political conditions.

Labor strike – Workers' collective withdrawal of their labor from an employer or group of employers.

Labor union – A workers' organization aiming to exercise power at the workplace level, as in bargaining with an employer or group of employers on issues such as compensation, hours, working conditions, etc.

Market – An economic institution in which a particular kind of good or service is regularly exchanged and in which buyers and sellers regularly interact.

Market failure – In neoclassical economics, a condition in which market outcomes are economically inefficient, due to some deviation from the perfectly competitive market model.

Market power – The ability of a market participant to determine market outcomes, especially prices.

Neoclassical economics – A school of economic thought emphasizing the interactions of rational, self-interested individuals in competitive markets and the desirability of the resulting outcomes.

Neoliberal capitalism – A form of capitalism featuring deregulation of private business, welfare state retrenchment, weakened labor organization, etc., as since the 1980s in many high-income countries.

Nonmarket relations – Interactions between social actors other than those in which they act as buyers and sellers (engage in market exchanges).

Perfectly competitive market – A neoclassical economic model of an idealized market, characterized by conditions including the absence of market power, absence of effects on non-participants, perfect information, free entry and exit, and homogeneous products.

Political party – An organization attempting to influence the exercise of governmental power, especially by placing its own leaders or members in government positions, whether by election or other means.

Power – A social actor's ability to achieve their objectives, regardless of the objectives of other actors (and even despite their opposition).

Property – A set of powers exercised by an economic actor over some resource, in relation to other members of society, such as the power to exclude others from using that resource.

Punishments – Harms inflicted selectively on those engaging in some particular behavior, and generally disincentivizing that behavior.

Race to the bottom – A competitive dynamic between the governments or working classes of different territories, in which each attempts to attract investment by making concessions to capitalist interests.

Rewards – Benefits conferred selectively on those engaging in some particular behavior, and generally incentivizing that behavior.

Radical economics – A school of economic thought, influenced by the ideas of Karl Marx, emphasizing relations of domination and exploitation within class societies, especially capitalist societies.

Regulated capitalism – A form of capitalism featuring extensive government regulation, welfare state, labor organization, etc., as between the 1940s and 1970s in many high-income countries.

Rent seeking – Attempts by economic actors to obtain an "excess return," above the competitive market rate, especially by the exercise of political influence.

Ruling elite – A social group that directly exercises political power, as distinct from the dominant economic class of society (though often acting under the influence or in the interests of the latter).

Scientific management – A managerial movement of the late 19th and early 20th centuries aiming at managers' detailed control of the labor process and the maximum sustainable pace of work.

Social revolution – The replacement of one economic system by another, as opposed to its reform.

State – A social institution defined by the preponderance of its capacity for the use of force within some territory; the durable institutions of government, as opposed to a particular government administration.

Too big to fail – The idea that some capitalist businesses are so important to the smooth operation of the economy as a whole that governments should ensure their stability and profitability.

Union density – The percentage of workers who are members of labor unions.

Wage labor – A labor relation in which workers engage in formally voluntary market exchanges with employers, accepting wages in exchange for submitting to the direction of employers and managers.

Wealth (individual) – The net stock of resources possessed by an economic actor, conventionally measured as the difference between total assets and total liabilities.