1. There are three quite distinct questions concerning the connection between capitalism and growth:

   - *Would a capitalist economy collapse in the absence of growth?* This is a functionalist question about whether capitalism needs growth in order to survive.

   - *Does capitalism have a strong tendency to generate growth in material consumption even in rich societies, whether or not it needs this for sheer survival?* A steady-state high standard of living capitalism might be viable without being achievable because it would be blocked by various forces within capitalist economies.

   - *Even if a steady-state, no-growth capitalism is possible, is this the best way to organize a steady-state economy?*

To answer these questions, we need to first clarify a bit how to think about capitalism as a system:

2. Capitalism should not be thought of simply as an economic system consisting of three categories of people – investors, workers/employees and consumers – linked by market interactions. It is also a system of power relations. These power relations are not constituted simply by relations between individual persons or households; they are embodied in organizations, especially corporations and the state. The dynamics of capitalism depend to a significant extent on the ways in which power is exercised in and through these organizations. A characteristic of capitalism is that it generates very high concentrations of power, and this power is consistently used to advance the interests of the wealthy. This also implies that the motivations for investment are not simply the desire of households to save for retirement, as Saunders argues. Surely no one believes that Trump’s investments are just a grander version of the desire for a retirement nest-egg? Investment for capital accumulation is critical for the accumulation of power.

   [I should add here that Corporations do not acquire capital simply from the retirement savings of households. They also acquire capital from their own profits which they withhold from households, from the state when they engage in things like military production, and from the credit market. Banks are not simply conduits for household savings to be deployed productively. Banks create money through loans. Large wealth holders in particular are able to augment the capital they control and the income it generates through debt. So, the simple idea that the system is run by private households is not correct; it is run by a variety of kinds of actors within organizations with different forms of power and interests.]

I will focus mainly on the second of the questions, but first a brief comment on the first:

3. Saunders writes in an essay for The Breakthrough Institute, “Theoretically, then, there is no particular reason that capitalist economies must collapse without growth. Empirically, a range of trends suggest that growth rates slow as societies become wealthier, not because labor becomes immiserated but rather for the opposite reason, because demand for goods and services saturates.”
I agree that capitalism would not necessarily collapse if growth slowed to zero. But this would make capitalism a less stable, more conflict-ridden system. In the absence of growth every increase in market share by one corporation would signal an absolute decline in revenues by other corporations, not just a decline in their market share. Competition over market shares would therefore become more intense. If the average returns to capital are zero, then any shock to the system would be more disruptive than if the returns to capital were positive. Economic crises would therefore be probably more intense. And all distributional conflicts would become zero-sum conflicts; it would no longer be the case that a rising tide lifts all boats since there is no rising tide. Still, none of this would imply that capitalism would necessarily collapse.

Let’s turn to the second question.

4. The central thesis in the Saunders article is that once satisfactory levels of consumption have been reached, then growth rates in a capitalist economy should decline to zero. He writes: “By satisfactory levels of consumption, what I mean is a standard of living that would be recognizable to the average citizen of an advanced developed economy — modern housing, an ample and diverse diet, sufficient electricity for run-of-the-mill household appliances, roads, hospitals, well-lit public spaces, garbage collection, and so on. The saturation of demand for goods and services in advanced developed economies in the latter half of the twentieth century provides a reasonable proxy for the point at which most people start to see diminishing utility from further household consumption.”

Here then is the problem: Owners of capital prefer higher to lower returns. Even if capitalism would not collapse if the long-run average returns were zero, why would owners of concentrated capital settle for that if they were able to adopt strategies for increasing their returns? This is where power comes in. Corporations are not passive responders to autonomously generated consumer demand. It is true that a fully saturated market would indeed lower growth rates to zero, but large corporations are unlikely to treat such saturation as an unalterable fact of nature. They deploy power to generate demand in order to enhance their returns:

- Through the state, most notoriously through militarism.
- By organizing a credit market and a debt economy which expands the capacity of people to consume.
- By fostering forms of consumerism which destabilize any tendency towards genuinely saturated markets. Product differentiation, constant innovation in consumer markets, market strategies that emphasize positional goods and status consumption, all of this expands the market. (consider this: The average house size in new construction in the United States increased from 1400 square feet in the early 1970s to around 2600 square feet today. 1400 square feet certainly satisfies the criterion of “satisfactory levels of consumption”, but this did not stop a process of systematic escalation of house sizes in the last four decades. And larger houses need more stuff to fill up.) The dramatic increase of income inequality at the high end intensifies these consumerist tendencies.

But can this really go on indefinitely? Isn’t there some point at which “the diminishing utility of household consumption” would finally kick in to override this incessant drive to get people to buy things? When you see the level of extravagant consumption at the top of the income distribution, it is
difficult to see some natural law of consumption satisficing in play. Even if capitalism could survive a steady state, therefore, there is no reason to believe that, if left to their own devices, large corporations would let this happen. A steady state capitalism might not destroy itself, but it is unlikely to be achievable so long as corporations and concentrated wealth holders retain their power intact and are able to shape the market, not just respond to it.

This brings us to the third question: Curtailing the power of the corporation

This, then, raises the crucial question of the need to curtail the power of capitalist corporations if a no-growth economy is to be achieved. This is not because capitalism requires growth, but because the power relations of capitalism would block the achievement of a stable, no growth equilibrium. And this requires the imposition of political controls on the actions of corporations.

In his article, Saunders offers somewhat ambivalent views about the desirability of imposing significant political controls on capitalism. On the one hand, he observes that “capitalism takes many hybrid forms in economies around the world” and comments “that complete private ownership of all production, perfect competition, and minimal government intervention in markets are not necessary for the basic dynamics described above to sustain themselves, and are unlikely to obtain for many generations in any case.” This statement seems to imply that it would be a good thing if this perfected form of capitalism did exist, but is unlikely to occur for many generations. On the other hand, he seems to endorse a fairly broad range of government interventions when he writes: “These dynamics are not inconsistent with a range of state interventions in the private economy. Social insurance to reduce economic insecurity, public investment in infrastructure and the creation of public or heavily regulated private utilities to provide for basic services such as water, sewage, and electricity, antitrust and other measures to assure fair and competitive markets, public support for basic science, applied research and development, and commercialization of new technologies — all represent measures national governments in various contexts have implemented to good effect and that, depending on the circumstance, may even be essential to sustaining and accelerating rising incomes and resource productivity.” He then concludes his analysis, using a horse as a metaphor for capitalism, “any government entity in any country charged with harnessing and guiding the forces unleashed by capitalism [should heed] a forceful warning. Tame it as you will. But don’t kill the horse we need to ride into the future.”

The idea of precisely what it means to “tame capitalism” is particularly relevant here. Because of the power dynamics of capitalism, capitalism will not lead to a steady state with zero average rates of return on capital unless it is tamed. This simply will not be a spontaneous result of its dynamics. If the corporate form of highly concentrated capital and extreme inequalities of wealth persist, then deep taming is implausible. The specific examples of taming offered in Saundra’s discussion, in fact, render capitalism less capitalistic – that is, they curtail the unfettered ability of capitalists to invest however they like in whatever means of production under whatever conditions they. What Saunders calls “hybrids” are forms of economic structure which combine capitalist and noncapitalist organizations of production. Some of the property rights associated with private ownership have been socialized. And Saunders recognizes, in passing, that these articulations of capitalist and noncapitalist mechanisms may be essential for sustaining resource productivity.

Within existing economic structures in capitalist economies, however, capitalism remains dominant. And the power of corporations remains intact. If anything, under the banner of neoliberalism, the power of
large corporations and wealth holders has increased. For a steady state economy to be established and sustained, the dominance of capitalism within the hybrid forms of market economies must be ended. There is not time here to discuss precisely what this means, but the core idea is that we need deeper and more effective forms of economic democracy. We need to move from what Angela Merkle called a market-conforming democracy to a democracy-conforming market.

Additional issues to discuss if there is time

- There are ways of taming capitalism that could significantly accelerate the increase in productivity and beneficial technological change. Consider the implications of eliminating intellectual property rights, especially productivity-relevant patents. In some domains, this would almost certainly speed up the rate of innovation – eg. Pharmaceuticals – because the increase in the rate of diffusion and improvements-through-copying would be greater than the decline in new innovations due to lowered financial incentives.

- Economies are simply capitalist or noncapitalist. All Economic systems should be regarded as eco-systems with many quite different forms of production and distribution: by capitalist firms; directly by states; within the intimate relations of families to meet the needs of its members; through community-based networks and organizations in what is often called the social and solidarity economy; by cooperatives owned and governed democratically by their members; though nonprofit market-oriented organizations; through peer-to-peer networks engaged collaborative production processes; and many other possibilities. Some of these ways of organizing economic activities can be thought of as hybrids, combining capitalist and noncapitalist elements; some are entirely noncapitalist; and some are anti-capitalist. We call such a complex economic system “capitalist” when it is the case that capitalism is dominant in determining the economic conditions of life and access to livelihood for most people. So, the issue is not really all capitalism versus no capitalism; the issue is the relative weight and articulation of capitalism with other ways of organizing economic activities. My central thesis is that capitalism needs to be subordinated, displaced from its dominant position.

- Serious constraints on environmental negative externalities need to imposed on corporations with a full-cost pricing of natural capital.

- A generous Unconditional Basic Income should be instituted, and paid for out of a much more steeply progressive tax system, to enable people to exist capitalist labor markets and engage in a wide range of noncapitalist forms of productive activity. A generous UBI fundamentally transforms the nature of the economic system as a whole by breaking the connection between access to livelihood and participation in the capitalist part of the economy.

- Democratization of the corporation itself through a bicameral board of directors, one representing capital investors and the other representing labor investors, would change the nature of power relations over the use of investment and the conduct of firms.