5. Material Interests, Class Compromise, and the State*

Introduction

This chapter examines the conflict between capitalists and wage-earners over the realization of material interests in advanced capitalist societies. The central question is whether wage-earners' pursuit of their material interests will necessarily lead them to opt for socialism.

This is an old question and the responses to it are familiar, emphatic, and confused. One response is attributed to Marx and is, in fact, found in some of his writings, particularly in Wage Labour and Capital. There Marx maintained that since the national product generated by the capitalist sector of the economy is divided into a part appropriated by capital as profit and a part paid in exchange for labor power as wages, the shares of capital and labor are inversely related. That much is obviously true, since the product is by definition constant at any instant of time. But Marx went much farther. He claimed that even when accumulation is viewed in dynamic terms, in fact even when workers' conditions are improving, the conflict over distribution retains an essentially noncooperative character. For Marx this conflict is irreconcilable within the confines of the capitalist society.

The political conclusion Marx and most of his followers drew from this analysis is that workers' pursuit of material interests must lead them to realize that these interests can be advanced if and only if the entire system of wage labor is abolished. As Luxemburg (1970b: 30) put it in 1900, "as a result of its trade-union and parliamentary struggles, the proletariat becomes convinced of the impossibility of accomplishing a fundamental social change through such activity and arrives at the understanding that the conquest of political power is unavoidable." From the "objective conflict of material interests" one can proceed to the political, equally objective, "fundamental interest in socialism" by means of a syllogism.

The response found a mirror image among those defenders of capitalism who claim that the capitalist system is essentially cooperative, that it constitutes a

* Parts of this chapter were written jointly with Michael Wallerstein.
“non-zero-sum game,” and that workers are better off when they cooperate with capitalists to increase the size of the pie rather than fight over relative shares. Marx is said to have been blinded to see only the seamy side of history, the grim side of conflict rather than the radiant promise of cooperation (Boulding, 1970: ch. 5). The alleged deradicalization of working-class movements constitutes in the eyes of anti-marxist proponents of economic determinism a sufficient proof that in the course of economic development workers have themselves discovered the advantages of compromise and abandoned all thought of transformation.

The issue is ideological, which is to say important, and it would be naive to expect that we can reach a consensus. Nevertheless, I will show immediately that its present formulation is muddled and that if we can agree to some assumptions we will arrive at unambiguous answers. I will, therefore, proceed deductively, from assumptions to their logical consequences.

The Problem Defined

I will approach the issue in its narrowest possible formulation since it is in such a narrow formulation that the question has been traditionally posed. Specifically, I will assume that workers under capitalism have an interest in improving their material welfare, and I will base the entire analysis of their political preferences and strategies on this narrow assumption.

Note that it might be true that workers are, in fact, endowed under capitalism with some needs that transcend this system and that by definition can be realized only under socialism, for example, “an eternal striving for freedom and justice” (Fromm, 1961) This kind of an assumption, however, would reduce the question of workers’ preference for socialism to an immediate tautology. The question here is not whether human kind is endowed as a species with some kind of a transcendental need for socialism but only whether the needs that workers seek to satisfy under capitalism would necessarily lead them to opt for socialism as a better system for satisfying these needs.

Secondly, even under capitalism workers may have many needs: a need for autonomy in the work place, for free time, for sex, or for beauty. The quest for satisfaction of these needs may lead workers to reject capitalism. I will return to such eventualities, but for the moment the analysis will be limited to material interests, that is, those needs that can be satisfied through the consumption or use of objectifications of socially organized activities of transformation of nature, which, under capitalism, are commodities. Again, the question is not whether under capitalism workers experience any need that would lead them to opt for socialism but only whether those needs that in principle can be satisfied as the result of the socially organized process of production would inevitably lead them to opt for a socialist organization of this process.

Furthermore, not all material needs become organized as interests. Following Heller (1974). I will treat as interests such needs that can be satisfied by consuming or using commodities and for which the barriers to satisfaction are (in a particular society) external to the needs of a particular individual. If I cannot consume more cake and wine because I want to be beautiful, that is if the only barrier to satisfying a need consists of my other needs, then this need is not a referent of interest. Hence, needs that can be satisfied by objectifications turn into interests under conditions of scarcity.

I assume, therefore, that workers under capitalism have an interest in improving their material conditions. The question is whether the pursuit of this interest, and only of this interest, would necessarily lead workers to opt for socialism as a superior system for satisfying material needs. Writing at the turn of the century, John Mitchell, President of the United Mine Workers, posed the following choice for organized workers: “Trade unionism is not irrevocably committed to the maintenance of the wage system, nor is it irrevocably committed to its abolition. It demands the constant improvement of the condition of the workingmen, if possible, by the maintenance of the present wage system, if not possible, by its ultimate abolition.” (Sombart, 1976: 19). The question is whether the demand for “the constant improvement of the condition of the workingmen” would necessarily lead workers to opt for the ultimate abolition of the wage system as a whole.

Imagine a situation in which capitalists appropriate profit and consume it entirely. Under such conditions workers would certainly be better off immediately or at some time in the future — if they did not consent to the private appropriation of profit. They would be better off immediately if they were the ones who consumed this part of the product; alternatively, they would be better off in the future if they withheld this part from current consumption and invested it. Or suppose, more realistically and in the spirit of Marx’s analysis, that capitalists do invest some part of profits they withhold and that they themselves consume the remaining part of the increment that resulted from past investment. In this situation the process of accumulation would continue, but workers would not at any time be the beneficiaries of it. Hence, although the game would no longer be a zero-sum one, workers would perpetually be as badly off as they could physically be. Under these conditions workers would again be better off if they did not tolerate the private appropriation of profit but instead kept the entire product and either consumed it or invested it for their own future consumption. That the game is not zero-sum does not yet imply that it is a cooperative one: a point always missed by Marx’s critics.
These conditions, however, are still too restrictive. All that is needed for workers to rationally opt for socialism out of their material interests are two conditions: that socialism be more efficient in satisfying material needs than capitalism and that moving toward socialism would immediately and continually improve workers' material conditions. It does not matter whether workers' conditions are deteriorating or improving under capitalism as long as the move in a socialist direction is always immediately and permanently superior for workers' welfare. These conditions are portrayed in Figure 11. Even if the situation of workers would have improved under capitalism from level \( a \) to level \( b \), workers would be better off by the amount \( c - b \) if they had taken the socialist path at time \( t = 0 \). Hence, even if their material conditions were improving under capitalism, rational workers would opt for socialism as a necessary consequence of the pursuit of their material well-being. In this situation, it is indeed true that "even the most favorable situation for the working class, the most rapid possible growth of capital, however much it may improve the material existence of the worker, does not remove the antagonism between his interests and the interests of the bourgeoisie, the interests of the capitalists." (Marx, 1952b: 37)

The very possibility that such a situation may exist is sufficient to demonstrate that empirical studies that relate the improvement of workers' conditions ("enbourgeoisement") to their "deradicalization" rest on invalid epistemological premises, as do all empirical studies that do not specify the possible alternatives to the observed history. Even if it were empirically true that workers' organizations become deradicalized at the same time as improvements of their material welfare occurred, one could not draw from this observed historical covariation any causal inferences unless it was possible to prove at the same time that a better alternative was not available. If workers are said to have been deradicalized because their conditions improved, then one must admit the possibility that they would have become more radical if these conditions would have improved even more by making a step toward socialism. Empiricist epistemology is intrinsically ideological since it implicitly denies the existence of any historical alternatives: while the proposition that deradicalization coincided historically with embourgeoisement is capable of being judged true or false, the proposition that workers became deradicalized because their material conditions improved is not subject to such a test unless the other possibilities are explicitly denied. The observation that workers' conditions improved in the course of the history of capitalism is not sufficient in itself to draw any inferences about their preference for a particular form of social organization. For, if Marx was right, workers are always better off by moving in the direction of socialism.

Before going any further, it might be useful to clarify what moving toward socialism means here and what other options we have. As a first approximation, suppose that workers have three options. One, they can claim the entire capital stock ("means of production") from capitalists and reorganize the system of production in such a way that the direction of investment and the decision to withhold from current consumption would be made by all citizens rather than by owners of capital or their delegates. Investment funds would thus be deducted directly from the gross product, profits being abolished as a juridical and as an economic category. This claim for reorganizing the process of accumulation I consider to be a step toward socialism.

Two, workers can claim the entire current product or even a part of the capital stock without reorganizing the process of withholding from current consumption. This is a purely economic strategy.

Three, they can claim less than the entire product, thus leaving a part in the hands of capitalists as profit. This strategy opens room for class compromise and cooperation with capitalists.

The hypothesis that material interests lead necessarily to a preference for socialism asserts that if workers are interested in a continual improvement of their material conditions and if they are rational, they must opt for socialism. This hypothesis would be false if its premises are true and one or both of the following could be shown to be also true: socialism is inferior to capitalism in efficiently allocating resources to socially preferred uses (uses to be chosen by all
citizens through some reasonable balloting system), à la von Mises and his followers, and/or conditions exist under which a move in the socialist direction makes workers worse off than a move along the capitalist direction.

I will immediately reject the first possibility and will assume throughout that as a system of organization of production socialism would not be inferior to capitalism in satisfying material needs. Let me only note that this assumption does not refer to the historically realized performance of either system, about which there has been a fair amount of discussion, but to the potential capacity inherent in both systems, again a subject of recurrent debates. In particular, it would be a mistake to compare the historical record of capitalism with the potential envisioned in socialism, since such an approach would imply that workers are at all times as well off as they possibly could be at these times under capitalism. Hence, this procedure would exclude the possibility that capitalism could be reformed to improve workers' welfare.

Suppose, therefore, that socialism is superior to capitalism. The crux of the problem is whether this superiority is sufficient for workers to opt for socialism. If it can be shown that conditions exist under which a move in the socialist direction would be inferior to a move along the path of capitalism, then one could no longer deduce workers' socialist orientation from their material interests.

Let us first imagine what such conditions would be like and only then inquire about their existence. Suppose that socialism is potentially superior to capitalism at any moment of capitalist development (or at least after some threshold, if one believes that conditions must be "ripe") but that immediate steps toward socialism leave workers worse off than they would have been had they advanced along the capitalist path. The equivalent of Figure 11 would then look like Figure 12. Under these stipulated conditions, moving from the full potential capitalist path to the full potential socialist path involves a temporary deterioration of workers' welfare. During the period $t=0$ to $t=1$, the conditions of workers deteriorate below their past level and below the level that they would have attained under capitalism, $c_1$, and only then they begin to improve. Although the level of welfare eventually attained on the socialist path, $s_1$, is higher than the level workers would have reached along the capitalist path, $c_1$, during the entire period until $t = 2$, these workers would have been better off following the capitalist path. Between the capitalist path and the socialist one there is a valley that must be traversed if workers move at any time toward socialism. If such conditions indeed exist and if workers are interested in a continual improvement of their material welfare, then this descent will not be undertaken or, if it is undertaken, will not be completed by workers under democratic conditions.

At any time workers would thus face a choice between climbing upward toward the best situation they could obtain under capitalism and a temporary deterioration of their conditions on the road to socialism. At a fixed moment of time, we could portray this structure of choices as in Figure 13. As long as their current state is above the indifference level corresponding to the bottom of the transitional valley, any move in the socialist direction involves a temporary deterioration of workers' welfare.

Now, if the transition to socialism involves a deterioration of workers' welfare and if workers have an option of improving their material conditions by cooperating with capitalists, then the socialist orientation cannot be deduced from the material interests of workers. I will now demonstrate that this is indeed the case.

The Form of Class Compromise

Thus far we have only defined the issue. The question now is whether conditions for class compromise do in fact exist under capitalism. This is a twofold question. Can workers improve their material welfare by cooperating with capitalists, and does a step toward socialism necessarily involve a temporary deterioration of

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1 This is true whether this path is upwardly or downwardly sloped. Even if workers' conditions are deteriorating under capitalism, the transition path may still deepen the crisis.
begin fighting for a larger piece of that static pie. Women, blacks, and other racial movements, and young people of all backgrounds will be hardest hit. College graduates will find job hunting even tougher. More and more of them will have to take jobs lower in the economic scale. This will further squeeze every minority and everybody else. Economic growth is the last, best hope for the poor and for all the rest of us. Sheer redistribution of income cannot do the job. We must create a steadily larger income pie. This can be done only through economic growth. And only profitable private businesses can make the capital investments that produce economic growth and jobs and tax revenues. (New York Times, May 6, 1976, p.17)

This dependence of accumulation upon profit can be formally described in many ways, among which I will choose a very simple macroeconomic model of the form:

$$Y(t + 1) = (1 + s/c)P(t) + W(t),$$  \(1\)

where \(Y(t)\) stands for the net national product, \(P(t)\) for net profit, \(W(t)\) for wages, \(s\) for the rate of saving out of profit, and \(c\) for the capital/output ratio, and where the rate of saving out of wages is assumed to be negligible. At any time \(t\) the part \(s\) of profits \(P(t)\) is saved and invested into an economy in which \(c\) units of capital are needed to produce one unit of output. The rate of growth of such an economy depends upon the rate of profit and the rate of saving out of profit:

$$\Delta Y(t)/Y(t) = sP(t)/cY(t) = sP(t)/K(t) = sp(t),$$  \(2\)

where \(\Delta Y(t)\) stands for the increase of the product between time \(t\) and \((t + 1)\), \(K(t)\) = \(cY(t)\) for the accumulated capital stock, and \(p(t) = P(t)/K(t)\) for the rate of profit. Hence the rate of growth varies proportionately to the rate of profit and the rate of saving out of profit. The rate of saving, \(s\), characterizes the behavior of capitalists, since, given the share of profit in the national product, their decisions to invest and thus to save determine the rate of growth of the economy.

While profit is a necessary condition of development, it is not a sufficient condition for the improvement of material conditions of any particular group. First, capitalists may not invest the profits to increase productivity: despite constraints they may instead consume profits, invest them unproductively, hoard them, or export them elsewhere. Second, even if capitalists do invest profits to increase productivity, no particular group can be in any way assured that it will be the beneficiary of this investment. Capitalists may themselves retain the increment, or they may enter into a number of alternative political alliances. Their market relation with workers ends as the cycle of production is completed and the wages are paid, and there is nothing in the structure of the capitalist system of production that would guarantee that workers would be the ones to benefit from any part of the product being withheld from them as profit.
These structural conditions limit any possible compromise between capitalists and workers. Since the appropriation of profits by capitalists is a necessary but not a sufficient condition for any improvement of the material welfare of workers, a class compromise is possible only on the condition that workers have a reasonable certainty that future wages will increase as a function of current profits. Any compromise must have the following form: workers consent to the perpetuation of profit as an institution in exchange for the prospect of improving their material well-being in the future. In terms of such a compromise capitalists retain the capacity to withhold a part of the product because the profit they appropriate is expected by workers to be saved, invested, transformed into productive potential, and partly distributed as gains to workers.

The general logic of cooperation is not always stated explicitly. Indeed, during the early period of the development of the working-class movement this compromise was based only on the right of workers to associate, to bargain collectively, and to strike. Eventually, explicit norms did appear pegging wages to prices, to the competitive position of an industry in the international system, and, especially during the expansionist period between 1950 and 1970, to increases of productivity. Nevertheless, whatever the explicit norm cementing a particular “social pact,” the underlying logic of cooperation must relate future wages to current profits. The only conceivable reason for workers to consent voluntarily not to claim the entire social product is to treat current profits as a form of workers’ “delegated” investment.

Hence a class compromise must rest on some norm of the form:

\[ \Delta W(t) = F[P(t - i), i = 0, 1 \ldots k \ldots, \]

where \( \Delta W(t) \) stands for the increase of wages between time \( t \) and time \( (t + 1) \) expected under a particular agreement, \( P(t - i) \) for the history of profits, and \( F \) for the rule that relates past profits to current wage increases under a particular agreement. For the sake of simplicity, and without much loss of generality, let the rule be simply of the form:

\[ \Delta W(t) = rP(t). \] (3)

The coefficient \( r \) represents, therefore, the proportion of current profits that must be immediately transformed into wage increases in the light of a particular agreement.

Note that a compromise is possible only on the condition that \( 0 < r < (1 + s/c) \). Clearly, \( r \) must be larger than zero if this rule is to have any meaning. It may be less obvious why it should be less than \((1 + s/c)\) rather than simply 1 if the compromise is to be at all tolerable for capitalists. If \( r = 1 \), then at time \((t + 1)\) capitalists pay as wage increases all of the profits they appropriated at time \( t \). In the meantime, however, they would have invested these profits with the marginal rate of return \( s/c \), and after one period they would still be left with the amount \((s/c)P(t)\). Hence only when \( r = 1 + s/c \) are the entire profits confiscated at \((t + 1)\). This level of \( r \) is thus immediately “confiscatory” with regard to the reinvested current profits, although it still leaves in the hands of capitalists the accumulated capital stock.

The coefficient \( r \) indicates the rate of transformation of profits into wage increases under which workers enter into a specific compromise. This coefficient can be treated, therefore, as representing the economic militancy of organized wage-earners.

An agreement concerning the rate of transformation of profits into wage increases, however, would be still too tenuous from the workers’ point of view because it leaves open the question whether capitalists will save and invest enough to make wage increases at all possible. The perennial complaint of working-class movements is that capitalists are too lazy or too inefficient to be entrusted with control over investment. Already in 1910, a French socialist noted the “timidity,” the “uncertainty,” the “lack of initiative” of capitalists. “We ask the French employers,” he continued, “to resemble the American employer class. . . . We want a busy, active, humming country, a veritable beehive always awake. In that way our own force will be increased.” (Griffuelhes, 1910: 331)

And again, in 1975, Chiaramonte complained in an official report to the Central Committee of the Italian Communist Party (P.C.I.) about a “disoncerting lack of ideas on the economic and industrial future of the country and on the productive prospects for their [capitalists’] own industries. They continue to cling to productive, technical, and organizational policies adopted several dozen years ago. . . .” (1973: 31)

Investment cannot be left to the control of capitalists: this is the second condition of a full-fledged compromise. While in the early stages of the development of capital–labor relations the conflict focused narrowly on the right to struggle for wage increases, the essential feature of the social democratic Keynesian compromise has been the attention of working-class organizations to the actual investments out of profits. Having announced the austerity policy, having repeated that the P.C.I. is “not aiming at a worsening of the situation, . . . or an aggravation of the crises,” Chiaramonte continued, “this does not mean that we in any way think it would be sufficient to limit the workers’ pay claims and demands for greater control over working conditions to automatically obtain an increase in investment and productive reconversion.” (1975: 34)

What the P.C.I. demands in exchange for “austerity” is control over investment. Or, as the 1973 Conference of the Irish Trade Union Confederation put it, “all workers must be guaranteed that their wage restraint will lead to
productive and beneficial investment and not towards even further increases in the personal incomes of the privileged section of society..." (Jacobsen, 1980: 268)

Given the uncertainty whether and how capitalists would invest profits, any class compromise must consist of the following elements: workers consent to profit as an institution, that is, they behave in such a manner as to make positive rates of profit possible; and capitalists commit themselves to some rate of transformation of profits into wage increases and some rate of investment out of profits.

**Conditions of Class Compromise**

Thus far we have only specified what a class compromise would look like if one was to be concluded. We can now proceed to the central question of this chapter, namely, whether organized workers pursuing their material interests would opt for such a compromise or choose to struggle for a transformation of the system of production.

How would organized workers rationally make such a decision? There are two considerations: the wages they expect in the future if the compromise holds and the risk that the compromise will not hold. Suppose first that actual wages follow the path stipulated by a compromise, that is, \( W(t) = \tilde{W}(t) \) for all \( T < t < T + h \), where \( h \) is the horizon with which workers consider the future. If capitalists invest at the rate \( s \) in the economy characterized by the productivity of capital \( 1/c \), then the time path of compromise wages will depend upon the relation between \( r \) and \( s/c \). Recall that

\[
\Delta Y(t) = \Delta P(t) + \Delta W(t) = (s/c)P(t),
\]

(from 1)

\[
\Delta W(t) = \Delta \tilde{W}(t) = rP(t).
\]

(from 3)

It then follows that

\[
\Delta P(t) = (s/c - r)P(t),
\]

(4)

or

\[
P(t+1) = (1 + s/c - r)P(t).
\]

(5)

There are three cases to consider (Figure 14): 1

If workers choose an \( r \) such that \( r < s/c \), then wages will grow exponentially, following the exponential growth of profits. In this case we will say that workers are not militant or that they offer wage restraint.

If workers choose an \( r \) such that \( s/c < r < (1 + s/c) \), then wages will grow rapidly at first and then stagnate at a fixed level as net profits decline to zero. Such a strategy we will call moderately militant.

If workers choose an \( r \) such that \( r > (1 + s/c) \), then workers are highly militant. Wages will then experience a sharp increase as net profits immediately become negative. Since this strategy cannot lead to a compromise, there is no reason to expect that subsequent wages would bear any relation to profits. If they did, wages would oscillate henceforth around a fixed level while profits would oscillate around zero.

One way to review these consequences of the workers' strategies is to observe that the nonmilitant workers would be best off after some time \( h_1 \), about a generation if time is measured in years; moderately militant workers would be best off during the period between some time \( h_1 \) and \( h_2 \); and highly militant workers would be best off during the initial period until \( h_1 \). The values of \( h_1 \) and

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1 Equation (5) is a first-order linear difference equation of the form \( Y(t+1) = aY(t) \), with the solution \( Y(t) = a^tY(0) \). For any \( Y(0) > 0 \), \( Y(t) \) will be a monotonically increasing function of time if \( a > 1 \); it will monotonically decrease to zero if \( a < 1 \); it will oscillate around zero if \( a < 0 \) (Goldberg, 1973).
$h_2$ depend upon the particular relation between $r$ and $s/c$. The time span $h_2$ can be as short as a couple of years, whereas $h_2$ can be as long as thirty years.

In considering the effects of their actions workers cannot be certain, however, that the compromise would hold. Hence, their decision must depend upon the likelihood that capitalists will observe the terms of a compromise if one were to be concluded. Since the future becomes increasingly less predictable the further one looks into it, the wages workers would obtain at each moment in the future would weigh progressively less in the workers' decision, the further in the future they would occur. Hence, I assumed that even if workers valued wage increases equally regardless of the magnitude of current wages and were indifferent between certain consumption today and certain consumption in the future, they would nevertheless discount the future on the grounds of uncertainty.

Since I assume below that capitalists also discount their future welfare on the grounds of uncertainty, we can treat similarly the determinants of risk facing each class. The risk is associated with the political and economic conditions at the time when a decision is made, specifically:

(1) The degree of bilateral monopoly. Unless workers are monopolistically organized, they cannot be certain that particular groups among them would not conclude their own agreements with their respective employers at the cost of other workers. Since capitalists cannot completely avoid competing with one another, each firm faces the danger that other firms would ride free on the costs of compromise.

(2) The institutionalization of labor–capital relations and the likelihood that a compromise would be enforced by the state. The question is whom the state would be capable and willing to coerce to prevent deviations from the compromise: capitalists, workers, or both? Partisan control over the state and the electoral prospects would constitute an important consideration in evaluating the risk.

(3) The ordinary risks inherent in investment owing to domestic and international economic fluctuations, domestic and international competition, technical change, and other economic factors.

Furthermore, the degree of risk borne by capitalists when they invest depends in part upon the rigidity of their wage commitment. If wages are highly rigid, capitalists face the risk inherent in investment alone. If the wage bill can be reduced below the terms of the compromise when times are bad, much of the risk is borne by workers. To some degree, therefore, the uncertainty faced by capitalists is inversely related to the uncertainty confronting workers.

Let $a, a > 0$, be the rate at which workers discount the future on the grounds of uncertainty. The higher the $a$, the less certain it is at $t = 0$ that a compromise would hold in the future and the faster workers discount the future wages stipulated under a compromise. Given the level of wages associated with a particular compromise and the degree of workers' uncertainty, the workers' problem is to find a level of economic militancy that maximizes the current value of their discounted future wages, or

$$\max_{W^*} \sum_{t=0}^{h-1} (1 + a)^{-t} \bar{W}(t), a > 0,$$

where the anticipated path of wages, $\bar{W}(t)$, is given by equations (3) and (5).$^3$

Note that $W^*$ depends upon workers' militancy, $r$, their horizon, $h$, their discount rate, $a$, the productivity of capital, $1/c$, and the saving behavior of capitalists, $s$. Thus $W^* = f(r, h, a, c, s)$. The productivity of capital, the horizon, and the rate of discount are fixed; they constitute the objective conditions of the moment. The behavior of capitalists with regard to saving is something workers must adjust to. Economic militancy is the strategic variable of workers, whose problem is to choose an $r$ that maximizes $W^*$ in the face of the investment strategy of capitalists, represented by $s$. Let $r^*(s)$ be the solution of the equation (6); that is, the value of $r$ which maximizes $W^*$ given that capitalists invest at the rate $s$, when $h, a$, and $c$ are given. Then $r^*(s)$ is the best reply strategy of workers (Harsanyi, 1977: 102).

Workers must weigh the gains of immediate wage increases against the expected gains that would result in the future from less militant demands. Profits appropriated by capitalists who are investing at the rate $s$ will increase output by $s/c$, or $\Delta Y(t)/\Delta t = s/c$. Note also that the maximal return to output of a unit of profit, when all profits are invested, is given by the productivity of capital, $1/c$. We have, then, the following theorem: When the horizon is sufficiently long, workers' best reply will be a compromise level of $r$ if their rate of discount, $a$, is less than the rate of return $s/c$. Otherwise they will be highly militant. Stated formally:

**Workers' Best-Reply Theorem**

For all $h > H$, where $H$ is some positive number,

$$r^*(s) > (1 + s/c) \text{ if } a > 1/c \text{ for any } s,$$

$$r^*(s) > (1 + s/c) \text{ if } a > s/c \text{ or } s < ac,$$

$$r^*(s) < (1 + s/c) \text{ if } a < s/c \text{ or } s > ac.$$

In the case of an infinite horizon, the workers' best-reply strategy is given by a bang-bang function. When $a > s/c$, the workers' best reply is maximal militancy. When $a < s/c$, the workers' best reply approaches zero.$^4$

$^3$ Note that workers solve this problem repeatedly at each $T, T = 0, 1, \ldots$, and we should have written $W^*_T$, as a sum going from $t = T$ to $t = T + h$. For convenience, we assume that we are examining one such decision, at $T = 0$.

$^4$ For the proof of this and other theorems see Przeworski and Wallerstein (1982: 236–7).
then workers will be worse off if they consent to the appropriation of profits. But if output grows faster than workers discount the future, then workers will be better off choosing a strategy of compromise and waiting for future wage gains.

Figure 15 shows some illustrative functions $W^*(r, s)$ for $h = 30$. The lower segment portrays $W^*$ when $a > s/c$ and the upper segment when $a < s/c$. When $a > s/c$, $W^*$ is a monotonically increasing function of $r$, but when $a < s/c$, $W^*$ has a maximum at a compromise level of militancy.

Figure 16 presents the numerically derived function $r^*(s)$, that is, the level of militancy which maximizes $W^*$ given workers' risk and the saving behavior of capitalists. As long as $a > 1/c$, this function will be larger than $(1 + s/c)$ for all $s$. If we assume $c = 4$, then $a = 0.24$, the rate of saving must be as large as 0.96 for the workers' best reply to be a compromise value of $r$; at $a = 0.01$, a rate of saving equal to 0.04 will suffice.

The results do not yet constitute a prediction about workers' behavior, however, since the strategies that workers will choose depend upon the behavior of capitalists. Capitalists may be unwilling to increase their rate of saving to levels necessary for a compromise even when one is possible. In fact, capitalists can respond to each threat of workers with a threat of their own: if workers threaten to increase militancy, capitalists may threaten to lower their rate of saving. This, then, is what remains to be investigated.
strategy, that is, the value of $s$ that maximizes $C^*$ given a particular value of $r$, under conditions given by $h$, $b$, and $c$.

The best-reply strategy of capitalists is given by the following theorem.

When their horizon is sufficiently long, capitalists' best reply will be to invest as long as the rate at which they discount the future is lower than their return on investment; otherwise they will disinvest. The capitalists' rate of return on investment is equal to the productivity of capital or the increase of output per unit of invested profits, $1/c$, minus the proportion of this unit of profit paid to workers, $r$. Hence, capitalists will find it best to invest at a positive rate if and only if $b < (1/c - r)$. Stated formally:

**Capitalists' Best-Reply Theorem**

For all $h > H$, where $H$ is the same number as in the workers' best-reply theorem,

- $s^*(r) < 0$ if $b > 1/c$ for any $r$,
- $s^*(r) < 0$ if $b > (1/c - r)$ or $r > (1/c - b)$,
- $s^*(r) > 0$ if $b < (1/c - r)$ or $r > (1/c - b)$.

When the horizon is infinite, capitalists' best-reply strategy is a bang-bang function, equal to maximal investment or maximal disinvestment according to whether capitalists' discount rate, $b$, is less than or greater than $(1/c - r)$. For finite horizons, the capitalists' best-reply function must be derived numerically. For $h > 12$ (when $c = 4$), $s^*(r)$ is a continuous, monotonically decreasing function with $0 < s^*(r) < 1$ when $r < (1/c - b)$. The greater the restraint of workers' militancy below the quantity $(1/c - b)$, the higher the best-reply rate of saving by capitalists.

The intuitive meaning of the capitalists' best-reply theorem can be seen as follows. The quantity $(1/c - r)$ represents the maximal rate at which profits, and therefore consumption from profits, can grow given the level of militancy, $r$, stipulated under a particular compromise. If the maximal conceivable rate of growth of profits is less than the rate at which capitalists discount the future, capitalists are better off disinvesting. But if the maximal possible rate of growth of profits exceeds the capitalists' discount rate, a strategy of positive investment is optimal.

Figure 17 portrays some illustrative functions $C^*(s, r)$ for an $h = 30$, $c = 4$; Figure 18 shows the positive segment of the function $s^*(r)$ under the same conditions.

Thus far we have examined the best reply of each class to the behavior of the other class, that is, the solution to the maximizing problem facing each class when its opponent behaves in a fixed manner. The best-reply strategy is the optimal strategy if one's opponent is not acting strategically, but both classes do act strategically, and it is only reasonable to assume that each anticipates that the
other will behave strategically. Each class must take into account not only the other's actions but also its reactions, not only the other's current strategy but also the likely response to its own choice of strategy. If, for example, workers' best-reply strategy to some positive rate of saving is to become highly militant, they cannot expect capitalists to continue saving if the workers' best-reply strategy is pursued. Workers must take into account that capitalists' best reply to high levels of militancy is to disinvest.

A pair of strategies \((r, s)\) is a solution to the game if neither class could do better with an alternative strategy given the anticipated response of its opponent. Hence, a solution is a pair \((r, s)\) that, once chosen, will be stable as long as conditions remain unchanged. Note that the intersection of the best-reply functions \(r'(s')\), \(s'(r')\) constitutes a solution. Both classes are responding optimally to the current strategy of their opponent. This is the Nash equilibrium. In the model this solution occurs only when compromise breaks down. The capitalists' best reply to high levels of militancy is to disinvest, and the workers' best reply to disinvestment is to be highly militant.

Suppose, however, that workers anticipate that capitalists will respond to any \(r\) with their best-reply strategy \(s'(r)\). Now the problem facing workers is to choose the level of militancy which maximizes the function \(W^*(r, s'(r))\), that is, one that maximizes workers' welfare given that capitalists will respond with \(s'(r)\) to any \(r\) workers might choose. Let this maximizing value of \(r\) be \(r^{**}\). The pair \((r^{**}, s'(r^{**}))\) is also a solution to the game. The level of militancy \(r^{**}\) is the optimal choice of workers given the anticipated response by capitalists and \(s'(r^{**})\) is by definition the capitalists' optimal response to the workers' strategy \(r^{**}\). This is the Stackelberg (1952) solution with workers as the dominant player. Note that \(r^{**}\) is not necessarily in the workers' set of best-reply strategies, \(r'(s)\). The function \(r'(s)\) is defined as the maximum with respect to \(r\) of the function \(W^*(r, s(r))\), each value of \(s\) constant, whereas the number \(r^{**}\) is defined to be the maximum with respect to \(r\) of the function \(W^*(r, s'(r))\), where \(s = s'(r)\) is a function of \(r\).
Suppose now that it is the capitalists who anticipate that workers will adopt their best-reply strategy \( r^*(s) \) to any rate of saving, \( s \), capitalists choose. Capitalists would then seek to maximize \( C'(s, r^*(s)) \). Let the maximizing value of \( s \) be \( s^{**} \). The pair of strategies \((r^{**}, s^{**})\) is another solution of the game. Given their anticipations of the workers' response, the capitalists have chosen their best strategy, and the workers are responding optimally to the capitalists' choice. This is the Stackelberg solution with capitalists as the dominant player. Again, \( s^{**} \) need not be in the set of capitalists' best-reply strategies. The function \( s^*(r) \) is the capitalists' best response to the workers' current level of militancy. The number of \( s^{**} \) is the capitalists' optimal choice given that the workers will respond to any \( s \) with their best reply, \( r^*(s) \).

The Nash equilibrium, which represents absence of compromise, is always possible. What remains to be investigated are the conditions for the existence of compromise, Stackelberg solutions. If the horizon is too short, \( h < 12 \), no compromise solutions exist. For any \( h > 12 \), however, the existence of compromise solutions depends entirely upon the relations between the discount rates \( a \) and \( b \) and the productivity of capital, \( 1/c \). In the subsequent discussion we assume \( h > 12 \). (In the numerical illustrations \( h = 30 \).) There are four cases to consider.

\[
\begin{align*}
  a & > 1/c, \quad b > 1/c. \quad (i) \\
  a & > 1/c, \quad b < 1/c. \quad (ii)
\end{align*}
\]

Both workers and capitalists face a large degree of uncertainty about whether any compromise would hold. The situation in France in 1936 provides a prototype: in France few workers were organized before 1936, there were almost no traditions of collective bargaining, several unions and parties competed for workers' support, and the very Matignon agreement was concluded under the pressure of spontaneous occupations of factories. Hence neither workers nor capitalists could expect that the agreement would last and, indeed, six weeks after it was concluded both parties began to undermine it: capitalists by dragging their feet in complying with the wage terms (specifically those concerning minimal wages and paid vacations), and by raising prices, and workers by striking and occupying factories again.

Under these circumstances workers find it best to be highly militant regardless of the saving rate chosen by capitalists, whereas capitalists find it optimal to disinvest regardless of workers' militancy. No compromise is possible. All three solutions collapse into one, the Nash equilibrium, at which \( r^*(s) > 1 + s/c \) and \( s^*(r) < 0 \).

\[
\begin{align*}
  a & > 1/c, \quad b < 1/c. \quad (ii)
\end{align*}
\]

Workers bear most of the risk, whereas capitalists are relatively certain they would obtain the profits specified by any compromise. This is the case when the degree of unionization is low or several unions compete with each other, capital–labor relations are weakly institutionalized, and workers have little influence over the state. The United States today would provide a prototypical case.

When \( b < 1/c \), the best-reply strategy of capitalists is to invest at a positive rate as long as workers are not highly militant: \( s^*(r) < 0 \) if \( r < (1/c - b) \). The best-reply strategy of workers, however, is to increase their militancy regardless of the rate of saving, since \( a > 1/c \). One possibility is that workers would follow their best-reply strategy and capitalists would respond by disinvesting, a scenario that ends again without a compromise. But an alternative solution is also possible. Suppose that workers begin their current decision-making process by considering a nonmilitant value of \( r \), say \( r = r_0 \). (Consult Figure 19 while following this argument.) If the workers choose \( r_0 \), then capitalists will choose \( s^0 = s^0(r_0) \). Since the workers' best reply to any \( s \) is to increase their militancy, they will now consider moving to a new level \( r = r_1 \). Capitalists, in turn, will respond to the increase of militancy by lowering the rate of investment to \( s_1 = s^*(r_1) \). The effect of the capitalists' adjustment will be to drop workers to a function \( W^*(r, s_1) \), which is inferior to \( W^*(r, s_0) \). If, however, \( r_1 \) is only slightly higher than \( r_0 \), capitalists will respond (see Figure 18) with a small reduction in their rate of investment, and workers will find that they are better off at the higher point \((r, s^*(r_1))\) than they were before. Since workers' best reply to \( s_1 \) is again
maximal militancy, workers will now consider raising their militancy further to \( r = r^* \). Capitalists will lower their rate of saving to \( s = s^*(r^*) \), yet workers will still find they are better off at \( (r^*, s^*(r^*)) \) than at any lower value of \( r \). Now as the workers consider increasing their militancy past the level \( r = r^* \), they discover that the capitalists’ best reply is to lower their rate of investment quite sharply, so that workers are worse off at any \( r \) slightly higher than \( r^* \) than they would be at \( r^* \). Even though the workers’ best response to any fixed rate of saving, including \( s^*(r^*) \), is maximal militancy, the capitalists’ threat of disinvestment is effective in the region in which \( r \) is somewhat higher than \( r^* \). Indeed, the workers discover that if they keep increasing \( r \) gradually past \( r^* \), they will be successively worse off as \( W^* (r, s^*(r)) \) keeps decreasing with higher levels of militancy. The threat of disinvestment will not be effective, however, in the entire range of \( r > r^* \). As \( r \) reaches the value \( r = 1/c - b \) capitalists will be disinvesting at the greatest possible rate, and their threat will be exhausted. If workers choose an \( r > 1/c - b \), the compromise breaks down, workers seek to nationalize capital stock, and capitalists disinvest. Figure 20 presents a graph of the function \( W^* (r, s^*(r)) \), which is the array of choices facing workers when capitalists respond according to their best reply. There is a maximum at \( r^* \) which constitutes a compromise solution and a minimum at \( 1/c - b \).

Will the compromise \( (r^*, s^*(r^*)) \) constitute the solution? Unfortunately no answer can be given without additional assumptions. The compromise will be the solution if workers have good reasons to fear the political consequences of a breakdown of compromise, a topic to which we return below.

\[
a < 1/c, \quad b > 1/c. \quad \text{(iii)}
\]

Workers are relatively certain to obtain the wages specified by any compromise while capitalists bear the brunt of uncertainty. This would be the case when workers are monopolistically organized, labor-capital relations are institutionalized, and workers are represented by parties that exert electoral influence. The Weimar Republic between 1924 and 1928, Italy between 1969 and 1976, and Great Britain at various times after 1951 would constitute good examples.

When \( a < 1/c \), the workers’ best-reply strategy is low or moderate militancy as long as the capitalists invest at a sufficient rate: \( r^*(s) < (1 + s/c) \) if \( s > ac \). The capitalists’ best-reply strategy, however, is to disinvest regardless of the level of militancy. But capitalists must consider the workers’ response. Figure 21 illustrates the function \( C^*(s, s^*(s)) \), the anticipated consequence of choosing each positive level of savings given that workers respond according to their best reply. The capitalists’ choice is between \( s^* < 0 \), that is, disinvestment, which entails a breakdown of compromise (not shown) or the best compromise they can achieve, \( s^* \). If the breakdown of compromise is sufficiently dangerous politically to capitalists, the solution \( (r^*(s^*)), s^* \) will be chosen. Given \( s^* \), workers reach a global maximum (under capitalism) at \( r^*(s^*) \), and this value represents a compromise strategy since \( s^* > ac \). And for capitalists, the payoff from \( s^* \) is the most that can be gained from any compromise.

\[
a < 1/c, \quad b < 1/c. \quad \text{(iv)}
\]

Both capitalists and workers are quite certain they would obtain what would be expected under any compromise. There is a high degree of bilateral monopoly; capital–labor relations are highly institutionalized; the economy is well situated in the international system. Sweden after 1936 and before the mid-1970s would be a prototype. In Sweden, collective agreements began to be concluded at the turn of the century, and by 1905 a significant proportion of
No players to the outcome that would result if they both obstinately pursued their best-reply strategies, workers and capitalists face a coordination problem (Schelling, 1960). I will not pursue this topic further.

To summarize, when both classes are highly uncertain whether a compromise would hold, a compromise cannot be established. Workers become highly militant, regardless of the rate of saving, and capitalists seek to disinvest, regardless of militancy.

When workers are highly uncertain and capitalists relatively certain, a compromise may be established at a point at which workers are kept from increasing their militancy by capitalists' threat of disinvestment, whereas capitalists' optimal rate of investment is positive.

When the workers are relatively certain and the capitalists bear high risk, a compromise may be concluded at a point at which the capitalists are forced to save by the threat of militancy, whereas the workers' optimal level of militancy is not high.

When the workers and capitalists both face only moderate amounts of uncertainty, both a compromise concluded under the capitalists' threat of disinvestment and one reached under workers' threat of militancy are feasible. Either may be concluded.

**Beyond Capitalism**

What is the alternative to class compromise? I have referred to the breakdown of compromise without specifying what might occur in its stead. Indeed, our results concerning the conditions of class compromise are ultimately unsatisfying in that they are inconclusive. The decision to compromise depends, in the end, on a comparison of the best compromise that can be obtained with the consequences of no compromise. The question of the balance of political power becomes paramount; the outcome highly uncertain. I believe that any analysis based upon rational calculations of expected benefits is of limited value in moments of crisis. Conflicts are inherently laden with uncertainty, and this uncertainty is difficult to evaluate, not only for us but also for the protagonists of our story. Nevertheless I will seek to elucidate the choice that is involved in considering the transition to socialism as an alternative to either compromise or economic militancy under capitalism.

First let us clarify the outcomes that may occur in the absence of compromise. Generically, these are threefold.

1. Workers have the political power to nationalize the means of production and to organize accumulation on a new basis. Profit is abolished as an economic and legal category and capitalism with it.
which workers are able to conclude a compromise under capitalism, no compromise would ever be concluded by rational workers. Hence, the conditions of capitalist compromise must always include the superiority of such a compromise to the socialist alternative.

Let us speculate about the following scenario. Suppose that at some time $t = 0$ workers decide to nationalize the entire capital stock. At some later time $t = T$ the final nationalization bill is passed and the entire capital stock is socialized. During the remaining period, from $t = T$ to $t = h$, the institution of profit no longer exists and investment decisions are made by the entire society through some reasonable voting mechanism.

During the period $0 \leq t < T$, that is, until socialization is complete, the private ownership of capital remains intact. Faced with imminent nationalization, capitalists will disinvest as rapidly as possible. They cannot be prevented from disinvesting, and they cannot be taken by surprise: even Lange (1964), the foremost advocate of the "one stroke" nationalization strategy, admitted that some disinvestment would occur before capital stock is nationalized. Let $S(T)$ be the current value of discounted wages between $t = 0$ and $t = T$, when workers pursue a strategy of socialization and capitalists respond by disinvesting. It is likely that $S(T)$ will not be the most that workers could obtain between $t = 0$ and $t = T$. If $W(T)$ is the best they could do under capitalism, then the difference between these quantities is the cost of the transition strategy during this period.

At $t = T$ the capital stock becomes entirely nationalized and henceforth the economy operates in the following manner. The entire society now joins in the program of determining the optimal rate of saving out of total output, $s_w$, and the volume of investment is given by $\Delta K(l) = s_w Y(l)$. Let $q$ be the risk inherent in investment facing the socialist society. Then the problem to be solved would be:

$$\max_{s_w} S^* = (1 - s_w) Y(T) \sum_{t=1}^{t=h} (1 + q)^t (l - T) \left(1 + s_w/c\right)^{t-T}.$$  

Let the rate of saving which solves this problem be $s^*$, and the resulting welfare of workers under socialism be $S^*(h - T)$.

The total value of socialism to workers making a strategic choice at $t = 0$

* We hope that the reader will not mistake this model of socialism for a description of the Soviet Union or other Eastern European countries. In those countries investment decisions arise out of a game between central planners and managers, with a known effect of investing at a level higher than the preference of the population.
would also depend, however, upon the risk that the socialist transition would be aborted or subverted under the pressure of the armed forces, foreign governments, foreign firms, or even by the workers themselves, if they object to the costs that have to be borne during the period $0 \leq t < T$. (See Kolm, 1977, for some of these considerations.) Even if a nationalization law is passed by a parliament in accordance with all of the constitutional requirements, capitalists have numerous ways to fight back. If the probability that the socialist transition would be accomplished is $(1 - f)$ and the probability that the final outcome would be a capitalist dictatorship is $f$, then we can think of $kS^*(h - T)$, $k < 1$, as the expected value of the revolutionary attempt, where $kS^*(h - T) = (1 - f)S^*(h - T) + f$ (material welfare under capitalist dictatorship). Note that $k$ is likely to be closer to unity the greater the proportion of the capital stock is already publicly owned and the greater the electoral strength of the socialist parties.

The total value of pursuing a strategy of transition to socialism to workers at $t = 0$ can be thus thought of as: $S^* = S^*(T) + kS^*(h - T)$, where $S^*(T)$ and $S^*(h - T)$ are as given above. Note that this is again the current value of the socialist transition to workers at $t = 0$ when they decide whether or not to embark on this road. Hence, this value would be compared to the best workers can do under the particular conditions of democratic capitalism, $W^*(r,s)$, where $(r,s)$ represents either a compromise or a tug-of-war.

I will not carry this discussion any further, mainly because I believe that this calculation involves too many imponderables to be taken seriously in practice. I wanted to clarify the nature of this decision, but I do not intend this to be a description of how the decisions to embark or not to embark upon the socialist path are in fact made.

Class Conflict and the State

Suppose for a moment, as did Marx, that the conflict over material interests is irreconcilable and that workers' pursuit of material interests leads them inevitably to the realization that these interests can be advanced if and only if the institution of profit is abolished altogether. Given this assumption, the reproduction of capitalist relations becomes problematic. Even if all the conditions for expanded reproduction of capital are fulfilled "of itself," "by the mere repetition of isolated acts of production" (Marx, 1967, I: 577–8), the survival of capitalist relations is no longer guaranteed when workers organize collectively to abolish them. One must then look beyond the system of production for the mechanisms by which capitalism is maintained. Hence a functionalist account of capitalist reproduction follows necessarily from this model of class conflict. For, if an irreconcilable conflict over the realization of material interests is characteristic of any capitalist society and if capitalism withstood this conflict during at least one hundred years, then some mechanisms external to class relations must be evoked to explain this durability. Whenever class conflict happens to generate a threat to the reproduction of capitalist relations, some mechanism, most often thought to be the state, must come to the rescue by repressing, organizing ideological domination, or co-opting.

The gradual rejection of instrumentalist theories of the state (Miliband, 1970) and their replacement by a model in which the state is viewed as relatively autonomous from class relations did not alter this functional logic. In the instrumentalist version, the state was acting predictably in defense of the interests of capitalists or like-capitalists. In the structuralist version, the state is seen as autonomous from particularistic interests of capitalists and as based on popular support: "the popular class state" (Poulantzas, 1973). Yet somehow this state still manages to repress, to organize ideological domination, and to intervene where and when needed in ways designed to and having the effect of maintaining capitalism in the face of conflicts. Both the instrumentalist and autonomous theories of the state are functionalist theories, and although the instrumentalist theory is clearly at odds with the facts, it has at least the logical virtue of explaining why the state — concrete people functioning in concrete institutions — does all that is necessary to reproduce capitalist relations.

In fact, ultimately even the state as an institution disappears from this functionalist analysis. Since, by assumption, the state invariably responds to the functional requirements of capitalist reproduction and since its policies have, by assumption, the function of fulfilling these requirements, one can proceed from requirements to reproduction without bothering with the state at all. The very concept of the state is based on a reification. The state is ready-to-wear; it is tailored before class conflicts, as if in anticipation of those conflicts, appearing fully clothed whenever these conflicts threaten the reproduction of capitalist relations. The state is always given, already in its functional garb, before any conflicts occur, before any problems call for resolution.

Indeed, the perennial difficulty of any functionalist perspective is to account for the reasons why conflicts among specific groups under concrete historical circumstances would regularly result in the state performing its functions. It is quite true that once the manner in which a society responds to variations of historical conditions has been institutionalized, much of this response is automatic. To put it differently, each society organizes the mechanisms of its reproduction as a system. Yet it is equally apparent that the activity of institutions and the institutions themselves are the continual outcome of conflicts. Under concrete historical circumstances, particular groups enter into
conflicts over particular issues, and the outcome of these conflicts is a particular organization and a specific set of policies of the state. What is not clear is why this policy would be predictably one that would have the function of reproducing capitalist relations. Clearly the answer to this question cannot be that the state reproduces capitalist relations because this "is" its function. This answer can be twofold: either the capitalist system is organized in such a manner that it is reproduced regardless of all conflicts, and then these conflicts, including class conflict, acquire the status of a superfluous ritual, as in Sahlin's, or outcomes of conflicts do in fact determine the policies that the state pursues, in which case the burden of explanation is shifted to these conflicts and any concept of function becomes redundant.

These problems — an implausible account of reproduction, the inability to explain why the state pursues particular policies, and the reification of the state — are inherent in any functionalist perspective. Our claim, however, is that this perspective is made necessary by an incorrect model of class conflict in democratic capitalist societies. The very problem of reproduction appears as a functional one because the model of irreconcilable class conflict leads to the conclusion that capitalism could not have survived as a choice of the working class. Indeed, the working class appears in this model as a passive victim of repression, a perpetual dupe of ideological domination, or, at best, as repeatedly betrayed by its leadership.

If our model of class conflict is valid, then the need for this kind of a construction disappears. The policies pursued by the state in capitalist societies — the policies designed to invigorate and strengthen the capitalist system of social organization — are no longer viewed as functions of an autonomous state facing the threat of a revolutionary working class. These policies — and the state itself — now appear as an expression of a compromise: they are quite instrumental with regard to the interests of a class coalition that includes both capitalists and organized workers. When workers pursue strategies that lead to a compromise, the state does what appears necessary to reproduce capitalism because this is the choice of the workers as well as the capitalists. The organization of the state as an institution and the policies pursued by this institution constitute an expression of a specific class compromise.

Class compromise implies a particular organization of political relations, a particular relation between each class and the state, a particular set of institutions, and a particular set of policies. The state must enforce the compliance of both classes with the terms of each compromise and protect those segments of each class that enter into a compromise from non-cooperative behavior of their fellow class members. The state must induce individual capitalists to make the decisions required by the class compromise, shifting the