Conclusion

The "Third Way" as the Fourth Wave of New Class Projects?

In this book we have offered a review and critique of the history of New Class theories. We have sought to sustain two major arguments concerning this body of ideas. First, we have argued that these theories serve as the ideological accompaniment to failed "collective mobility projects" in which various types of intellectuals have sought to advance their own interests by claiming to represent the interests of others. This accounts for the constant rebirth of these theories over the past 150 years or so. Second, we maintain that each of these class projects has failed because it was incomplete in some way. We advanced a theory of successful class formation in the first chapter, which postulated a tripartite requisite: for a New Class to come into being, there must exist a suitable group of people; these people must have the proper consciousness; and, simultaneously, they must have a proper structural position from which to transform society. All New Class projects have failed along one or more of these dimensions.

Our hypothesis in this conclusion is that, with the fall of the Cold War, new versions of New Class projects were born. These projects belong to two types; the first we call "neo-socialist real utopia," and the second we call "Third Way" or "actually existing social democracy." In analyzing these New Class projects, we will offer our own advice, tongue in cheek, to would-be New Class actors about the conditions under which a New Class movement could develop.

Neo-Socialist Real Utopias

We begin our analysis by discussing the thought experiments associated with the neo-socialist real utopia projects. These are not interesting as social movements. None of the real utopias we describe below causes any sleepless nights for the "old dominant class" (or for that matter for anybody—readers of some of these utopias are likely to fall asleep rather than become agitated). But these neo-socialist real utopias are nevertheless of theoretical interest, at least for the tradition from which this book also receives intellectual inspiration. Their very existence demonstrates that the end of the Soviet Union does not imply the end of the socialist idea. After an initial shock, socialist intellectuals began to develop new concepts for the socialist project, this time casting them as "utopian." Wright explains that "real utopias" are "utopian ideals that are grounded in the real potential of humanity, utopian destinations that have accessible way stations, utopian designs of institutions that can inform our practical tasks of muddling though in a world of imperfect conditions for social change" (Wright 1999, 1. Wright's examples include van Parijs 1992; Cohen and Rogers 1995; Roemer 1994; Bowles and Gintis 1999).

These utopias often accept features of modern capitalist society that previous socialists generally claimed would be transcended by socialism. Most important, some of these utopias not only accept markets as the proper economic integrative mechanism, but also in some ways suggest that "free markets" are only possible under socialism, when property monopolies are eliminated. For the purpose of this chapter, the main question we have to ask is whether these utopias are new versions of New Class theory or not? And if so, why do they cut so little ice? Will they ever cut any ice? And finally: they are utopian all right, but in what sense of the term are they real?

Real Utopias

What is the alternative to capitalism, now that state ownership and central planning no longer seem viable? One group of utopian authors makes the key concession to the critics of "old-style" socialism that markets are inherently more efficient at providing information than planning, and therefore must be harnessed to achieve socialist ideals. These are the market socialists. We find some of these authors to be the farthest, among the neo-socialists, from a realistic proposal that could potentially serve a successful New Class movement. Again, while no such actual movement exists beyond the professors contributing to this academic debate, these particular academicians present ideas that are particularly utopian.[1]

The paradigmatic example of this tendency toward the utopian is John Roemer's influential theory of market socialism, as most recently expressed in *A Future for Socialism* (1994). Roemer's utopia involves two structural changes in the economy. The heart of his proposal would be to redistribute wealth and allow markets to create the most efficient outcome. Roemer calls this "coupon socialism" because he advocates that the ownership of corporations would be split up and distributed so that all persons would have equal shares of the economy. People could trade shares in one company for shares in another, but could not sell shares for money or commodities. Roemer would also reorganize corporations into Japanese- or German-style conglomerates headed by large banks with ownership and creditor relationships with a number of companies. The banks would monitor managers to ensure profit maximization.

Roemer claims that, because of the first change, society would be far more equal. Because of the second change, investment funds would be allocated according to profitability criteria, ensuring that they result in the most efficient allocation of resources possible. Thus, resources would be both equally distributed and efficiently employed. The New Class nature of this argument is extremely obvious—capitalists would be literally stripped of all of their wealth (or of all above their equal share—that is, above the level of abstract capital that makes them capitalists), and the control of that property would be vested literally with company managers. Roemer acknowledges this by also referring to his ownership scheme as "managerial market socialism." This has more than faint echoes of Veblen's soviets of engineers or Taylor's scientifically trained managers.

Hypothetically, even if there were the political force to make Roemer's vision a reality, to have this utopia as the goal of the transformation seems a disastrous use of time and energy. It would do nothing to reduce the destructive externalities that are the inevitable side effect of market competition by profit maximizing agents. The problem identified by Hegel, Saint-Simon, and Marx, and by all subsequent New Class theorists, the unrestrained competition of actors in civil society, is not addressed by Roemer's utopia. Roemer's plan also seems to concede too much to procapitalist forces, not even attempting to soften the alienation inherent in the capitalist productive process. Finally, it is almost certain that even the equality gained by the wealth redistribution called forth by this utopia would not be enduring. Eventually, if there actually was trading in these coupon shares, this would create inequalities even if the shares could not be sold. People with luck, skill at trading, or insider connections would wind up with better stocks, which would create a group owning high-dividend-bearing stocks and a group owning low-dividend-producing stocks.

Roemer's utopian coupon socialism, while hopelessly fanciful in Western capitalism, bears a remarkable similarity to "voucher capitalism" as practiced in some postcommunist societies, most notably the Czech Republic and Russia. In the Czech republic, citizens were indeed given the right to buy shares of the nation's productive wealth for a nominal fee (about one month's wages). While they were allowed to sell their shares (contra Roemer's plan), most did not, choosing to invest their shares in investment companies. As a result, the second part of Roemer's utopia was also created. Large government-owned banks owned investment companies that in turn had ownership in many industrial companies. Thus, the economy was divided up into conglomerates consisting of large state-owned banks with ownership and creditor relations with many firms. Despite the distribution of corporate ownership to citizens, the differential endowment of individuals with human capital as well as network connections (social capital) quickly created a concentrated ownership structure typical of capitalist economies (see King 2001a, 2001b for illustrations of this process). And despite the bank-conglomerate form of ownership, monitoring of managers was notoriously weak and firm performance was quite unimpressive.

In addition, Roemer's model, as well as other models of market socialism that envision completely abrogating capitalist ownership, seems hopelessly utopian to us. Thus, while the theories are certainly New Class in spirit, they are removed from political and economic reality. Thus they fail by Wright's own criterion for real utopias: that they "inform our practical tasks" of transforming the economy under inhospitable conditions. In contrast, some other new market-socialist visions are premised only on the redistribution of *some* assets, a program that seems far more likely to have some modicum of success than abrogating all capitalist ownership. Prominent among these advocates, Sam Bowles and Herb Gintis (1999) argue that market integration itself is not a problem for the economy; rather, it is the unequal distribution of assets that makes markets irrational and destructive. They maintain that inequality produces inefficiency because it creates disjunctures among incentive structures. For example, they claim, employee ownership creates more efficient firms because monitoring costs are reduced and incentives to work hard are increased. Other examples of asset redistribution that they advocate include housing vouchers and even school vouchers to increase school responsiveness to parents' needs. What this program boils down to in practice would be some redistribution of assets, and supporting current trends toward employee ownership and charter-style school reform.

The New Class character of this theory is less pronounced than is that of Roemer's version of market socialism. The Bowles/Gintis scheme relies on the state to redistribute some assets, but in ways that benefit all wage earners. However, it is not hard to imagine school vouchers disproportionately benefiting those with more human capital and institutional connections—such as are possessed by professional intellectuals and managerial personnel.

Still, our hypothetical New Class movement might more profitably orient around such an idea, as many people support some redistribution along these lines. Therefore, an incremental increase in economic decisions devolved from both the state and private corporations to citizens could be strived for. However, we feel that a potential New Class movement that relied exclusively on this structure for class formation would probably fall short of reaching its goals. Economic decisions that affect everyone would still be made by individuals maximizing personal interests, making many dynamic externalities—like overcompetition resulting in slow growth—just as likely as under traditional capitalist relations.

This critique of market socialism informs another variant of neosocialist real utopia: that envisioned by the associationists. These scholars do not seek to redistribute assets as a substitute for having socialist planning mechanisms. Rather, they seek to build alternatives to market integration and private ownership by a revival of the classic Durkheimian position on the desirability of "voluntary associations" as regulators of political and economic processes. Influential examples of this approach can be found in Joshua Cohen's and Joel Rogers' *Associations and Democracy* (1995) as well as in Paul Hirst's *Associative Democracy* (1994). Both advocate devolving as many decisions as possible to the local level, where voluntary but publicly funded organizations would provide "governance." These organizations would overcome the problems of private competition without creating the even greater harm of a repressive bureaucratic state. A real existing example of such associational behavior can be found in organizations that constitute the consumers rights movement (such as Consumer's Union). These organizations serve the interests of New Class actors as well as of other salaried employees, at the expense of the interests of corporations. For instance, university professors and truck drivers have identical class interests as consumers vis-à-vis obtaining information, about corporate products, that the corporations do not provide. Having associations like Consumers Union even provides a structure from which intellectuals can exercise some teleological power. The associationists want to increase the size, number, and resources of these institutions by publicly funding them.

The associationist position, like the redistributive position of Bowles and Gintis discussed above, also seeks to build on employee ownership. "The spread of cooperative and mutual ownership would tend to reduce the current gap between the wage worker, who sees the firm as a mere means to earn a living, and the manager, who acts as a steward of external providers of capital. . . . Such forms of ownership would also help facilitate the rational collaboration of firms and public-private partnerships" (Hirst 1994, 121). This worker ownership would, therefore, also give rise to nonprofit financial cooperative endeavors, based on workers' savings, that would facilitate regional economic performance (121). In terms of the sustainability of such a structure, for the transformation sought by our theoretical New Class project, the associationists would seem to have a clear advantage over the market socialists: the associations explicitly seek to overcome externalities caused by market competition.

Still, as we argue in regard to the market socialists, we doubt that the associationist ideal is an adequate basis for the success of a hypothetical New Class movement. We believe that this "real utopia" is unrealistic about the cooperation such a scheme would elicit from corporations. Indeed, the capitalist is quite capable of dominating voluntary associations. Most important, as critics can argue, these associations would only go part of the way in neutralizing capitalist's trump card, the structural dependence of the state on capitalist accumulation. The publicly funded associations would be equally dependent on the investment decisions of corporations for their funding.

The Third Way, or Actually Existing Social Democrats

The irony of history is that, soon after the fall of the Berlin War, the neoliberal political forces began to lose political ground. While George Bush the First claimed credit for victory in the Third World War he lost the elections to the New Democrat Bill Clinton. Thatcherism suffered a humiliating defeat from the New Labor Tony Blair, and the German reunifier Helmut Kohl was unseated by the New Social Democrat Gerhard Schroeder. Ten years after the end of the Cold War, thirteen out of the fifteen governments of the European Union were led by social democratic or socialist parties. In fact, it is the neoliberal center right that is in a deep crisis in many advanced countries of the West. This is arguably the single most important political development for decades. The loss of a sense of mission by the center right gives rise to the far right from Austria to Germany, from Italy to France.[2]

What is the reason for the crisis of the right and the rise of New Social Democracy? And what is New Social Democracy, neoliberalism in sheep's clothing or the most recent wave of a New Class project? Our next task here is to try to answer this question.

First, what is the reason for the crisis of neoliberalism? "The economy, stupid," as then-President Clinton might have put it. By the early 1990s, it appeared that the neoliberal economic policies were not working, and the electorate began to punish the neoliberals by backing the politicians that the reformed Democratic, Labor, or Social Democratic parties began to offer.

A quick look at the economic record under the neoliberals, led by Reagan and Thatcher, demonstrates the limits of this program. The neoliberal economic policy objectives were to limit credit and government borrowing in order to eliminate inefficient firms slowing down the economy. They would also eliminate "supply-side" obstacles to growth, such as strong unions, high wages, heavy taxes, and "too much" government regulation.

They did indeed eliminate some supply-side constraints, most spectacularly on the labor front and in the realm of taxation. However, monetary restriction seemed to weed out good firms as well as bad, and by the summer of 1982 there was the deepest recession since the 1930s. Real interest rates were at record highs and profitability plummeted, especially in the manufacturing sector, where profitability was 50 percent less than in 1978. Most important politically, unemployment skyrocketed to 11 percent.

Reagan's success, the so-called "Reagan boom," ironically succeeded when he abandoned the monetarist experiment and primed the economy with a massive arms build-up and tax cuts. This fiscal expansion was matched on the monetary front as Paul Volker expanded credit.[3] However, the neoliberal emphasis on decreasing taxation rates and labor costs was not abandoned. In essence, Reagan led an antiworker, pro-military, pro–corporate rich, Keynsian explosion. Overall taxation as a percentage of GDP (gross domestic product) decreased 5.3 percent from 1980 to 1992, and total wages and salaries as a percentage of total expenditures fell by 9 percent. The U.S. economy recovered from the recession, but the recovery was not particularly impressive. The United States grew at an average rate of only 1.33 percent from 1981–92, as measured in growth of GNP per capita. This was significantly less than the Japanese growth of 3.33 percent and about equal to the French rate of 1.42 percent. Unemployment in the United States averaged 7.33 percent, up from the 6.5 percent of the Carter years and the 5.8 percent of the Nixon-Ford era.

This growth was the result of the most massive Keynsian expansion in the nation's history. Naturally, as a result of these tax breaks and military spending, there was a massive increase in the weight of the state in the economy. The federal government deficit as a proportion of GDP averaged 4 percent in the 1980s (more than 5 percent in 1982–87), compared to 2.3 percent for the 1970s and 1.1 percent for the 1960s. In 1995 dollars, total government spending increased a massive 27.3 percent. This was paid for with debt, primarily, and the central government debt as a percentage of all debt ballooned from 27 percent in 1981 to 50 percent in 1992. There was generally a massive increase of borrowing of all types. From 1982 to 1990, total borrowing (public and private) was 22.1 percent, compared to 17.4 percent for 1973–90 and 11.8 percent for 1960–73 and 8.5 percent for1952–60. While moderate growth levels were being achieved through massive transfers from the government to the private sector, investment growth managed to fall. The average annual growth of net capital stock in the private business economy fell to 2.9 percent, from 3.4 percent in 1973–79 and 4.3 percent in 1965–73. Overall, the economy seemed in major decline. The overall competitiveness of the U.S. economy deteriorated, and, as a result, the trade deficit skyrocketed; it went from a positive 5 billion in 1981 to a staggering negative 168 billion in 1986 before declining back to a negative 52 billion in 1992 (in 1999 US$). Further, neoliberal financial deregulation also seemed to lead to financial instability, as financial crises started occurring with disturbing frequency (crises occurred in Argentina in 1980–82, Chile 1981–83, Uraguay 1981–84, and Israel 1980–83). If anything, it seemed that resources "trickled up," as the U.S. government would step in to guarantee the losses of major financials.

As we mentioned, even though the economic growth seemed weak and premised on debt, Reagan and Bush did deliver in terms of wages and taxes. The rate of taxes on nonfinancial corporations fell massively. This tax averaged 40 percent between 1967 and 1980. Between 1980 and 1990, it fell to 26 percent.[4] The story is similarly clear on the labor front. The pivotal event was the destruction of the air traffic controllers union (PATCO). After this defeat, the retreat of labor was underway. The absolute numbers of unionized workers fell an average of 817 thousand per year between 1979 and 1983, 361 thousand per year between 1983 and 1987 (Brenner 1998, 191). During this same period, there was a massive increase in unfair labor practice claims, even as workers had seemingly lost their capacity to fight back. From 1982 to 1990, the average number of strikes with more than one thousand workers fell to about 60, compared to 142 from 1979 to 1983, 280 for 1973 to 1979, and 325 for 1950 to 1973 (191).

Not surprisingly, with organized labor in retreat, wages fell dramatically. Hourly real wages and salaries (excluding benefits) fell at an average annual rate of 1 percent (Brenner 1998, 192). Compared to rates during the Carter administration, average wages for nonsupervisory workers actually decreased by 5.1 percent (from $13.51 to $12.82, in 1998 dollars). Indeed, these wages were down 2.6 percent over the Nixon-Ford years. The average wage for the bottom percentile of wage earners decreased a full 10.1 percent compared to the Carter years ($6.32 to $5.68, in 1998 dollars) (Pollen 2000, table 5). Considering that the consumer price index increased 53.33 percent during this period, the real wages of these workers declined dramatically. While wages fell, inequality skyrocketed. The ratio of the ninetieth percent to the tenth percent decile in wages increased 13.9 percent from the level of the Carter administration. Predictably, the individual poverty rate increased a massive 17.6 percent after the Carter years (from 11.9 percent to 14 percent) (Pollen 2000, table 5). It generally became clear that very little ever trickled down.

It is quite possible that the inability of the neoliberal movement to deliver what was promised led to a severe voter backlash. After more than a decade of electoral success, the neoliberal movement started to run into problems. In the heart of the neoliberal world, the United States and England, new versions of the Democratic and Labor parties, explicitly advocating a "Third Way," came to power. In a loose sense, this political program has appealed to the New Class and is analyzable as a New Class movement. New Democrats have had solid support among intellectuals and the technocratic intelligentsia, and at times genuine New Class actors, such as Robert Reich and Laura Tyson in the United States and Anthony Giddens in Britain, have served as the advisors/ideologues of these movements. The New Labor and New Democrats created a broad class alliance including labor, minorities, women, and, in the United States, Reagan Democrats.

Before considering the rhetoric of the politicians who led this movement, we should review the most prominent theorist of the Third Way, Anthony Giddens. Giddens's "third way programme" can be analyzed as a neosocialist real utopia. Giddens, like Roemer and other market socialists, seeks to increase the realm of "choice" and reliance on the market for meeting the traditional goals of the left—in this case, the goal of social democracy. While the market socialists sought to redistribute resources to make markets function better, Giddens saw a need to substitute market solutions for traditional welfare programs. According to Giddens: "A high rate of business formation and dissolution is characteristic of a dynamic economy. This flux is not compatible with a society where taken-for-granted habits dominate, including those generated by welfare systems. Social democrats have to shift the relationship between *risk* and *security* involved in the welfare state, to develop a society of 'responsible risk takers' in the spheres of government, business enterprise and labour markets" (Giddens 1998, 100; emphasis in original). This position moves extremely close to the culture-of-poverty position long espoused by conservatives, stating "Leaving people mired in benefits tends to exclude them from larger society" (110). Redistribution should instead take the form of investing in human capital, to "as far as possible replace 'after the event' redistribution" (101). Along with this reform of traditional welfare redistribution, new social democrats should focus on local, or community-based, approaches (110).

Is Gidden's theory a New Class theory? In a weak sense, it is. What better way to advance the interests of intellectuals than by generally increasing government expenditure on education—which will provide new jobs for intellectuals while creating more intellectuals as well. However, again, we believe that any such New Class movement based on education reform to provide the structure to transform the current system of corporate capitalism would be doomed to failure. Indeed, this would be just more of the same—and it would not increase the "teleological power" of intellectuals, but rather just create more professionals. This would arguably be beneficial to those members of the working class and excluded minorities that might become professionals under such an expanded system, and may even be beneficial for the economy at large by encouraging business formation in high-tech or high–value-added sectors. Still, no New Class formation would follow from such a vision of Gidden's "investor state."

What of the actual agents leading this hypothetical New Class movement? What political program was advocated by Bill Clinton, Tony Blair, and Gerhard Schroeder? There must have been something distinctive about their appeal that distinguished them from the traditional left. Critics might charge that their appeal lay in highlighting (and coopting from the right) certain conservative themes that had long resonated in Western, particularly Anglo-American, political culture—the very same themes that promote the ethic of individualism that has long buttressed capitalist legitimacy. Most prominently, Clinton and Blair gave up defending the traditional welfare state. Indeed, like the neosocialists discussed above, the New Democrats made drastic revisions of left-wing or democratic visions of what the state could accomplish.

One thing is clear, this New Social Democracy or new Third Way is very compatible with corporate capitalism. For example, Schroeder and Blair coauthored a paper on the future of social democracy that bluntly states, "We have to create conditions under which existing corporations can prosper and new businesses can form and grow." Further, "the weaknesses of markets have been overestimated, the strengths underestimated," and what is really needed is the "entrepreneurial spirit." If that isn't clear enough, the two leaders state that "Modern Social Democrats must be the advocates of the bourgeoisie" (Schroeder and Blair 1999).[5] The classic liberal emphasis on choice and individual responsibility at the expense of collective responsibility for structural problems was explicitly embraced from the very beginning: "Modern Social Democrats want to transform the safety net of claims into a launching pad for individual responsibility."[6]

And yet, at least originally, the position was not identical to the right-wing position. For example, Clinton's "Putting People First" campaign manifesto stressed public investment and an active partnership between government and the private sector. Clinton had stated, in response to arguments that he should just cut the deficit, "All spending is not the same. There is plainly a difference between spending money and investing it. We have got to change the character of federal spending"—toward investment.[7] Clinton was advocating a kind of "investor state" in which, unlike in that of Monetarists and Keynsians, the state should intervene in specific ways to overcome specific problems in the economy.

Does not the record reveal that the Third Way was the right way, all along? Did not the new democrats not only win political power, but deliver the economic goods? Was Fukuyama ironically trumpeting the wrong "end of history" just as the real "end of history" emerged? In support of this position, one could argue that the United States during the last half of the 1990s experienced the longest economic boom in history, with inflation almost non-existent, economic growth dynamic, and unemployment at a thirty-year low, (averaging 5.8 percent between 1993 and 1998, down from the 7.1 percent of the Reagan-Bush eras [1981–92]). Even the picture for those at the bottom perhaps improved, overall. The poverty rate shrank to 13.8 percent from 14 percent (through 1989), which remained significantly greater than the rate during the Carter years of 11.9 percent. Real wages increased for the first time in two decades. The percentage of the population on welfare was declining (it had fallen by one-half since 1994), as was teenage pregnancy, the crime rate, and drug use). For the first time in decades, the nation had a balanced budget, and for the first time in its history it would start reducing the national debt. Even productivity growth was restored in the two years 1998 and 1999, averaging 2.9 percent. However, overall the average productivity growth of 1993 to 1999 was 1.81 percent, which was actually lower than the 1.86 percent average from 1981 to 1992 (Bureau of Labor Statistics, data extract, 5 May 2000).

This success was achieved by an increase in inequality, as the growth did not reach down to the very bottom. The most that can be said in defense of the Third Way is that the *rate of increase in inequality slowed* compared to the neoliberal years. This was not a record to be proud of, especially given the "longest economic boom ever." The average wage for nonsupervisory workers actually fell a bit in constant dollars, the average wage of the tenth percentile was also down from the Reagan-Bush era. The ratio of the ninetieth to the tenth percentile in wages actually increased by 7 percent. And this was only wages, and excluded gains in wealth through the stock market. Thus, absolute levels of inequality in the United States actually increased under Clinton in comparison to the Reagan and Bush era. In the tenth percentile of income earners, there was no gain from 1996 to 1998. In the fifth percentile, the average income, including the value of food stamps and housing subsidies, fell to $6,400 in 1997 and 1998, down from $6,900 in 1995 and 1996 (all figures in 1997 dollars). Indeed, after nearly eight years of Clinton's new Third Way, *the real median net worth of families fell significantly* from 1989 to 1998 (by 9 percent for families headed by persons under thirty-five—a fall from $9,900 to $9,000). By the end of Clinton's "boom," the minimum wage did not bring a full-time worker with one child even above the poverty line. There were 11 million more people without health insurance than at the beginning of the boom. There were more people living in extreme poverty (defined as less than half the poverty level) than at the beginning of the boom. The portion of the homeless consisting of families with children had increased from 27 percent to 37 percent in five years. Meanwhile, in 1999, Wall Street bonuses were up by a record 18 percent.

Of course, supporters of the Third Way could argue that the problems of the Clinton administration were not the "New Democrats"' fault, rather the inevitable price of the inability to push the full Third Way program through a hostile Congress. Thus, the positive accomplishments were claimed to be the result of Clinton's policies, and the negative achievements the fault of the Republicans.

Should Clinton have been blamed for the increase in the number of Americans without health insurance, or should the Republicans who blocked his reform?

In response, critics of Clinton could counter that Clinton and the Third Way supporters actively took steps that hurt the poor—most importantly through "welfare reform." Howver, this issue was not forced only by the Republicans, who probably never believed they would get their way on it. The reform (really, abolition) was perfectly congruent with the metatheoretical position that embraces "choice" and "responsibility" over old-style welfare provisions.

In this light, the lower welfare rates were not such an unambiguous success. In the United States, "welfare reform" serves to shift the poor from "welfare" to "work." Thus it explicitly seeks to increase the "commodification" of labor, in Offe's sense. The empirical results from Clinton's reform have so far confirmed this analysis. Welfare-to-work programs succeeded in moving many recipients into work (though not as many as it might seem, since many former welfare recipients were working but not reporting income). However, even in the most favorable situation possible (in Wisconsin, a state with robust economic growth and a tight labor market), the program moved the poor into jobs at the cost of making the life of the average poor person more difficult and making the fate of the worst-off poor people even more worst-off. For example, demand at soup kitchens doubled.

Evidence from a broader-based random sample throughout the country of all single mothers, not just those on welfare, gave similar findings. Christopher Jencks and Joseph Swingle argue that, although the number of welfare recipients has fallen since 1994, almost one-half of single mothers would have left the rolls anyway because their children got older, they found jobs, or they got married. But they are no longer replaced, because states have made it much more difficult to get on the rolls.[8] Further, while most who leave welfare find jobs, a large minority do not (Jencks and Swingle 2000, 38). It is therefore no surprise that the poorest had less money. The fifth percentile of income averaged $6,400 in 1997 and 1998, down from $6,900 in 1995 and 1996 (these figures, all in 1997 dollars, include value of food stamps and housing subsidies). Kathryn Edin and Laura Lein, in *Making Ends Meet,* have shown that individuals earning in the fifth percentile typically work off the books or receive gifts from family. Once they have been kicked off welfare and must declare their actual earnings, they have significantly less total money. Also, once they work, they have to pay for transportation to work, childcare, and office clothes (Edin and Lein 1997, 38). They also have declining access to healthcare. A single mother on welfare would automatically qualify for Medicaid; once she is kicked off welfare, this is no longer the case. Finally, there is a major problem in providing childcare for these women's children; thus, "welfare reform" could end up hurting children even if it did help parents.

What Did the "Third Way" Do?

When Clinton came into office in 1993 ,the recession of 1991–92 was over. The recession helped Clinton get elected, but he also inherited the debt that resulted from the Keynesian explosion of the Reagan and Bush years. Net government debt as a percent of GDP went from 21.8 percent in 1980 to 46.4 percent by 1993. Clinton, as noted above, initially advocated state investment in the economy. To this end, he proposed a modest $16 billion stimulus package, which could not pass Congress. After this, he made balancing the budget the central goal of his administration. He signed legislation in the summer of 1993 that Congress could not increase expenditure anywhere without cutting an equivalent amount elsewhere. From 1992 to 1996, the federal budget as a percent of GDP fell, from 4.7 percent for 1992–93 to 1.4 percent in 1996 and to 0 percent in 1997, and generated a surplus thereafter. Clinton's fiscal responsibility was matched by a restrictive monetary policy. The Federal Reserve Board raised interest rates, between February 1994 and 1995 alone, by 3 percent.

The argument that the New Democrats were merely neoliberals in sheep's clothing goes beyond arguing that they were more successful budget-balancers than were Republicans. The pressure on organized labor continued, and union density and strike activity continued to fall. Of course, defenders of Clinton could argue that labor declined not because of the New Democrats but because of the globalization of the economy.

Can we conclude that the New Social Democrats are the agents of change and the Third Way the revolutionary consciousness the neo-socialists have been seeking? Clearly, the answer is no. The electoral victory of the New Social Democrats during the 1990s signals the potential for such a movement; it is not the movement itself. The new Social Democrat and New Labor parties of Blair, Clinton, Schroeder, Jospin, and others are no more the agents of this new movement than the Communist Party was the agent of real socialism. Just as most of the Western left insisted that the socialism of the Soviet Union was so far in practice from socialist ideals that it was not "real socialism" but only "actually existing socialism," we insist that the New Social Democrats should be considered "actually existing new social democrats." In spite of their rhetoric of the Third Way, it is far from clear that they represent a revitalization of social democratic forces. Critics could find ample evidence that the New Democratic and New Labor parties have accommodated the same interests as have the neoliberals and conservatives: the dominant corporations and financial institutions and the people who own them. Further, while the Third Way advocates claim to maintain their allegiance to the values of the left, they have made the crucial metatheoretical concession to the right in unconditionally espousing voluntary action and choice in explaining social outcomes.

These critics would point out that, in terms of who the agents are in the new governments, there seems no substantial change away from filling these spots with people from the highest echelons of the corporate and financial elite. This is probably more the case in the United States, less the case in Germany. However, even in the latter case, officials in the government who can be seen as defenders of old-style social democratic programs, or newer anticapitalist ideologies based in ecology, have been purged, as demonstrated by the replacement of the German Finance Minister Oscar Lafontaine with the super-rich entrepreneur Hans Eichel, who proceeded to reduce social spending and moved to introduce more corporate-friendly taxation laws estimated to provide an $8–15 billion tax break for large corporations.[9]

Thus, how do we evaluate the economic performance of the New Democrats? Does their countries' good economic performance have anything to do with a new social democracy? It is hard to find evidence for this position—quite the contrary. Paradoxically, it is more plausible that Clinton and Blair demonstrated the correctness of the neoliberal formula, since it was they, ironically, who actually implemented the conservative program, because the neoliberals were too busy being military Keynsians and giving away vast sums of money in tax breaks to the rich. The main argument against this position is that the economic success of the Clinton administration had nothing to do with anything that Clinton did so much as with structural change in the economy induced by new information technology. However, Clinton defenders could argue this point: the Clinton 1992 program addressed the central issues of the new economy, from the internet to publicly funded research, and public funding of research increased substantially during the Clinton administration. However, others claim that the "new economy" was very long in the making, going back to public funding of research and education since World War Two, and protectionist measures in decades past (like the anti-dumping measures taken against the Japanese in semi-conducters in the 1980s) (Bluestone 2000; Chomsky 2000). Further, according to Bluestone, there is a relatively long period of learning during which a new technology will not be fully utilized; thus, the benefits of the "new economy" are unlikely to have been caused by the Third Wayers (Al Gore did not invent the internet—but he is right that the government did).

Reform of the Pension System

The issue of pension reform has been squarely thrust on the national agendas of much of the advanced capitalist world, and it holds particular interest for us because it gets to the heart of controversies about how the economy should be organized. Neoliberals are leading a new charge to privatize the social security system. George W. Bush made creating private pension funds out of some portion of Social Security a major platform for the 2000 presidential elections (although the stock market crash has effectively killed this idea). However, this position has been put forward in the advanced capitalist countries more generally. For example, in 1994 the World Bank released an influential report, *Averting the Old Age Crisis*. Like Bush, the World Bank argued that the increase in the average age of the population will eventually mean too many people collecting pensions on the contributions of too few earners. This will require a greatly increased rate of payment to fund then-current recipients, eventually becoming unsustainable and bankrupting the system.

The World Bank advocated transforming pay-as-you-go systems into individually funded pensions invested within the private sector. This would decrease the amount that individual workers would have to pay because investments in equity markets historically yield much higher returns than the placement of surplus funds in low-yield public bonds (which in essence subsidize current expenditures). In addition, such pensions would provide additional resources for investments, thereby spurring increases in labor productivity and thus economic growth. These benefits, such advocates maintain, would outweigh any disadvantage stemming from higher administrative charges in the private sector, as well as the resources that would have to be spent on nonlabor productivity to enhance competition, an expenditure that would not be present with a state-owned scheme.

The Third Wayers also break with the traditional Democratic or labor position, which supports publicly funded provisions. Defenders of the current system[10] hold that the demographically induced crisis of the social security system is a myth. For example, Rasell and Faux (1999) argue that the projections of disaster do not add up. According to the 1999 Social Security Trust Fund, which every year is mandated to project the fund's finances for seventy-five years, there will be no problem making payments until 2034, after which the fund will still have enough money to pay 73 percent of benefits in 2035 and 67 percent of benefits in 2075.[11]

Thus, some additional funds will be necessary. How much will this cost? It is estimated that the increased cost of Social Security will equal 2.5 percent of GDP over the next seventy years. This hardly seems earthshattering. Education as a percent of GDP increased almost 3 percent from 1946 to 1966. Social Security expenses increased by a similar percentage between 1960 and 1995, without destroying the economy. The fund will have to redeem 2.8 trillion dollars of the Treasury Bonds that make up its surplus. But the economy is projected to grow from $8 trillion in 1997 to $24 trillion in 2020 and $38 trillion in 2030. There is no reason that the United States cannot absorb this expenditure. Moreover, this shortfall could easily be paid for by progressive taxation that would hardly be excessive and seems easily justifiable on the grounds that people are living longer and thus their contributions to Social Security taxes should be greater. Critics could also argue that there is ample room for cutting defense expenditures—and now that the U.S. spends more than the thirteen next largest militaries combined, the "peace dividend" could be used to pay for Social Security shortfalls.

According to Faux , the president of the Economic Policy Institute (a left-Keynsian think tank), a full 89 percent of this shortfall could be raised by "raising the 'cap' on taxable wages back to the level it was in the early 1980s, $97,000 in 1998 dollars." A modest payroll tax, indexed to increases in longevity, could also help pay for the increase: to pay for the rest of the shortfall, this tax would only have to be 0.02 percent for both employer and employee contributions (Faux 1998).

What are the assumptions of the estimated shortfall predicted by the Social Security Trust Fund? First, it reports that two-thirds of this deficit will be caused by the projected increase in life expectancy. Only one-third is attributed to the assumption of a slowdown in the rate of growth as a result of population growth, and a lowering of productivity growth to a rate lower than that of the past seventy-five years. While the first assumption, on longevity increase, seems undeniably sound, the latter assumption seems overly pessimistic. Even accepting this gloomy scenario, it does not seem that the shortfalls would be such a burden on the economy. The Fund's own pessimistic projection of GDP growth is that GDP will increase from $8.4 trillion in 1998 to only $14.2 billion by 2035. In addition, real wages are projected to rise 17 percent. Thus, even in a very pessimistic scenario for growth, the country would be much richer, and should be able to pay for the shortfall without great difficulty.

What is the position of the "actually existing social democrats" on how to deal with this system? Clinton, while still the leader of the most powerful new democratic party in the world, would not argue for increasing taxes by even the relatively modest amounts that the above analysis indicates would be necessary to fund the gap. This is understandable, since Clinton/Gore and indeed all New Social Democrats made balancing the budget and fiscal austerity the cornerstone of their economic policy—and the chief way they wished to distinguish themselves from the Republicans. In essence, they have sought to be more "conservative" than the conservative party itself.

Clinton's proposal was that $2.7 trillion be transferred to the Fund over fifteen years out of projected budget surpluses. This would extend the Fund's solvency to 2049. Clinton also suggested that 20 percent of the $2.7 trillion be invested in the stock market. These investments would be limited to 14.6 percent of all Trust Fund assets, and would average 3.4 percent of the capital on the stock market over the next fifty years. The Clinton administration estimated that the stock market would average 6.75 percent yield as opposed to 2.8 percent from the bonds, bringing an additional six years of Social Security funding. Gore espoused a similar program.

The Republicans countered with their own proposal, which centered on the privatization of Social Security. An example is the Feldstein-Samwick plan, which seeks to establish individual accounts funded by federal surpluses. Upon retirement, the individual fund would be turned into an annuity for the retiree. Bush has announced a commitment to some version of a private plan.

The proposals have different advantages and disadvantages, and their relative desirability depends to a significant extent on assumptions about economic growth and the returns on equity investments. For the purposes of this chapter, we need not actually take a position on the inevitability of the Social Security crisis. However, we argue that any hypothetical New Class movement might well consider using Social Security investments in the stock market as a structural platform for a movement. Indeed, just as many advocates of Social Security privatization desire the massive opportunities for profits for the financial service providers that would handle these individual accounts, these same advocates seem horrified by the potential for a non–individually based investment of retirement funds into the equities market. Milton Friedman declared in the *Wall Street Journal,* "I have often speculated that an ingenious way for a socialist to achieve his objective would be to persuade Congress, in the name of fiscal responsibility, to (1) fully fund obligations under Social Security, and (2) invest the accumulated reserves in the capital market by purchasing equity interests in domestic corporations" (*Wall Street Journal,* 26 January 1999). Perhaps this is not simply the usual hyperbolic rhetoric of archconservatives and libertarians, but the recognition of an unforeseen development in the ownership patterns of contemporary capitalism that could provide an additional structural base for a New Class movement, a development that seems as if it must be seized if any New Class movement could ever hope to be successful. It could be the structural base that the reviewed neosocialists theories lack.

Using pension funds to collectively purchase equities could provide the structural basis that a hypothetical New Class movement could use to maintain class formation. Pension ownership could be limited by law to remain in national bounds or be used to stave off financial speculation. For example, in Chile these funds were at first required to invest exclusively within Chile, although this limitation was, as of 1998, relaxed to allow a limit of 10 percent of assets to be held abroad (Blackburn 1999, 44). Thus, the New Class would have a weapon against capital flight and capital strike, and an instrument that could be used to restructure the economy.

Unlike the schemes of various market socialists, this transformation of the economy along the lines of a potential New Class movement is already well under way. Contemporary capitalism has witnessed the international mega-mergers of firms that were formerly national oligopolies. Thus, the economy is more and more "planned" within huge hierarchies by New Class actors such as technical and managerial workers. These giant hierarchies are now owned mostly by institutional owners, the biggest portion of which is held by labor and especially other noncapitalist classes (such as the new middle class) in the form of pension funds. Institutional ownership in the United States, for example, exploded from about 12.6 percent of all stock ownership in 1960 to 47 percent in 1996, with pension funds accounting for 26 percent of this ownership (Ambachtsheer and Ezra 1998, 224–25).

This development of employee pension ownership occurred over the last two decades, as the long-term economic downturn in profitability rates around the world since 1973 induced employers to find ways to limit the growth of wages. One such method was to encourage employees to take shares in firms in lieu of wages (Minns 1996). By 1994, total world assets in pension funds totaled $10,000 billion (in U.S. dollars). This is equal to the value of all companies listed on the worlds' three largest stock markets. Already in 1976, pension funds owned 25 percent of the equity capital of U.S. businesses (Drucker 1976, 1). By 1994, U.S. pension fund assets were worth more than $600 billion, more than 60 percent of the nation's GDP and more than one-third of the stock market; in Australia, state-run pension funds in 1995 were equal to 45 percent of the GDP; in Singapore, they were worth 75 percent of the GDP (Minns 1996, 50). In the United Kingdom, pension funds owned 27.8 percent of all shares, insurance companies another 21.9 percent in 1994, up from 6.4 percent and 10 percent, respectively, in 1963.[12]

This unprecedented evolution of ownership creates a *potential* structural basis for New Class power (or, more precisely, "employee" power—a combination of "working class" and "New Class" actors' collective ownership of the means of production). This basis is only potential, because currently employee ownership does not bring with it any control rights. Rather, in the United States, the United Kingdom, and Switzerland, the rise of institutional ownership actually increases the power of the traditional financial institutions that advise and administer these funds. Indeed, in 1996, Morgan Guarantee, Bankers Trust, Citibank, Mellon Bank, and Harris Trust and Savings Bank held 80 percent of these assets in the United States and the United Kingdom (Minns 1996, 47). Dialectically, perhaps, the rise of employee ownership increases the wealth, power, and control of those finance capitalists who are at the very heart of the capitalist class (Zeitlin 1974; Scott 1997). These financial institutions are interested only in managing their investments to maximize short-term profitability.

We should therefore distinguish between "actually existing wage-earner ownership" and a future political strategy of giving real substance to such ownership rights in a way that can correct for the problems of capitalist ownership. While the control of these ownership rights are effectively captured by the super-rich that control the biggest financials that serve as the asset managers of pensions, control could be democratized without actually taking away any legal ownership rights, just by altering the way ownership rights are managed. Thus, there is a perfectly legal and democratic way for this ownership to be transformed.

The collective ownership of assets allows for the excercise of teleological power by intellectuals. For example, the obvious New Class actors composed of teachers and college professors, as represented by TIAA-CREF, are collectively among the largest owners in the world. The Teachers' Insurance and Annuity Association and the College Retirement Equities Fund held over $140 billion worth of assets in 1996. The California Public Employees Retirement System is worth more than $100 billion. Thus, teachers collectively are a huge owner of capital. If these existing ownership rights were brought under the real control of their legal owners, capitalist ownership of the means of production would be at least partially limited. To run with this fantasy: there is nothing that could legally stop all college professors with their pensions in TIAA-CREF from changing TIAA-CREF policy to refuse to invest in companies that significantly damage the environment or violate fair labor practices. This would be an enormous incentive for corporations to conform to these standards. This would therefore be a democratizing force over the economy—only not through the outright nationalization that the old socialist pattern envisioned and new versions of market socialism advocate.

The most ambitious experiment in this regard was that, never fully adopted, of wage-earner funds, as proposed by Swedish Social Democrats in the 1970s. The first concrete proposal to create these funds was a report submitted to the LO(Landsorganisationen) Congress in 1975. This report was seen as a move to bring capital under democratic control. The idea was to use a payroll tax or a tax on profits to invest in companies by buying shares of enterprises to be run collectively by employee funds. Thus, ownership would be slowly transferred to democratic collective control.

From the beginning, business groups, like the Federation of Swedish Industries, spent a huge sum to defeat the legislation. Business spent as much on the campaign against the wage-earner funds in 1982 as the five parliamentary parties combined spent in the parliamentary election (Pontusson 1992, 228). Eventually, in 1983, a very watered-down version of the plan was adopted. Five regional funds were established through a 0.2 payroll tax or a 20 percent tax on profit, the purpose of which was to purchase existing shares of enterprises. Each fund had a nine-member board appointed by the state, with five seats on each given to labor representatives. However these boards were passive, and only allowed to own 8 percent of any given firm. By the end of 1990, they only had 3.5 percent of the shares on the Stockholm exchange (Minns 1996, 45). By 1998, the funds had been closed, their assets serving as endowments for social research, a testament to the New Class inspiration of the funds.

Using pension funds to alter the behavior of private corporations is one strategy of a potential New Class movement. A complimentary strategy would be to embrace the notion of an "investor state" as originally advocated by Clinton. Some did not appreciate the radical nature of this policy. It would be an extension of traditional social democratic policy to the extent that the state gains the right to intervene directly in production to spur economic growth. This type of intervention most sharply contrasts with traditional Keynsian intervention to pump up aggregate demand. Many argue that Keynesian policy no longer is effective in reversing slow growth and high unemployment (Brenner 1998; Hirst 1994). A state with the capacity to directly intervene in production is the type of investor state that a New Class movement could advocate. Gidden's notion of an investment state that invests in the human capital of the population before people enter the labor market is fine but does not go nearly far enough. Of course spending on education is a good thing, and even a conservative like George W. Bush increased spending on the U.S. Department of Education, but a more radical investor state would be able to directly intervene into production as a response to economic downturns or other market externality.[13]

Can a New Class Movement Come to Power?

We are perfectly aware that, despite a revival of theoretical interest in new ideas about socialism, and despite the electoral success of various new social democratic parties, there is no social movement on the horizon. It is not that intellectuals on the left have simply run out of ideas. The ideas are there, but at present there is no political force that could make these ideas a reality. Still, since we have spent a few hundred pages discussing several waves of New Class theory, we will summarize the advice, to a hypothetical New Class movement, that has emerged from our review of the Third Wayers and the neosocialist "real utopians."

For one thing, such a New Class movement would have no reason to completely or expropriate the capitalist class: there are many capitalists who are not part of the hegemonic segment, and these could possibly serve as New Class allies from within the bourgeoisie. Such a movement could advocate some type of mixed system combining private ownership with different forms of noncapitalist ways of organizing economic activity. This is good, because we are doomed to a mixed economy whether this is advocated by anyone or not. The devil is in the details, of course; exactly what type of mix should a New Class strive for to be successful in formation? There would remain a large role for capitalist private property; still, the economy could be significantly democratized through a variety of possible mechanisms that would probably include direct state ownership and intervention, social ownership through wage-earner funds, and associational forms (e.g., voluntary institutions). And, of course, income and assets could be partly redistributed and traditional social democratic welfare state practices could be expanded. Capital's ability to mold the shape of capital accumulation could be significantly curtailed without massive nationalization and centralized planning.

In the long run, there seems little doubt that the structural conditions of advanced capitalism allow for the possibility of the formation of a New Class. Most importantly, the economic processes of advanced capitalism systematically generate potential New Class actors. The potential agents are still around in record numbers, given the technological evolution of corporate capitalism and the fact that the state will remain crucial to the functioning of advanced capitalism. Neoliberals like Gingrich failed to significantly shrink the state; massive corporations are still dependent on the state in fundamental ways. In the advanced capitalist countries, an average of 45.1 percent of the GDP flowed through the state in 1996, 36.7 percent in the United States and 42.3 percent in the United Kingdom.

Just as important, all the major new technological advances that have led to the most dynamic center of capital accumulation have originated within the state or through state-funded research. Examples include the development of key technologies such as the internet, computers, information processing, lasers, and satellites. Almost the entire basis of the "new economy" has been designed, developed, and funded by the public sector (such as the Pentagon and the National Science Foundation) (Chomsky 1999). Publicly funded science and highly skilled technical labor continues to drive this development—precisely the economic processes that create large groups of professionals in private and public institutions as well as the critical intellectuals who inevitably find a home in the universities that train these professionals. Thus there will be the same raw material of New Class actors around for the rest of capitalism. Indeed, the clear developmental tendency within capitalism is to increase the absolute numbers of these actors as capital accumulation proceeds. At the same time, the ownership of property through pension funds will continue to gain dominance. Capitalism can be said to produce not only its own *potential* gravediggers but their tools as well.