Social Democracy, War, and the Welfare State

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Many writers have discerned links between the welfare state and social democracy. A few have examined the connections between the welfare state and war. The links connecting war, social democracy, and the welfare state are here examined, and it is argued that all three can be fruitfully understood as aspects of a tendency to state capitalism which prevailed in the first half of the twentieth century but which has increasingly been offset by a countervailing tendency to internationalization. The welfare state and social democracy, as national-state centered phenomena resting on the capacity of individual states to manage their own segments of the world economy, flourished in the first period but have been undermined in the second. The tendency to militarism and war has flourished in both.

As an official historian of British social policy in World War II, Richard Titmuss (1950) was impressed by the extent to which the war had stimulated and shaped the growth of social provision in Britain. In a later essay on "War and Social Policy" (1953, p. 86), he generalized the point, arguing that the "aims and content of social policy, both in peace and in war, are thus determined—at least to a substantial extent—by how far the cooperation of the masses is essential to the successful prosecution of war." War was, then, a key determinant of the welfare state. Titmuss’s argument, I have suggested, gains explanatory force if it is modified to take account of the extent to which the war in question constitutes a crisis for the state and of the role of other crises, such as the Great Depression, in stimulating and legitimating social welfare developments. But even in the United States, where war has generally been seen as bringing to an end a period of social reform, war has had a profound impact on welfare state development. (This point was developed in an article for this journal, and subsequent book, which, taking Titmuss as its starting point, compared the impact of World War II on the state’s intervention in certain areas of health policy in
Britain and the United States (Adams, 1977, 1982). If World War II had less dramatic results for American than for British social policy, the explanation lies in the weaker threat posed by the war to the American state or capital, and the lesser vulnerability to internal pressures from the working class. In this account, the state was understood, not, as in Titmuss, as an expression of the collective will and interest, but as a condensation of the balance of class forces, which may be more or less capable of cohesion and coherence. Explanation of social welfare growth in different countries had to take account of the nature of the crisis to which the state was exposed, its vulnerability to threats from without and below, the nature of the state system itself and its capacity for coherent policy development. Social policy was seen as being pressed out between the needs of capital for a regulated supply of efficient labor power and for order on the one hand, and working class pressure for adequate standards of health education, and economic security on the other.

Social Democratic Research

A much larger body of writing has in recent years taken comparative welfare state research in a different direction while also emphasizing the importance of the capacity of the working class to assert its interests. It has pointed to the political strength of organized labor, and related institutional factors, in determining the extent to which governments pursue welfare state goals (Esping-Andersen, 1985; Korpi, 1978, 1980; Myles, 1984; Shalev, 1983; Stephens, 1980). While many writers have found evidence for this line of argument, critics have objected on both empirical and methodological grounds. They have argued that political parties do not make much difference in programs or redistributional effects, or that the historical specificity and limited number of countries studied do not permit the generalizations made by the theorists of working class strength (Bollen and Jackman, 1985; Pampel and Williamson, 1988).

It is not to these objections that I wish to turn, but rather to the cluster of political assumptions made by this research. One reflection of these is the choice of indicators of working class strength, commonly the presence and duration of social democratic parties in government (number of cabinet posts, years of
continuous government, etc.). A highly centralized labor movement, capable of negotiating a social contract on behalf of labor as a whole, and of enforcing the outcome on individual unions and rank-and-file workers, is also seen as indicating working class strength and as associated with higher and more redistributive social spending.

At a more general level, we find two sets of assumptions, one having to do with the relation of the state to the realization of working class interests, or socialism, the other involving the relation of those interests to social democratic parties and union leaderships. In the first case, the state is seen as the vehicle for the achievement of socialist goals. Through the election of social democratic representatives, legislation will be enacted subjecting the capital accumulation process to social control and subordinating markets to politics. The welfare state, in at least one version of this perspective (Stephens, 1980), is both an aspect and a mechanism of the transition from capitalism to socialism. The aim, then, is to win governmental power through parliamentary elections and to use the state to control the national economy in the interests of working people, to transform the nation-state into what the Scandinavian social democrats call a “people’s home.”

In this view the organizations of the working class are the labor unions and the social democratic party, representing respectively the economic and political aspirations of workers. The union leaders represent the workers in their industry or trade, while the social democratic party represents the class as a whole.

That these assumptions are less than self-evident is suggested by the fact they have all been strenuously challenged within the socialist and labor movements since their first appearance. For example, Marx and Engels fought fiercely against statist strands in socialist thinking, as in their opposition to Lassalle and his followers in the German movement (e.g., Marx, 1974, p. 339–59). They emphasized that socialism could only be achieved by the working class itself through its struggles against capital, that this process would involve the overthrow and dismantling of the capitalist state and its replacement by a workers’ state. Many later Marxists emphasized the global character of capitalism, a world system that could not be escaped or tamed
within a single national economy. In denouncing the statism, reformism, and nationalism of the social democrats (as the right wing alone of European Social Democracy came to be called), revolutionary socialists also challenged the claims of the reformist parties, and of the trade union bureaucrats to which these parties were linked, to represent the interests of the working class. Thus, Lenin (1966, p. 257–58) commented on the British Labour Party:

Of course, most of the Labour Party's members are working men. However, whether or not a party is really a political party of the workers does not depend solely upon a membership of workers but also upon the men that lead it, and the contents of its actions and its political tactics. . . . From this, the only correct, point of view, the Labour Party is a thoroughly bourgeois party, because, although made up of workers, it is led by reactionaries, and the worst kind of reactionaries at that, who act quite in the spirit of the bourgeoisie.

And Trotsky (1973, p. 63) criticized the “characteristics of conservatism, religiosity, national conceit” of all the party's leaders and urged (1973, p. 81) the performance of “an immense service to historical progress” in the form of the discrediting of “Fabianism, MacDonaldism, pacifism”: “[W]e must point out to the workers the true countenance of these complacent pedants, prattling eclectics, sentimental careerists, liveried footmen of the bourgeoisie.” In the view of their left critics these parties, far from representing workers’ interests, played a vital role in subordinating them to the state and the national capitalist class. As for the unions, the contradiction between the bureaucracy, a conservative stratum of full time officials with distinct privileges, incomes, working conditions, life styles, and organizational priorities, and the rank-and-file became as important for revolutionary analysis as the ignoring or denial of it was for reformists (Cliff and Gluckstein, 1986).

The schism between the reformist and revolutionary wings of European socialism became open and clear in the First World War. The action of the representatives in the Reichstag of the German Social Democratic Party (the SPD, the oldest and largest section of European Social Democracy) in voting for war credits on August 4, 1914 signalled the breakup of the Second Inter-
national. In country after country reformist social democrats (those who believed in a peaceful, parliamentary road to socialism) who had only yesterday vowed to oppose the imperialist war and the sending of workers to kill each other for the profits of their exploiters now found reasons to rally to the national flag. Indeed the right wing socialists played a crucial role in sustaining the war effort, as was recognized by the German chancellor, Bethmann Holweg, in 1917:

The trade unions complain that they no longer control their people, who are incited by the radicals who say that the Imperial social democrats have done nothing for them. It is absolutely essential that the right wing of the social democrats are strengthened once more. For what is to be done if the government can no longer count on the help of the trade unions in combating the strike movement? (Kirby 1986, p. 61).

World War I ended with the triumph of socialist revolution in Russia and its defeat in Germany. The war not only brought the rift between reformists and revolutionaries to a head. It also clarified many of the points at issue, even though in several cases this only became clear to the participants in the course of their struggles, or even after the event. It was out of this war that social democracy emerged as a distinct tendency characterized by a national, reformist, and statist conception of the socialist project, a perspective that would prove remarkably well suited to claiming the welfare state for its own. One way to illuminate this development and the linkages that connect it with war and the welfare state is to examine it from the standpoint of the tradition which lost out in socialism's "great schism" (Schorske, 1955), first in Germany at the end of World War I, and then, with the resulting isolation and degeneration of the Russian Revolution, throughout the world. That is the classical marxist tradition—internationalist, revolutionary, anti-statist, anti-militarist—associated in this split with Luxemburg in Germany and Trotsky, Lenin, and the Bolsheviks in Russia, and Gramsci in Italy.

Imperialism and War

With the growth of the socialist movement in Germany at the end of the nineteenth century in a long period of crisis-free
capitalist expansion, with the enlargement, centralization, and bureaucratization of the unions, all the characteristic assumptions of reformist social democracy emerged and gathered strength. It was a period which all wings of the party recognized as non-revolutionary and as requiring a struggle for reforms rather than, in the short run, for power. The relegation of the revolutionary goal to a matter of ritual utterance detached from day to day practice affected even such champions of marxist orthodoxy as Karl Kautsky, who polemicized against the open revisionism of Fabian-influenced Eduard Bernstein. As the threat of war grew, so did the divisions within the party.

One form these differences took was the question of war itself. Kautsky had in 1909 argued the orthodox position that "the present-day arms race is above all a consequence of colonial policy and imperialism" and that therefore propaganda for peace, apart from the struggle for socialism, was of little use (Kirby, 1986, p. 1–2). Three years later he had shifted his position, now arguing that instead of the imperialist division of the world through war, the great powers might form a cartel, "a federation of the strongest" who would renounce their arms race and cooperate in the exploitation of world markets (Kautsky, 1970, p. 46). This "ultra-imperialism" offered an alternative to war, which was not a necessary or inevitable product of capitalist competition. The war, when it came despite Kautsky's misplaced optimism, was seen as a terrible mistake, a result of the failure of the capitalists to understand their own interests.

It was in response to Kautsky, as well as to understand the capitulation of the Second International parties in the face of war, that Bukharin and Lenin developed their analyses of imperialism (Bukharin, 1972; Lenin, 1964). The argument of Bukharin, one of the leading Bolshevik theoreticians and arguably the greatest marxist economist of the twentieth century, is of particular importance for understanding both war and the welfare state. For him, capitalism could only be understood as a world economy in which competition had been reduced within countries through monopolization and state intervention, only to be reproduced on an international level. He identifies not only the emergence of monopoly capital through the fusion of industrial and banking capital, as Hilferding (1981) had done in his
pioneering work, but also the further tendency to a merger of private capital and the state, that is, a tendency toward state capitalism. The argument is developed most fully in The Economics of the Transformation Period (Bukharin, 1971, p. 21):

Capitalist national economy has moved from an irrational system to a rational organization, from a subject-less economy to an economically active subject. This transformation has been effected by the growth of finance capitalism and the fusion of the economic and political organization of the bourgeoisie. At the same time, however, neither the anarchy of capitalist production in general nor the competition of capitalist commodity producers has been eliminated. These phenomena have not only remained but have deepened by reproducing themselves in the framework of world economy. The system of world economy is just as blindly irrational and subject-less as the earlier system of national economy.

In this conception, capitalism appears as a world system in which the competing units, or capitals (Bukharin calls them "state capitalist trusts") are states. These are national blocs of capital impelled to accumulate by competition with each other in a world economy which none controls. As Marx (1973, p. 657) puts it, "The influence of individual capitals on one another has the effect precisely that they must conduct themselves as capital." But as competition grows in scale and increasingly takes place between states so its form changes. Labor productivity is compared, that is, competition takes place, not only through the exchange of commodities, but also through foreign debt and military rivalry. Britain and Germany are locked in competition for markets, and in India, for example, British capital wins out against German, not because it is more efficient, but because the British state keeps German capital out. States protect their national economies and extend their spheres of operation by building up their military capacity, in order to ensure access to raw materials and markets or to deny it to competitors.

As Bukharin (1972, p. 125) puts it, "The struggle between state capitalist trusts is decided in the first place by the relation between their military forces, for the military power of the country is the last resort of the struggling 'national' groups of capitalists." For both Bukharin and Lenin, war was not an accident or a mistake, a failure of diplomacy or vision, but something
that grew organically out of the capitalist mode of production at the point when the tendencies to concentration and centralization, inherent in it from its beginnings, reach a certain stage, the stage of imperialism. "The capitalists divide the world," Lenin (1964, p. 253) asserted, "not out of any particular malice, but because the degree of concentration which has been reached forces them to adopt this method in order to obtain profits." Since capitals grow at uneven rates, however, a disproportion tends to develop between a country's economic and its political power. Those countries (Germany and Japan are the most obvious examples) which develop later but faster are unwilling to accept the existing division of the world among imperial powers and demand its repartitioning. Periods of peace, therefore, "are inevitably nothing more than a 'truce' in periods between wars. Peaceful alliances prepare the ground for wars, and in their turn grow out of wars" (Lenin, 1964, p. 295). War, in short, is inherent in capitalist competition, above all in the epoch of imperialism.

Bukharin, as well as Lenin, developed his analysis of the world economy in order to illuminate the organic links between imperialism and war, and to show that the struggle for peace was inseparable from the struggle against capitalism. The theory of state capitalism which he developed in the process, however, has wider explanatory power. It has, for example, been applied in modified form to the analysis of the Eastern bloc countries, and the phenomenon of Stalinism, which have been seen as the purest expressions of state capitalism, as well as to certain developments in the West, including the growth of state intervention, regulation, planning, and nationalization as well as the emergence in the post-World War II world of a permanent arms economy (Cliff, 1974; Harman, 1984; Callinicos, 1982, p. 196–225). The theory also has important implications, largely unexplored, for our understanding of the welfare state and of social democracy.

The trend toward a world economy of competing state capitalisms finds expression in, and makes sense of, the often remarked linkage between imperialism and social reform in the period around the turn of the century (Searle, 1971; Semmel, 1960; Titmuss, 1958). Both conservative authoritarians like Bis-
Social Democracy

Mark and reformist social democrats looked to the state as the organizer and defender of national economic development. The Boer War, as Titmuss (1958) points out, provided a traumatic lesson for the British about the importance of "national efficiency" and social solidarity for a successful imperialism. The working class became a national resource, to be educated, kept in health, and adequately maintained if productivity and military capacity were to match international levels (Harman, 1984). The mechanisms through which states took on this responsibility ranged from school meals and milk to health and retirement insurance. The welfare state, in sum, emerged as an aspect of the state's organization of the national economy for competition in a hostile world.

From its origins in Bismarck's Germany, the welfare state has been an intrinsically national institution. Vulnerable to external military and economic threats, as well as to internal pressures from their own working classes (on which they depend to meet those threats), individual states have tried by a variety of means to manage their own national segments of the world economy. In addition to various degrees of state ownership or regulation of industry, fiscal and monetary policy, these efforts have everywhere included social policy measures designed to ensure both the reproduction of the labor force at adequate levels of health, education, and economic security, and social peace between classes, so that world standards of military and economic efficiency could be attained or approximated.

The ideological support for such statist strategies has taken a number of different forms, from German romantic nationalism, through social democracy, fascism, and Stalinism, to a broad range of Third World nationalisms which mix these ingredients in varying proportions. The form that has been most closely associated with the welfare state in advanced industrial Western states is social democracy. Through its close association with the trade unions and its historical links to the socialist tradition it has arguably provided the most successful examples of incorporating the working class into modern capitalism, bringing its consumption under the management of the state, and integrating social and economic goals in order to maximize accumulation within the national economy. Thus the political scientist David
Cameron (1984) finds that large and expensive welfare states administered by what he calls "left-wing" governments have been beneficial for capital accumulation because they have facilitated the more complete and conscious subordination of social to economic policy, the use of a "social wage" policy to induce wage restraint, and hence the reduction of labor's share of the national income, higher profits, and more investment. Indeed, he argues, this restriction and control of working class consumption through "social contracts," negotiated by centralized union and employer organizations with the state, has been in the interests of labor as well as capital (because it resulted in less unemployment as well as less inflation).

Such an assertion is nicely indicative of the distance that social democracy has traveled in divorcing the socialist goal of getting rid of capitalism from the means, the "movement" for immediate reforms within it. The movement, as Bernstein (1961, p. xxix) put it, was everything, the final aim nothing. The results of this displacement have been firstly, an acceptance of the exigencies of the national capitalist economy as setting the limits of reform, so that international competitiveness becomes the fundamental criterion of social policy, and secondly, a friendly view of the state as the mechanism for transforming capitalism and subordinating it to social control.

The relation of socialism to the state was a fundamental point at issue, not only between Lenin, Luxemburg, and Bukharin on one hand, and the reformist social democrats on the other, but also even earlier, between Marx and Lassalle (Marx, 1974, p. 339-59). Already in the nineteenth century Engels had drawn attention to the tendency for the state's role in the economy to grow, not only in maintaining the social and political conditions for capital accumulation, but also as a direct capitalist. At the same time he warned against confusing that tendency with socialism. "The modern state," he argued (1969, p. 330), "no matter what its form, is essentially a capitalist machine, the state of the capitalists, the ideal personification of the total national capital. The more it proceeds to the taking over of the productive forces, the more does it actually become the national capitalist, the more citizens does it exploit." Bukharin stood in this classical marxist tradition, anti-statist but recognizing the increasingly important
role of the state as a national, collective capitalist, when he wrote (1982, p. 22), echoing Engels: "In these ways state power absorbs virtually every branch of production. Not only does it preserve the general conditions of the exploitative process but, in addition, the state increasingly becomes a direct exploiter, organizing and directing production as a collective, joint capitalist."

The question is not simply one of orthodoxy or definition-of what socialism really "means"—it is also a matter of how one traces the linkages among war, the welfare state, and social democracy. Reexamining the great schism from the perspective of the revolutionary left brings into focus the observation, which both classical marxist theory and Cameron's findings imply, that for the working class, whose reproduction as labor power the welfare state organizes, national-statist strategies of economic and social development have not been simply an expression of that class's political and economic strength, as social democratic theorists typically assume. They also represent the use of state power to restrict and control its consumption in the interests of developing an internationally competitive economy and military power. This perspective enables us to see the welfare state in a new light, as, together with modern militarism and world war, an aspect of the tendency to state capitalism, to a world system of economically and militarily competing state capitals. Social democracy can then be seen as arising on the basis of this tendency and as an ideological expression of it. Its nationalism, statism, and reformism provided a redefinition of socialism as an ideology of state-organized collaboration between classes in the interest of national economic growth and development.

Internationalization, the Welfare State, and the Arms Race

At this point, some qualification of Bukharin's argument is necessary. For him capitalist development in the early twentieth century (he died under Stalin's bullets in 1938) involved complementary and contradictory tendencies to state capitalism and internationalization. That is, capitals competed more and more as national blocs within an increasingly integrated world economy. As states gained control over the accumulation process within their territories, they at the same time were subordinated to the uncontrollable pressures of competition on a world scale
from other national capitals. As this happened, competition increasingly took military forms, and ultimately the form of world war.

Bukharin's view of these phenomena is open to two kinds of objection. Firstly, as Lenin (Bukharin, 1971) pointed out in some acerbic marginal notes, he absolutized the tendency to state capitalism, exaggerating the extent to which states had been able to suppress competition internally, to organize the national economy as a single capital (or state-capitalist trust) and to overcome so far as the internal economy was concerned the contradictions and tendencies to crisis that were intrinsic to capitalism as a world system. It was this one-sided conception of the tendency to state capitalism that led him to see war as the central contradiction of capitalism in 1929, and to discount the possibility of economic catastrophe (Callinicos, 1987).

Secondly, and following from this, Bukharin's conception of internationalization as a world system of self-contained states violently bouncing off one another like billiard balls provided an inadequate, one-sided view of a complex reality in which the world market increasingly disregards and breaks down national boundaries. Recent developments in particular do not fit the pattern he outlines. We have seen in the last ten to fifteen years the emergence of economic crisis on a world scale in the context of the system's growing integration across national lines. Discussion of the world economy in terms of nation-states, or even groups of countries, fails to capture this reality. As Nigel Harris (1987, p. 200) has put it, "The conception of an interdependent, interacting, global manufacturing system cuts across the old view of a world consisting of nation-states as well as one of groups of countries, more and less developed and centrally planned—the First, the Third and the Second Worlds."

Understood as a strategy, state capitalism depends on the capacity of the state to organize a whole national economy, to deploy resources and repression to force the pace of accumulation, to forge a national capital unit, or state capitalist trust, which can compete, economically and militarily, in a hostile world. But with the growing transnational integration of production, distribution, and finance, the state has both become too small a capital unit and has undergone a diminution of its
autonomy vis a vis the world market. Attempting to create a self-sufficient, integrated national economy capable of supporting, for example, its own automobile industry, has tremendous costs in terms of technological development, optimal use of labor and capital, and therefore growth, living standards, and competitiveness. The cost of opting out of the world division of labor is, in the long run, stagnation.

Competitive pressures of the world economy have, in short, progressively undermined the capacity of nation-states to manage their own territorial segments of the system. As a result, internationalization has proceeded in a way somewhat different from that envisaged by Bukharin. Its relation to the tendency to state capitalism has become more that of a countervailing than a complementary tendency. The world economy is less an arena in which states clash against each other while insulating themselves from the pressures of global markets, and more a vehicle for the subordination and integration of nation-states into the world market.

But the welfare state, and the social-democratic project in general, depends precisely on what internationalization has undermined, the capacity of states to manage their own economic turfs. Economically and politically it is a closed system characterized by social solidarity and an intergenerational contract between members of a defined national community. It implies the capacity of the state to compete in the world economy as a unit, with its "own" labor force. But the migration of labor and capital, the need for governments at all levels to woo investment with low taxes and deregulation, the need for integration into the world economy in order to maintain high living standards and employment levels, all suggest that international market competitiveness will become an increasingly salient criterion for social policy. Peter Glotz, a leading ideologue of contemporary West German social democracy, has argued (1985) in this context that "national Keynesianism is dead" precisely because states have lost the capacity to manage their national economies. The consequence for social democracy has been either that it is completely unable to deliver in government on the promises it makes in opposition, or that it offers the uninspiring program of reformism without reforms. In either case the "social" content of
social democracy becomes exiguous to the point of nullity (Anderson, 1986).

Governmental responses to these developments have almost everywhere, East and West, involved moves in the direction, not of increased nationalization and planning, but of privatization, of market-oriented reforms. The attack on the welfare state in the context of crisis and increased international competitive pressures is well documented and perhaps requires little further explanation. It is in part an attempt to cut social consumption in order to boost profitability, a socialized wage cut. In other part it aims to reduce the labor and capital market distortions which social programs introduce and to minimize their negative impact on economic growth.

Harris (1987) has recently argued that the successes of the newly industrializing countries such as South Korea, Taiwan, and Singapore in combining a high level of state economic management and a strong military apparatus with a ruthless orientation to production for the world market represents a triumph not of free trade, but of state capitalism in a new form. However that may be, internationalization has, for relatively clear reasons, had a corrosive effect on support for the welfare state and, in general, on earlier state-capitalist strategies and ideologies, social democratic as well as Stalinist. But what of military spending and the threat of nuclear war? If state capitalism represents a phase of capitalist development the inevitable outcome of which, short of the revolutionary overthrow of the system, is world war, should not the offsetting tendency, to transnational integration, lead to peace? Herbert Spencer (1969) argued in the nineteenth century that state intervention and protectionism tended inevitably to war and free trade to peace. Of course, for him any tendency in the direction of state capitalism was an aberration, not a fundamental and permanent feature of the capitalist mode of production. More recently, Harris (1987, p. 202) has moved some way in this direction, suggesting very tentatively that "as capital and states become slightly dissociated, the pressures to world war are slightly weakened." The reason is that, as the transnational character of the world market separates the interests of capitals from those of particular states, so the
likelihood is reduced that competition will assume the form of military conflict between states.

It is true that within blocs, competition between advanced countries has not tended since World War II to assume military form, despite powerful protectionist pressures. In part this reflects the overwhelming hegemony of the two superpowers in this period, and the *pax americana* and *pax sovietica* they have been able to impose on their respective allies. But this postwar order, and in particular the long, arms-fueled boom, set in motion the forces that would undermine it. Both the United States and the Soviet Union maintained their preeminent positions in part by undertaking the major share of the military burden of their respective blocs. Indeed they still account between them for over half of world arms expenditures (Sivard, 1985). But those countries, particularly West Germany and Japan, which devoted smaller proportions of their investable surpluses to arms spending were able to raise their capital to labor ratios (by using robots in automobile production, for example) and thereby threaten profits of competing national economies like the United States and Britain. Newly industrializing countries like South Korea and Taiwan have further weakened American economic hegemony through carving out niches in the world economy even while maintaining very substantial military apparatuses. The result has been falling profit rates and crisis (which have been persuasively attributed in classical marxist terms to increasing capital to labor ratios, and the decreasing ability of arms spending to offset their effect on profits (Harman, 1984). The economic hegemony of the United States has faltered, while the harmony among Western national economies fostered by the long postwar boom have given way to increased protectionist pressures.

Similar processes were at work in the Eastern bloc. Under (though not solely because of) the immense burden of arms spending, Russian growth rates slowed dramatically and promises of outstripping the West, or even of rapidly rising living standards, had to be abandoned. Rates of return on investment declined in the East as in the West, and as the Soviet Union's economy weakened so did the stability of its sphere of influence.
China and Egypt were lost to more or less close alliance with the West. Eastern Europe, faced with economic problems and class struggles of its own, above all in Poland, became a drain on Russian resources rather than a source of direct or indirect plunder. Both the Soviet Union and its allies sought to relieve their economic difficulties (above all lack of world-level technology or the hard currency to pay for it) by closer integration with the West and its international institutions (the International Monetary Fund, General Agreement on Tariffs and Trace, the World Bank). As this happened they became ever more closely bound to its rhythms and subject to the same crisis (Francisco, 1986; Harman, 1983).

The weakening of the economic hegemony of the two superpowers in their respective spheres, the intensification of competition within and between blocs, meant that the United States and Soviet Union could ill afford to cut their military spending in order to invest more productively. Already weak in market competition, these countries were pushed to restrain social spending. Their ability to do so depended largely on internal political requirements and rigidities. But military spending is different. Like market competition, it has a much more compulsive character than social spending. If one state builds a public hospital its rival is not directly impelled to follow suit, but a new weapons system is another matter. Every new development in weapons technology by one superpower compels the rival to match it, even when doing so weakens the national economy and ultimately the industrial base on which military power depends. Indeed the lines between economic and military competition become blurred as one power (in the present situation, the United States, the economically dominant one) inflicts blows on its rival’s economy by pushing it to adopt ruinously expensive responses to its innovations in weapons systems.

The United States and the Soviet Union are pushed toward responding to their declining relative economic positions, themselves in part a consequence of the arms burden they bear, by reasserting their military hegemony. To do otherwise would be to risk losing allies, clients, or satellites, and to see the rival’s position grow stronger. It would also be to lose influence, and ultimately resources, markets, and bases in the less developed
countries. Here the instability and risk are great. In the postwar peace among major powers, more than a hundred wars have been fought outside Europe, Russia, and North America, while Third World military expenditures have risen fivefold in real terms since 1960 (Sivard, 1985). The diminishing capacity of the superpowers to police the world by means of a Yalta-type "gentlemen's agreement" pushes both governments to a more aggressive and interventionist military posture.

The risk of a major war, of a nuclear holocaust, is arguably not weakened by these developments, but strengthened. Peter Binns (1983) has likened the position of the superpowers to that of competing firms using dangerous industrial processes, as in hazardous chemical plants. Each knows it faces the loss of its entire capital by ignoring costly explosion-preventing safety procedures and so long as business is expanding advocates of caution within the firms will prevail over those who want to compete more effectively by cutting safety costs. But in crisis, when competition is heightened and bankruptcy threatens, the weight of managerial opinion will shift. At some point, faced with the choice between the possibility of losing all through an explosion and the certainty of losing all to rivals through bankruptcy, the risktakers are likely to prevail. From this perspective, the increased competitive pressures deriving from internationalization, crisis, and the weakened position of the superpowers are the underlying cause of the "new cold war," with its economically ruinous build-up of arms spending, as well as of the continued elusiveness of a Kautskyan (or "ultraimperialist") solution in the form of a fundamental arms limitation agreement. They have made World War III more, not less likely.

Conclusion

World war, the welfare state, and social democracy, I have suggested, can all be fruitfully understood as aspects of a tendency to state capitalism which prevailed in the first half of the twentieth century but which has increasingly been offset by a countervailing tendency to internationalization. Both tendencies, as Callinicos (1987, p. 106) argues, "reflect fundamental and permanent features of capitalism—respectively its genuinely international character and its division into capitals with particular
interests which set them at odds with one another. . . .” But the relative importance of these tendencies has shifted in the last thirty years—“the internationalization of capital has come to predominate over its integration with the state, but not to the extent of nullifying it.” The welfare state and social democracy, as national-state centered phenomena resting on the capacity of individual states to manage their own segments of the world economy, flourished in the first period but have been undermined in the second. The tendency to militarism and world war, unfortunately, has flourished in both.

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