

## CHAPTER 3

### CONTEMPORARY CAPITALISM AND THE STATE

As with the liberal state, three tendencies developed in classical or competitive capitalism that were transformed into the germs of its overcoming: a) the concentration of capital with the emergence of the large corporations; b) the growth of labor power; and, partly as a response to both, c) the growth of the state itself. The result was the definition of a new capitalist social formation - regulated capitalism or technobureaucratic capitalism - and, as its political and organizational superstructure, the appearance of the technobureaucratic-capitalist state. In this new economic and political system, the capitalist mode of production remained dominant, but, as we will see in the Part 2 of this book, traits of a new mode of production - the statist or technobureaucratic mode of production are already present<sup>10</sup>.

#### 1. The Rise of Technobureaucratic Capitalism

In England, the United States and, to a certain extent, France, where the liberal state had already reached its fullest development, resistance to technobureaucratic capitalism, where the bourgeoisie was supposed to share power with the state bureaucracy, was greater. It arose more easily in the countries with late industrialization -- Germany, Japan and Russia<sup>11</sup> - that is, in

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<sup>10</sup> The theoretical categories that permit to define technobureaucratic capitalism as a mixed social formation will be discussed in Part 2 of this book. In another work I distinguished a monopoly and a following technobureaucratic phase of capitalism (1986). In the first phase the emphasis was put in the emergence of the large corporation, in the second, in the increasing role of the state. Here, however, I will treat both phenomena together.

<sup>11</sup> Gerschenkron, writing about the Eastern Europe nations, showed that the more backward the country, the more important the role of the state as *agens movens* of industrialization (1965). For the case of Japan, there is the testimony of the Japanese government: "It is a natural fact for a country destitute of private capital to depend on governmental capital in the initial stages of its economic development. The government not only was the supplier of the necessary funds, but also played the vital role of entrepreneur, which represented an indispensable factor for the establishment of modern industry" (Bulletin of the Japanese Embassy in Brazil, March 15, 1962; quoted by Barbosa Lima Sobrinho, 1973: 77). In relation to Germany, Thorstein Veblen's observation is significant: "...the technological advance which enforced a larger scale of

countries where liberal or competitive capitalism was not well established at the end of last century. In these three countries, where a powerful bureaucracy had previously been installed, industrialization counted on the direct support of the state. The companies were born large, as part of large financial conglomerates, with tendencies towards monopoly or oligopoly. Because of this, in these countries, as well as France, due to the weight of the French state bureaucracy, it is common to say that civil society was weak and the state strong, while in the Anglo-Saxon countries, where industrialization was carried out without the direct participation of the state, civil society would have resisted the power of the state.

Actually, these are only historical contingencies. In all of the central capitalist countries, the liberal capitalist state tended to transform itself into the technobureaucratic capitalist state. Both the growth of the corporations, organized into financial conglomerates and/or into oligopolies, and the growth of the trade unions, that also began to acquire monopolistic strength, led to the partial collapse of the market as practically the only regulator of society. There was no other alternative than to hand over the role of regulator to the state.

In historical process of growth of the state, it should be noted that the three countries where a late industrial revolution took place -- Germany, Russia and Japan -- did not, strictly speaking, have liberal states.<sup>12</sup> Contrary especially to England and France, where the intermediate stage of the liberal state was clear, these countries passed directly from the absolutist state to the technobureaucratic capitalist state. They skipped the stage of competitive

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industry and trade, as well as a larger and more expensive equipment and strategy in the art of war, also drove the dynastic State to reorganization on a new and enlarged plan, involving an increased differentiation of the administrative machinery and a more detailed and exacting control of the sources of revenue" (1966: 78-79).

<sup>12</sup> Note that in these countries, where the industrial revolution took place later and the role of the state was fundamental in recuperating the delay, authoritarian regimes then developed. Barrington Moore has an interesting theory on this, according to which Germany, Japan and Russia established authoritarian regimes because they never had bourgeois revolutions and because the respective aristocracies had maintained the peasants as a subordinated class, in pre-capitalist conditions, without going through an agrarian-commercial revolution. From this model of domination, in which the capitalist revolution is a conservative rather than bourgeois revolution, the conditions for fascism arose. Reaching the limit of peasant exploitation, the peasant and communist revolutions take place (1967).

capitalism, going from mercantile capitalism, which also did not fully develop there, directly to state monopoly capitalism. This phenomenon also implies a technological jump. Veblen noted this very clearly when he stated:

Germany combines the results of English experience in the development of modern technology with a state of the other arts of life more nearly equivalent to what prevailed in England before the modern industrial regime came on; so that the German people have been enabled to take up the technological heritage of the English without having paid for it in the habits of thought... (1915: 86).

Veblen also extended this observation to other western countries and to Japan. In the case of Russia, technobureaucratic capitalism did not succeed in developing fully, as the result of the disparagement of a socialist revolution and eventually the dominance of a statist social formation, where the state and civil society are again mixed. In any case, it is important to emphasize that the stages of development of the state that we are identifying in this brief analysis are not necessary stages. On the contrary, as less technologically advanced economic systems enter in relation to more advanced ones, they may skip stages, as we have just seen. Besides, the state in the peripheral societies tends to have particular characteristics<sup>13</sup>.

## **2. State Regulation and the Market**

Technobureaucratic capitalism combines state regulation with the market. It is monopolistic because of the large monopolistic or oligopolistic corporations, and because price competition was partially replaced by technological and advertising competition. It is technobureaucratic because the technobureaucratic class assumes a decisive role by acting through the state and the corporations. The economic and social functions of the state grew incredibly. This process began at the end of last century, when the industrial revolutions took place in Germany, Japan and Russia and the role of the state, even as entrepreneur, was preponderant. The other central countries needed World War I and the great depression of the 1930s for Keynes and the theory on the chronic insufficiency of aggregate demand to appear.<sup>14</sup> It was then that it was verified that the profit

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<sup>13</sup> Recent surveys of the particular characteristic of the state in Latin America were made by Alain Touraine (1988) and Enzo Faletto (1989).

<sup>14</sup> In the same way that the classical and neoclassical economists were the theorists of competitive capitalism and the ideologues of the liberal state, the Keynesians are the theorists of technobureaucratic capitalism and the ideologues

rate of the private sector depended on large expenditures by the state for sustaining aggregate demand. Thus the path was open for the state, with the first timid, then ostensive, sanction of the dominant bourgeois class, to definitely broaden its functions and to begin to intervene decisively in the economy.

Baran and Sweezy prefer to call this social formation simply monopoly capitalism. They argue that

...the state has always played a crucial role in the development of capitalism, and while this role has certainly increased quantitatively we find the evidence of a qualitative change in recent decades unconvincing (1968:66-67).

By using the expression "monopoly capitalism," they recognize that there was a qualitative change in relation to competitive capitalism from the middle of last century. However, they should recognize that this modification at the level of competition, this tendency towards the concentration of capital and towards the oligopolization of the markets, was accompanied by increased intervention by the state in the economy. Boccara (1971) used the expression "state monopoly capitalism".<sup>15</sup> Some used only "state capitalism". A large group of social scientists that cannot even be called neo-Marxist call this mixed social formation "corporatism".<sup>16</sup> I prefer to call it "technobureaucratic capitalism" to emphasize two fundamental social and political phenomena of contemporary capitalism: the role of a new class - the technobureaucracy or the new middle class, acting within the state and the big corporations -, and the enlarged role of the state in the coordination of the economy: the technobureaucratic state.

Technobureaucratic capitalism is a dominantly capitalist social formation, but one in which the state took on a fundamental role, not only in politics, but also in regulating the economy and promoting its economic and technological development. By means of indicative economic planning, macroeconomic policy, microeconomic regulation and - in the early phases of development - through direct investments in the state owned enterprises, the state, in its regulating function, partially substitutes the market. It partially controls prices, wages and the interest rate; it establishes a taxation system that besides

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of the technobureaucratic capitalist state, as they developed a theory to legitimize limited state intervention in the economy.

<sup>15</sup> I will discuss Boccara's view, as the intellectual leader of a group united around the French Communist Party - the Capitalism Monopoliste d'Etat group - in Chapter 18.

<sup>16</sup> See, among others, Phillippe Schmitter (1974, 1977), Streeck and Schmitter (1985), Winkler (1977), Colin Crouch (1979), James Simmie (1981), and Alan Cawson (1985, 1986).

financing the activities of the state, also promotes income distribution; it establishes priorities for private investment; and it subsidizes technological and scientific development. Only the state is able to promote forced savings, that are essential in the early phases of industrialization.

The new functions of the state become necessary not only because society is no longer willing to accept the excessively deep fluctuations of the economy, typical of competitive capitalism, but also because, as private cartelized oligopolies are formed, the market necessarily tends to be partially substituted by regulation and planning - that are performed not only by the state but also and increasingly by the corporations.

Galbraith divided the modern capitalist system into a market system and a planning system (1967, 1973). The former is made up of the small companies left over from competitive capitalism. The latter is the large oligopolistic corporation. While the market system is relatively independent, "the planning system ...exists in the closest association with the state" (1973: 155). James O'Connor (1973) added a third sector - the state sector - where he included the major private suppliers of the state. But, as in Galbraith's analysis, he underlined the close association between the monopolist sector and the state sector.

Thus contemporary capitalism depends on the government expenditures, on technological development sponsored by the state, on educational system mounted by the state to supply the large corporations with labor, and on long term state financing. There is, however, another reason, not directly related to the needs of the oligopolistic corporation, that leads the state in the central capitalist countries to grow, making it play an even more decisive role in the definition of the prevailing social formation in contemporary capitalism. I refer to the social demands on the state, leading to the establishment of the welfare state. Since the second part of last century, the workers have organized themselves into powerful trade unions. Although the prevailing democratic system does not jeopardize the economic bases of the system, it forces the politicians to cope with the demands of their constituencies for social services in the areas of education, culture, health and recreation. This means that social spending, administered by the state, had to grow decisively.

Last but not least, the military expenditures of the state grow. The increase in these expenses does not simply come from the need of the capitalist system for large purchases by the state to maintain sustained aggregate demand. It also comes from the fact that while military technology became more sophisticated, it became extraordinarily more onerous. As the world divided itself into large, aggressive, imperialist blocks, there was no other alternative than to decisively increase spending on arms. However, the theory that spending

on arms is a necessary consequence of a chronic insufficiency of demand needs to be reformulated. If it is true that the insufficiency exists, it becomes increasingly clear that this technobureaucratic capitalist state has alternative ways of making large public expenditures. On the other hand, this kind of analysis is clearly inadequate for explaining the large expenditures on arms in a country like the Soviet Union, where the technobureaucratic social formation which was dominating till recently did not have the problem of insufficiency of demand. Actually the recent trend towards the reduction of expenditures on armaments started with the realization by Soviet Union that these expenditures were a major obstacle to economic growth and to an increase in internal consumption.

Szimon Chodak wrote a recent book on "the statization of Western societies", where he makes a comprehensive analysis of state intervention in contemporary capitalist and develops a theory on the emergence of the "New State". In this book he says that the new state appeared in response to the public's desire of greater social and economic security, and that:

Under present conditions, capitalism is feasible only under the patronage of the New State... Far too long, critical and academic theorizing has confined itself to the schematic dichotomy: capitalism versus socialism. New conditions, under the New State, are taking shape regardless of theoretical recognition (1989: 296-298).

### **3. The Corporatist Approach**

I do not adopt the expression "corporatism" to define the character of contemporary capitalism, but it must be recognized that the corporatist or neo-corporatist approach is very helpful in explaining the character of contemporary capitalism. It is very difficult to classify this approach in theoretical terms. Marxist and Weberian influences are quite clear, as are clear influences of modern liberal pluralism (as defined by Robert Dahl, 1971). These authors intend to characterize contemporary society as corporatist. They say that "corporatism is an economic system" (Winkler, 1977: 44), that "all capitalist societies are corporatist" (Colin Crouch, 1979:17), and that is "a system of interest representation" (Schmitter, 1974: 3). Streeck and Schmitter (1985) go as far as, in a very interesting way, proposing the existence of "four models of social order": (1) the community, (2) the market, (3) the state, and (4) the association, that would have as respective "guiding principles", (1) spontaneous solidarity, (2) dispersed competition, (3) hierarchical control and (inter and intra- organization concentration) and as "predominant actors", respectively, (1)

families, (2) firms/parties, (3) bureaucracies, and (4) functionally defined interest associations. According to Streeck and Schmitter:

We suggest that there exists, in advanced industrial/capitalist societies, institutional basis of order which is more than a transient and expedient amalgam of the three others and, hence, capable of making a lasting and autonomous contribution to rendering the behavior of social actors reciprocally adjusting and predictable. If we labeled this additional source of social order after its embodying institution, we would call it 'the association' - in contrast to 'the community', 'the market' and 'the state'. (1985: 2)

The "associations", the big organizations, the corporations, the unions, the state, the interest groups of all types, define the corporatist system. The coordination of the whole economy would be the result of their interplay. However, among the corporatist themselves there is no consensus about "whether the strategic task for the development of corporatist theory should be concerned with a holistic explanation of political system, or with the formulation of middle range generalizations about political processes" (Alan Cawson, 1985:1).

There are many definitions of corporativism. I choose James Simmie's because it is quite clear and comprehensive:

Corporatism is defined as a politico-economic system characterized by the exercise of power through functionally differentiated organizations seeking to achieve compromises in economically and politically approved actions which are as favorable to their particular interests as possible and which are often legitimate by their incorporation in the objectives of the state (1981: 105).

From this definition and from the large amount of theory and research developed by the corporatist theory, it is impossible to derive a global and alternative analysis of society. The mode of production, the dominant economic and political model of social organization, continues to be capitalism. Corporatism is not an alternative to capitalism. It is a form through which capitalism express itself. The associations, the several bureaucratic organizations, are not really an alternative to the market and to capitalism. The alternative to the market as the "guiding principle", as the coordinate element of the economic system, is the state. The alternative to capitalism is technobureaucratism. But, as we know very well today, these "alternatives" are quite theoretical. In practice, there is no capitalism without a state, nor technobureaucratism without a market. Pure capitalism and pure technobureaucratism are just models, not realities. The alternative of "community" is a real one, but only for the past. It existed in the primitive societies. It is not viable in modern societies. Utopian socialism has much to do with the solidarity of communities. The corporatist alternative of "association" is

not really an alternative, it is just a form of coordination where not only the state plays a role, but also the organizations, the associations of civil society, play a bargaining role that may be, in many ways, independent from the state and from the market. In most cases, however, the role of the state and the market will continue be crucial in the bargaining or coordinate process. I call the contemporary social formations of the advanced industrialized countries "technobureaucratic capitalism". Corporatists may use "corporatist capitalism", but we are describing the same phenomena, in a quite similar way. We are just stressing the decisive role of the state and of the large bureaucratic organizations - the private corporations and the public non-governmental associations - in defining contemporary capitalism.

#### **4. The Technobureaucratic State and Democracy**

The regulating state maintains and develops the democratic institutions of the liberal state. The greater intervention of the state in the economy does not imply less participation of civil society in the decisions, nor in a reduction of individual freedoms. On the contrary, what has been seen in the central countries, after the fascist adventure, is a continuing perfection of the democratic parliamentary system. Full democracy has not been reached, as the differences in power in a class society are very pronounced. However, we also do not have a merely formal democracy, as claimed by the radical left.

The base of the civil society was enlarged. Aside from the bourgeoisie and the private and state technobureaucracy, other classes and fractions of classes have gained participation in power. Trade unions have become politically stronger, first in industry, and more recently, in private services and in government. As the number of industrial workers is decreasing in relative and even in absolute terms, industrial unions lost relative power, but total organized labor, including middle class labor, increased their influence in government. The same is true in relation to intellectuals, artists and students. Their voices, particularly the voices of the students, have a cyclical behavior, but tend to have larger audiences as the democratic process develops.

The political parties can be divided between the left and right, or between "liberals," in the American sense of the term, and conservatives, but their messages and practices tend towards the center, in order to be able to capture the vote of the "middle class", or, more precisely, of the middle classes, made up of technobureaucrats, the small and middle bourgeoisie and skilled workers. As the votes of the left and the right are already guaranteed by their respective parties, these parties are forced to take moderate positions in order to win the votes of

the center. Thus parliamentary democracy gains great political stability, accompanied by a slow, but continual, reformism, of a social-democratic character. It is still far from a socialist democracy, from the democracy of our dreams, but represents an enormous advancement in relation to the liberal state, where civil society was much smaller and democracy more limited.

The question of democracy will be treated only marginally in this book. It is, however, an extraordinarily important subject. Not only because in the twentieth century it has become a final political objective for a growing group of people, together with two final economic objectives - development and income distribution -, but also because it has become very clear that democracy has a powerful revolutionary content.<sup>17</sup>

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<sup>17</sup> For the debate on contemporary democracy see, among many other, the works of Norberto Bobbio (1976, 1981, 1984), Claude Leffort (1981, 1986) and C. B. Macpherson (1965, 1973, 1977). On the revolutionary content of democracy see Goran Therborn (1977) and Francisco Weffort (1984), Laclau and Mouffe (1985), Bowles and Gintis (1986), John Keane (1988).