Legitimation Crisis of Capitalism?
What Might Come Next?

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October 11, 2011

In the fall of 2008, the U.S. economy began to unravel. I was teaching a graduate seminar in Marx. Among the readings I had assigned was Jürgen Habermas's *Legitimation Crisis,* one of his early works, published in 1973.. I'd used the book before. It read differently this time—and reads differently today.

Part I. Legitimation Crisis

In 1973, when *Legitimation Crisis* was first published, Habermas self-identified as a Marxist (not in the book itself, but in interviews given at the time). But as his book makes clear, he doesn't think Marx has gotten everything right.[1] Marx is right, he thinks, that there is a direction to history, and that there are various stages of development. Marx is right that technological development and class struggle are key factors in explaining the transformation of social systems.

Marx is wrong to think that a severe economic crisis will more or less automatically generate revolutionary class consciousness among the working class. The transition from an "objective" crisis to a "subjective" one is more complicated than Marx imagines. For a socio-economic system to be radically transformed, a "systems crisis" must become an "identity crisis," that is to say, an economic crisis must ultimately change the *self-identity* of enough people in such a way as to allow them, compel them, to become agents of change. Whether or not this happens depends on an array of psychological and cultural factors quite distinct from the severity of the economic crisis.

What about capitalism? Is it secure? To understand contemporary "crisis tendencies," says Habermas, we must recognize that "advanced capitalism" is significantly different from the "liberal capitalism" of Marx's day. One difference, which he notes, is quite obvious to us at the present moment. *The state has come to assume responsibility for the economy.* It is held responsible by an electorate that demands government intervention when the economy gets into trouble.

But will state intervention work? If not, how might things play out? These are the questions we are facing right now. These are the questions that Habermas thought hard about thirty-eight years ago.

According to Habermas, we must distinguish four kinds of crises: economic crises, rationality crises, legitimation crises and motivation crises. Economic crises are the ones with which we are all familiar: serious inflation and/or recession. A "rationality crisis" occurs at the political-administrative level, when, given the conflicting demands of various constituencies, the government is unable to resolve the economic crisis it is expected to handle. (Think of the U.S. Congress today.) A "legitimation crisis" occurs when the people lose faith in their basic institutions. A "motivation crisis" occurs when motivational patterns important for the functioning of the system break down.

Part II. The Current Economic Crisis

Let us leave Habermas for a moment. We'll come back to him. Let us now take a closer look at what we are facing today. We're in the midst of an economic crisis. (I insist that we are still in “crisis,” even if the technical indicators tell us the “recession” is over.)

What caused the crisis? Let’s think here of the crisis as it unfolded in the United States. (I’ll focus here on the United States, since the crisis there was the catalyst for the global crisis, and it’s the one I know best. Details are different elsewhere, but the underlying problems are the same.)

Let' me skip over the standard story about. the housing bubble, subprime mortgages, Wall Street greed, etc. and consider a deeper, more Marxian-Keynesian analysis.

Let's begin with Marx's basic insight: The seemingly irrational "overproduction" crises of capitalism are rooted in the defining institution of capitalism itself: wage labor. Wage labor gives rise to a contradiction. Since labor is a cost of production, capitalists strive to keep the wage rate low. At the same time capitalists need to *sell* their products, so they need wages to be high. Hence an ever-present crisis tendency: if workers don't have the money to buy what is produced, production is cut back, workers are laid off, demand drops further . . . the familiar downward recessionary spiral.

"But wait!" you might say, "Not so fast. Workers aren't the only ones that purchase goods. So do capitalists. If the gap between what is produced and what workers can buy is filled by the purchases of capitalists, there won’t be any crisis.”

We are touching here on a key difference between Marx's analysis and that of John Maynard Keynes, the great twentieth-century century economist whose theories provided the groundwork for the transformation of pre-Great Depression *laissez-fare* capitalism into the post-

World War II social-democratic capitalism of today. Whereas Marx focuses on the constraints to worker consumption, Keynes focuses on the behavior of the capitalists. Let's follow the Keynesian trail at this point.

What do capitalists buy? Consumer goods, to be sure, but not nearly enough to close the gap. It is a fundamental feature of a capitalist society that capitalists do *not* simply consume the surplus that workers have created. What gives capitalism is fundamental dynamic is the fact that capitalists routinely *reinvest* a portion of their profits, so that they can reap even greater rewards in the future.

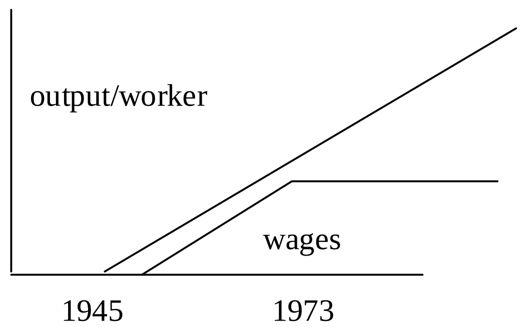
But what does "reinvestment" mean in real, material terms? Well, it means buying capital goods, not consumer goods--the extra machinery and raw materials to be utilized during the next production period to produce more than was produced in the preceding period. So long as the capitalists keep reinvesting, the economy can keep growing, can remain healthy, can avoid recession. But—Keynes pointed out--if the capitalists *don't* invest, then the economy slumps.

Moreover, as Keynes emphasized, the market's invisible hand will not automatically turn things around. To the contrary, market incentives often make matters worse: if the economy begins to slump, prices drop, companies go bankrupt, workers are laid off, demand drops further, etc. Therefore, governments *must* intervene when a recession threatens. If government action isn't swift and substantial, a recession can turn into to a full-blown depression.

What are governments supposed to do? The standard wisdom of the past three decades has focused on monetary policy: keep the money supply growing so that credit for business expansion is always available. Monetary policy is suitably Keynesian, but Keynes--and his more radical followers--also pushed for something else, namely fiscal policy: large-scale government employment and purchases, the costs of which should be allowed to exceed tax revenues when recessions threaten.

But notice, neither monetary nor fiscal policy addresses Marx's insight. What if *wages are too low*? Habermas has characterized "advanced capitalism" as involving a "quasi-political class compromise" that permits labor to organize and bargain collectively, so that workers can share in the productivity gains. For several decades following WWII, this development, combined with Keynesian monetary and fiscal policies, worked. It produced what is sometimes referred to as capitalism's "Golden Age."

But here’s a peculiar fact: in the mid-1970s, in the United States, *real wages stopped rising*--and have been flat ever since; that is to say, right about the time *Legitimation Crisis* was published, the social democratic compromise came to an end. Here's a picture of what has happened:[2]



How is this possible--an ever-widening difference between productivity gains and workers' wages? Who has been buying the products? Why hasn't the economy been in recession for the last quarter-century or so--as the Marxian analysis would suggest should have been the case?

Some of the money has been invested in the real economy--hence productivity has continued to grow. Some of the surplus went into the ever more lavish lifestyles of the über-rich. But even with their yachts and villas and private jets, the upper one or two percent of the population can't consume nearly enough to keep the economy growing. Another large, far more important portion of overall profits has been *loaned* to working people. This is the essential answer. In effect, instead of raising wages, the capitalist class has lent out a large piece of their profits to the working class--to be repaid with interest, of course. This same strategy has been used with respect to the government: instead of paying the higher taxes they were once compelled to pay, the wealthy have been loaning their money to the government, and receiving those interest payments—hence the ballooning national debt.

Here's a logical truth: What can't go on, won't. It applies to the current situation. Debt levels cannot keep increasing indefinitely when incomes are stationary. Soon enough, interest payments spiral out of control.

Might we be able to reform the system so as to return to a high wage, social democratic, post-WWII-type economy? This possibility seems out of reach. We are now living in a global economy. High wages drive businesses abroad. Indeed, this need to stay globally competitive was a key factor in ending the social democratic "class compromise" in the first place.

What is to be done? It is sobering to realize that Keynesian stimulations of the standard sort, the kinds undertaken by the Roosevelt administration and now urged on Obama, did *not* bring an end to the Great Depression. As Krugman reminds us, "it took the giant public works project known as World War II--a project that finally silenced the penny pinchers--to bring the Depression to an end."[3]

Well, there isn't going to be a World War III. Our embarrassing, tragic debacles in Iraq and Afghanistan have demonstrated unequivocally the limits of conventional warfare, and no major power is insane enough these days to start a nuclear war. This is not bad news--for us as human beings, that is. But it does close off another Keynesian route out of the current crisis.

So--if traditional Keynesian monetary and fiscal policies can't end this crisis, and if there's not going to be another major war to pull us out, what *are* we going to do? Frankly, I don’t think that there is *anything* we can do to get us out of the economic mess we are in--short of restructuring of our basic economic institutions in ways that go well beyond what is being currently contemplated by even the most radical elements of "respectable" opinion.

I may be wrong. Perhaps a combination of judicious policies and good luck will bring down unemployment rates to more tolerable levels, or perhaps we’ll just get used to this “new normal.” But even if one of these possibilities should turn out to be the case, we are far from home free. For there is another major crisis waiting in the wings, one presciently foreseen by Habermas thirty-eight years ago.

Part III. Back to Habermas

As the present crisis makes clear, a healthy capitalism requires *economic growth*. When growth falters, we don't glide smoothly to a steady-state economy. We crash. So, when growth slows, we scramble madly to get people buying again, consuming more. But this growth imperative presents us with a profound problem. Habermas called it the "ecological balance."

> The established mechanisms of growth . . . are faced with two important material limitations: on the one hand, the supply of finite resources--the area of cultivatable and

> inhabitable land, fresh water, . . . and non-regenerating raw materials. . . ; on the other hand, the capacities of irreplaceable ecological systems to absorb pollutants, such as radioactive byproducts, or *carbon dioxide*. . . . .

These words were written a third of a century ago. I do not need to tell you that they are not dated.

My argument thus far has aimed at establishing two theses: 1) The current tools available to the government appear to be insufficient to bring us out of the current economic crisis. 2) Even if some combination of Keynesian macroeconomics and luck should return the economy to vigorous growth, we will still be confronted with another, even less tractable, potentially more devastating, crisis. That is to say, we are in a tight corner. To combat the recession, our economists urge us to spend, spend, spend, while our environmentalists tell us that our overconsumption is killing the planet. To use Habermas's terminology, we are entering a full-scale *rationality* crisis. What follows?

Not revolution--at least not immediately or automatically. According to Habermas, a necessary precondition for systems-change is for the rationality crisis to provoke a legitimation crisis. That has not yet happened, at least not completely, although we are clearly moving in that direction. There is widespread distrust of the elites who run the country, more now than at any time in recent history.

If we do get a full-blown legitimation crisis, what follows? According to Habermas, the next stage is a "motivation crisis." But what exactly is that?

Habermas's discussion of this stage is intriguing in its details, but less clear than his discussion of the other crisis stages with respect to outcome. His basic thesis is that the motivational patterns essential for the functioning of advanced capitalism are being systematically eroded, while at the same time the emergence of functionally equivalent motivations are precluded by the developmental logic of contemporary morality. This developmental logic points to genuinely *universal values*, and--his key claim--these values are incompatible with capitalism.

Let me explain this a bit. Advanced capitalism is formally democratic, but it depends for its existence in the passive acquiescence of the citizenry to rule by those who will protect the interests of the capitalist class. But there is a deep tension here, for "the political theories of the bourgeois revolutions demanded *active* civic participation in democratically organized will-formation" (76).

According to Habermas, this tension has been contained by the authoritarian residues of pre-bourgeois culture. We have long been conditioned to accept elite rule, rule by "the fathers" who always know best. But patriarchal ideology, and with it the "authoritarian personality" that so worried earlier critical theorists, who saw it as the psychological foundation of fascism, is disappearing.. The authoritarian father has largely vanished, in part because of the women's movement, in part because of more egalitarian patterns of child rearing and education.

There are other motivational problems. Education no longer guarantees commensurate employment. More and more young people are receiving more and more education, but "the connection between formal schooling and occupational success [has become] looser"(81). Moreover, "fragmented and monotonous labor processes are increasingly penetrating even those sectors in which an identity could previously be formed through the occupational role. Intrinsic motivation to achieve is less and less supported by the structure of labor processes in spheres of labor dependent on the market" (82).

Suppose we do experience a profound "motivation crisis." How might the motivation crisis be resolved? Societal breakdown would seem to be the logical result, although Habermas does not say this explicitly. Habermas worries about the replacement of the current system by "an administrative system shielded from parties and the public," one that no longer *needs* legitimation, but he is not willing to accept the anti-democratic claim that this is the only choice for highly complex societies.[4] Habermas's *hope* lies with the young--better and more highly educated than ever before, less susceptible to authoritarian (fascist) leaders, more imbued with universal values.

But what are the young to do? They should not "retreat to a Marxistically embellished orthodoxy," for we must have "theoretical clarity about what we do *not* know." The young are called upon instead to "expose the stress limits of advanced capitalism to conspicuous tests, . . . and to take up the struggle *against* "the stabilization of a nature-like social system over the heads of its citizens," a system that would give up on a concept Habermas refuses to relinquish: "old European human dignity" (143).

These words bring *Legitimation Crisis* to a close. In short, we are left with critique, with protest, with struggle--but no indication whatsoever as to what positive program these "young radicals" might advocate.

Part IV. Beyond Habermas, Back to the Present, On to the Future

I don't think we should fault Habermas for not providing us with a theoretical sketch of a better alternative. There was so much back then that, as he realized, we did not know. Think for a moment of the economic "experiments" then going strong: The Soviet Union's centrally-planned economy had not yet entered its terminal decline. Maoist China was promoting a distinctive "Chinese road to socialism." There were experiments with markets under socialism underway in Hungary. Yugoslavia was experimenting with both markets and worker-self-management. How was this all going to play out?

We know more now than we did back then--and we are in the midst of an economic crisis far more serious than anything heretofore experienced in the postwar West. How do things stand now? What alternatives are *we* facing? At least four come to mind:

- A return to "Golden Age" social democracy. I've argued that this is out of reach.

- Fascism. This option would not seem likely either.—although the rise of the Tea Party Movement in the United States and anti-immigrant parties in Europe is somewhat unsettling. But fascism as an economic model (authoritarian capitalism) has been tried, not only by Mussolini and Hitler, but also by lots of anti-communist military and civilian dictatorships since WWII. None of these economies has flourished. None of the instigating regimes has survived.

- Managed stagnation? This is Paul Krugman's current prediction: "disastrously high unemployment persisting years into the future":

> All the wise heads will tell us that 8 or 9 percent unemployment--maybe even 10 percent--is the "new normal," and that only irresponsible people will want to do anything about the situation.[5]

In my view, this is our most likely short-term future. What about longer term?

♦ A new form of democratic socialism? Hmmmmm. Let's think about that.

Let me state a fundamental truth: a full-employment, democratic economy that is immune to financial speculation and the havoc such speculation can wreak, and--at least as significant--an economy that does not need to grow to remain healthy is possible. This aspiration is a "dream"--but not an impossible dream.

What would such an economy look like? Let me offer a mode that I'm convinced, having worked on this issue for most of my academic life, would be both economically viable and not subject to the major defects of capitalism, my short list of which includes, in addition to economic instability and environmental degradation:

- Staggering inequality.
- Rising unemployment, which is structural in nature, and hence not temporary.
- Intensification of labor—for those who have jobs
- Growing poverty in the midst of unprecedented material wealth.
- Degeneration of democracy.

Let us begin, not with an abstract model, but with what we now know in light of the economic experiments of the past century.

♦ We now know that competitive markets are essential to the functioning of a complex, developed economy. This is the *negative* lesson of the socialist experiments of the twentieth century. Markets cannot be replaced wholesale by planning.

- We now know that some sort of democratic regulation of investment flows is essential to rational, stable, sustainable development--for individual countries and for the world economy as a whole. This is the *negative* lesson of the neoliberal experiments of the last thirty years. Financial markets are not to be trusted. We need some sort of "investment democracy" to complement the "consumer democracy" of the goods- and-services market.

There is something else we know--at least those of us who study such things. Actually, most people do *not* know this important fact.

- We now know that productive enterprises can be run democratically with little or no loss of efficiency, often with a gain in efficiency, and almost always with considerable gain in employment security. This is the positive lesson of a great many recent experiments in alternative forms of workplace organization.

Given what we now know, how might we structure an economy such as our own to give us an economically viable economy far less prone to the defects of capitalism noted above.? Let me give you a picture of "Economic Democracy. Let's start with the three basic institutions.

- *A competititve market for goods and services*. Economic Democracy is a competitive market economy. Incentives remain in place for firms to use their resources efficiently, to innovate and to respond effectively to consumer demand.

- *Workplace democracy*. Most (though not all) enterprises are run democratically by workers, whose incomes are no longer wages, but shares (not necessarily equal) of company profits. Workers elect a workers council, one-worker, one-vote, to fill the role currently filled by a corporation's Board of Directors, namely, selecting upper management and overseeing major enterprise decisions.

    - *Democratic control of investment.* Private financial markets are replaced by *public* investment banking. Investment funds come, not from private savers, but from a flat-rate capital-assets tax levied on all business enterprises. (It is important to break the link between private savings and investment funds if we are to gain democratic control over the latter.) All of these revenues are returned to state and local investment banks, each region receiving its per-capita share. All the collected taxes are reinvested in the economy. Loans are granted only to those project that promise to be profitable, but priority is given to those that create the most employment.

To these three basic institutions (the market, workplace democracy and social control of investment), let us add three supplements:

- The government will serve as an employer-of-last-resort. All able-bodied people who want to work will have a job.

- A network of private and cooperative Savings and Loan associations will exist to provide home mortgages and other consumer loans. (In Economic Democracy, the allocation of capital for business investment is kept sharply distinct from providing credit for consumer purchases.)

- Economic Democracy will retain a capitalist sector, comprised of small businesses and larger "entrepreneurial firms." (An "entrepreneurial firm" is one whose founder remains actively involved in its management. When the entrepreneur retires, or wishes to cash out, he sells the firm to the state, which then turns it over its employees to be run democratically.)

Let me ask you to take it on faith (or at least to suspend disbelief) that such a system is economically viable. I have argued the case at length many times, most recently in the second edition of *After Capitalism,* which has just come out.[6] The important point I wish to make here is that Economic Democracy is not vulnerable to the kind of crises we are now experiencing.

Economic Democracy is not vulnerable to capitalist economic crises for a simple reason. Apart from locally-based savings and loan associations, *there are no private financial markets in Economic Democracy*. So there's no possibility of financial speculation, no possibility of "irrational exuberance."

The financial system is quite transparent. A capital assets tax is collected from businesses, then loaned out to enterprises wanting to expand, or to individuals wanting to start new businesses. Loan officers are public officials, whose salaries are tied to loan performances.

Economic Democracy is vulnerable neither to speculative excesses nor to the deeper problem confronting a capitalist economy, namely, insufficient effective demand, due ultimately to the fact that wages are a cost of production. Wages are *not* a cost of production in a democratic firm. Workers get a specified share of the firm's profit, not a wage--so all productivity gains are captured by the firm's workforce. There are no excess profits seeking an investment outlet.

As I pointed out earlier, capitalism faces two types of crisis: economic crises such as the one that has engulfed us, and ecological crises, the latter derived from the fact that a capitalist economy must constantly grow to remain healthy. Economic Democracy is better positioned than capitalism to avoid ecological crises, for several *structural* reasons.

It is a fundamental fact about a democratic firm, long noted in the theoretical literature, that it lacks the expansionary dynamic of a capitalist firm.[7] Democratic firms tend to maximize profit-per-worker, not total profits. That is to say, doubling the size of a capitalist firm will double the owners' profits, whereas doubling the size of a democratic firm leaves everyone's per capita share the same. In short, democratic firms are not incentivized to grow. Unless there are serious economies of scale involved, bigger is not better.

Moreover—a second structural reason--since funds for investment in an Economic Democracy come from taxes (the capital assets tax), not from private investors, the economy is not hostage to "investor confidence." So it does not have to keep growing to remain healthy. Economic Democracy can be a stable, sustainable "no-growth economy," whereas, as I have argued elsewhere, "sustainable capitalism" is impossible.[8]

Actually, "no-growth" is a misnomer. Productivity increases under Economic Democracy still occur, but they are more likely to translate into increased leisure than increased consumption. The economy will continue to experience "growth," but the growth will be mostly in free time, not consumption.

Interestingly enough, Keynes himself speculated about the tenor of life in a society in which productivity increases translate into leisure. In a remarkable essay written shortly after the onset of the Great Depression, he muses about the "Economic Possibilities for Our Grandchildren."

> We shall use the new-found bounty of nature quite differently than the way he rich use it today, and will map out for ourselves a plan of life quite otherwise than theirs. . . . What work there still remains to be done will be as widely shared as possible--three hour shifts, or a fifteen-hour week. . . . There will also be great changes in our morals. . . . I see us free to return to some of the most sure and certain principles of religion and traditional virtue--that avarice is a vice, that the extraction of usury is a misdemeanor, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow. . . . We shall honor those who can teach us how to pluck the hour and the day virtuously and well, the delightful people who are capable of taking direct enjoyment in things.[9]

Keynes wrote these words in 1930, at a time when "the prevailing world depression, the enormous anomaly of unemployment, the disastrous mistakes we have made, blind us to what is going on under the surface."[10] He was wrong, of course. The grandchildren of his generation may have lived in a post-war social democracy that looks good to us now, mired as we are in recession, but they were still far from the promised land.

Keynes was wrong--or was he? In fact, he was not referring literally to his grandchildren, but metaphorically. His projection was for "a hundred years hence," i.e. 2030. Might there be things "going on under the surface" right now that could bring us to sustainable, democratic, human world?

Notes

[1] He doesn't use that self-description in *Legitimation Crisis*, but in an interview published in the special issue of *Telos* honoring his fiftieth birthday, Habermas remarks, "For us, as Marxists, there is the problem of interpreting the experiences of these movements [for black liberation, women's liberation, nuclear disarmament] . . . . (Spring 1979): 165. So far as I know, Habermas has never repudiated that identification.

[2] This figure is taken from a videotaped lecture delivered October 5, 2008 by economist Richard Wolff, available at http:/tinyurl.com/3pthrx.

[3] Paul Krugman, "What Obama Must Do," *Rolling Stone* (January 14, 2009).

[4] Niklas Luhmann was an influential proponent of this thesis. Habermas engages Luhman's argument at length in the penultimate section of *Legitimation Crisis*.

[5] Paul Krugman, "The Jobs Imperative," *New York Times*, November 30, 2009.

[6] *After Capitalism, Revised Edition* (Lanham, MD: Rowman and Littlefield, 2011).

[7] Cf. Benjamin Ward, "Market Syndicalism," American Economic Review 48 (1958): 566-89.

[8] David Schweickart,"Is Sustainable Capitalism an Oxymoron?" *Perspectives on Global Development and Technology*, 8 (2009): 557-578.

[9] John Maynard Keynes, "Economic Possibilities for Our Grandchildren," In Essays in Persuasion (New York: Norton, 1963), pp. 368-72.

[10] *Ibid*. p. 359.