AUTHORS & CRITICS

Can Capitalism Survive Till 1999?

By Robert L. Heilbroner

NO
NO

I AM GRATEFUL TO Andrew Shonfield for a reading of my book, *Business Civilization in Decline*, [ENCOUNTER, January] that is admirably true to its spirit and intention. His fairness and objectivity allow me to attend directly to the disagreements between us without wasting time on polemics and the repair of wounded vanities.

At the core of our differences lie divergent perspectives on the market system. Shonfield sees this system primarily as a flexible and adaptive method of registering, attending to, and thereby dissipating, consumer dissatisfaction. I have no quarrel with this view; and I would indeed agree that the market will continue to show its advantages over central planning as a distributive mechanism. Our differences stem from the fact that I place a much greater emphasis than he does on the market as a mechanism for guiding production. Here I refer not merely to the production that matches output to consumer demands, but to the production that determines our direction of investment, our level of unemployment, our rate of technological change, our relations with foreign buyers and sellers. The "market mechanism" in capitalism denotes the propulsive thrust of the system as much as its distributive arrangements.

Moreover, this propulsive thrust is governed by a guiding principle, as rigid in its own way as the distributive mechanism is flexible. This rigid principle is the search for profit, the drive for capital expansion, the imperative of business growth. This primary motivation of a capitalist system is not denied by anyone, although in these days of waning enthusiasm for "bourgeois values" it is usually defended as a means to national efficiency, rather than as a laudable end in itself.

Whether profits are pursued for their own sake or for that of society, the main economic function of capitalist governments is to assist this accumulation process. In so doing, governments may, of course, often collide with individual business groups, or even with business interests as a whole, for their task is to manage a social order that will "contain" the dynamic and disruptive core of business. But for all their clashes with business, I do not see capitalist governments anywhere seriously opposing the expansive thrust of their systems, or actively working to replace the engine of economic growth with another. .

I DO NOT THINK THAT Shonfield would fundamentally disagree with this statement, although he might choose words that depicted the process in a somewhat kindlier light. But it is not at this point that we would come into serious conflict. It is rather that Shonfield, I believe, expects the present configuration of business and government to remain relatively static during the next quarter-century, whereas I expect it to move sharply in the direction of a reversal of the present Business/Government roles.

The reason that I cannot see a stable equilibrium in the present balance of Business and Government stems from two considerations. The first is that the market system—stressing, again, its productive rather than distributive aspects—seems to be steadily creating new problems that require intervention from "above." Economic instability and inflation—dangerous new products and processes—resource depletion—pollution—international economic dependencies—all originate in the powerful productive drives of the market system, and all create pressures for government intervention. I see no reason for this process to come to a halt, and many reasons why it may accelerate.

Even more important, I see capitalism the world over encountering the first assaults of a tightening world environment well before 1999. The recent United Nations report on *The Future of the World Economy* (produced under the direction of Wassily Leontief) makes it plain that we will be seriously straining the planet's growth-sustaining capacities within a generation. Already by that time, and assuredly if we look still another generation ahead, we must therefore expect heightened pressures for the enlargement of government. In a world growing ever shorter of raw materials, threatened with ever more serious pollution problems, falling behind in its efforts to generate enough energy, and wracked by vast discrepancies of income in different parts of the globe, the subordination of production to public direction and limitation will become a matter of inescapable choice.

TO BE SURE, ONE NEED NOT paint the picture in lurid tones. As Shonfield rightly says, there are many kinds of civil servants; and the roles that corporation may play in the hard-pressed industrial systems of the year 1999 may vary widely depending on resources, political and cultural habits, or the sheer fortunes of leadership. The legitimacy that will be accorded to the accumulation process—and its social analogue, the unequal distribution of wealth—will also no doubt vary widely. But I cannot believe that the balance of power within industrial states will not have changed radically and irreversibly, whatever their ideologies of property.

Whether or not we will call this prospective statist economy *capitalism* is unimportant. We are moving toward an environmental condition in which the accumulation process that is the nuclear core of capitalism will have to be contained, although it may not be wholly deactivated.

Given Andrew Shonfield's own recognition of the looming problems of the longer run, I do not see how this conclusion can be avoided.

Between Intervention & Multiplicity

A Reply—By Andrew Shonfield

THE HINGE of Robert Heilbroner's argument is that the process of profit-making and capital accumulation is ill-adapted to the conditions of increasing material constraint that lie ahead of us. This seems to me to be a deeply mistaken notion. Even granting the full rigours of Heilbroner's scenario for the end of the century, I cannot see how we, or our successors, can escape from the necessity to *save* a substantial part of current income, *i.e.* accumulate resources required to create additional productive capacity to meet our changing needs.

Ecological constraints mean that as producers we have to accumulate more capital to achieve a given volume of output, because plant has to be equipped with anti-pollution devices, has to use less water, fuel (and so on). As consumers, if we are going to heat our homes using much less fuel, we shall have to spend a great deal more on building effectively insulated dwellings and installing means of exploiting available sources of solar energy, windpower, *etc.*

Investment in amenities is likely to absorb an increasing share of total output. Heilbroner seems to assume, on the contrary, that there will be no demand for saving/accumulation because the amenities will be simply unavailable. This is the limiting case of a world so used up that the application of additional capital resources, or new technology, anywhere in the productive system makes no difference to the volume of output. I find this implausible. The more probable outcome is that despite future advances in technology, the limitations of nature will result in a secular trend requiring an increase in the capital resources that have to be invested in order to achieve the same increase in output. ("Output" is defined as being the services and goods that people want enough to be willing to supply their labour or their possessions in order to obtain them.)

THE QUESTION THEN FOLLOWS whether profits are an inefficient means of amassing the resources needed for investment.

Note that it is not *private* profit that is at issue. Soviet countries typically rely more on the profits of enterprises (*i.e.* the difference between their income from sales and their costs of production) to finance investment, and less on borrowing or on direct taxation, than Western capitalist countries normally do. But it is a weakness of the traditional Communist system, modelled on the USSR, which is recognised by a number of Soviet economists nowadays, that its profit arrangements are perverse and inefficient.

There are two reasons for this. One is that the prices of goods and services are set arbitrarily, with little regard to the relative scarcity or true costs of inputs or to the unsatisfied demand for particular outputs. The other reason is that the system provides too little reward to those who take the risks inherent in innovations which are designed either to save scarce resources or to give consumers what they want. Even if prices are made more rational—as the Hungarians have been trying to do, with some success, in the past few years—the reformers have found that the incentive to entrepreneurship, that is the taking of business risks, fails to work without the creation of *independent profit centres.*

THE HEILBRONER SYSTEM would have only one profit centre—at least in the business of production. The distribution of goods and services would be spread among numerous sellers, each trying to maximise his returns. These sellers would not, however, be able to take the initiative to