

## CHAPTER 4

### THE CRISIS OF THE STATE

Crises of the state are usually cyclical. The present world wide crisis of the state began at the early 1970s. After the enormous growth of the state apparatus, beginning at the end of last century, that led to the formation of technobureaucratic, mixed, capitalism in the industrialized countries and of quasi-pure statist social formations in the Soviet Union, the state and the technobureaucratic class became the object of intense criticism from the conservative right and also from the democratic left. If it is true that the growth of the state follows a cyclical pattern, the present crises of the state and of the technobureaucratic class corresponds to the declining phases of the cyclical.<sup>18</sup> In the last twenty years - in the 1970s and 1980s - we find ourselves in the presence of one of these crises. The state is being challenged by its critics. The politicians and the technobureaucrats that form the state apparatus are under attack. Meanwhile, effective, but limited, measures are being taken all over the world to reform and reduce the size of the state.

The critics are of vary different origins. They may be conservatives or neo-liberals, as is the case of the new right, represented by the Austrian school, the monetarists, the neoclassical and public choice theorists; but they may also be progressives, coming from neo-Marxist origins, from the German "logics of the capital" school or from the French school of regulation. Lastly, they may have origin in sectors of the technobureaucracy itself, as in Soviet Union's current glasnost and perestroika.

It should be noted that the crisis of the state I am referring to, although related, should be distinguished from the crisis of technobureaucratic or welfare capitalism and from the crisis of statist social formations. There is, specifically, a crisis of the state apparatus. The dimension, the structure, the roles or functions and the power of the state have been under attack since the 1970s all over the world. The crisis began in the advanced countries, where mature technobureaucratic capitalism prevails. In the 1980s it spread to the industrialized but still underdeveloped countries of the periphery, swamped by the wave of the foreign debt crisis. The spread of this crisis into the statist countries has been recognized by Gorbachev's initiatives - glasnost and perestroika - and culminated with Eastern Europe's 1989 democratic revolution and the collapse of communism.

The present crisis of the state is directly related to the overall economic crisis of the 1970s and 1980s. This economic crisis, however, is mild when

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<sup>18</sup> I examined the cyclical pattern of state intervention in Bresser-Pereira (1989).

compared with previous economic crisis in the 1930s;<sup>19</sup> whereas the crisis of the state is much deeper. The response to the great depression was an intensification of state intervention; whereas the present crisis is leading to its reduction. Mostly due to the intervention techniques developed by the Keynesian and neo-Keynesian economists between the 1930s and the 1960s, the slowdown of the world economy which began in the early 1970s has been quite moderate. In contrast, the crisis of the state, translated into the attack on Keynesian economics, on social-democratic social policies and on technobureaucratic state intervention strategies, is quite serious.

In this chapter I will discuss the recent debate on the state - particularly on state intervention - using this cyclical crisis of the state as background. It is impossible to understand the relative success of the new right in presenting its arguments and even in winning votes in the parliamentary democracies if we do not take into account that their arguments are pro-cyclical. The welfare state or the social-democratic state that the reformist left, the social-democrats, the Keynesians, the "liberals" in the American meaning of the word, were extremely successful in building - a state that, with the increasing participation of technobureaucrats, was able to promote high rates of economic growth and improved income distribution - is now under attack, because it was not able to permanently fulfill its promises.

In the 1970s, the Keynesian and the social-democratic consensus of a pluralist, continuously developing and increasingly more equal society began to fall apart. Moreover, in the 1960s, the statist (communist) utopia of a democratic, fully state controlled society began to fall apart due to the repression of democratic reforms in Czechoslovakia. Today we face a mild economic crisis and a structural political crisis, a crisis of the state.

Yet, this distinction between the economic and the political, between the market and the state, is misleading. The state and the market are always closely interwoven. There is no market without a state that regulates it, nor a state without a market (and a civil society) that allows it to exist. The present crisis of the state intervention pattern was, at first, a consequence of the early positive outcomes of this intervention. Expectations were raised, leading to further intervention, which became increasingly inefficient and ineffective. While the state was successful in promoting capital accumulation and technical progress, while capital accumulation could be made consistent with a certain degree of

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<sup>19</sup> Except for the highly indebted countries of Latin America, whose crisis in the 80s (a debt crisis that turned into a fiscal crisis) is much more harmful than the depression of the 30s.

income distribution, there was little conservative or radical criticism of it; the moment this functionality was partially lost, the crisis began.

## 1. The Slowdown of the World Economy

World economic growth has been shrinking so gradually in the last twenty years that many economists and politicians may not be aware of the fact. On the contrary, in their wonder and admiration for the incredible - although uneven - wealth already achieved by the First World, the economic slowdown may pass unnoticed or be accepted as being "in accordance with the nature of things", as conservatives like to say.<sup>20</sup> Yet, if we add up the numbers and compare them with past performances, there is no doubt about the unsatisfactory rates of growth and - in Europe - high rates of unemployment.

Today it is widely recognized among the students of the long cyclical waves that the end of the ascending phase of the fourth long cycle and the beginning of its declining phase took place in the period from 1971 to 1973. In 1971 the United States decided to suspend the conversion of dollars into gold and in 1973 the first oil shock occurred. For almost twenty five years after World War II, the world economy had been growing at extremely high rates. The 1970s, however, were the years of stagflation, and the 1980s, the years of relatively low growth rates (see Table 3.1).<sup>21</sup> If the pattern of long cycles continues to be maintained, the present decline should end in mid 1990s.

Some early studies such as Ignácio Rangel's analysis (1972) already predicted that the downturn of the fourth Kondratieff cycle would occur. The timely study of Ernest Mandel (1980) on the long waves, demonstrating that

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<sup>20</sup> James O'Connor observes that, as for conservative economists and social scientists "economy, society, and the state are not seen as a 'concrete reality' but as separate spheres of social action", they tend to have a very partial view of the economic process. "Economists 'explain' economic crisis tendencies wholly or partly in terms of the politicization of the economy on motivations and incentives" (1987: 47).

<sup>21</sup> The periods of the previous long cycles may vary slightly from author to author, but, in general, we have the following dates: first cycle, 1790 to 1844/45, downturn in 1814/20; second cycle, 1844/45 to 1890/96, downturn in 1870/73; third cycle, 1892/96 to 1940/45, downturn in 1913/14; fourth cycle, 1940/45 to ..., downturn in 1971/73. See Ernest Mandel, 1980; Bresser-Pereira, 1986; Giorgio Gattei, 1989.

Kondratieff's (1925) and Schumpeter's (1939) analyses of the long cycles had a strong predictive power, generated much greater interest on the subject, including a series of international conferences.<sup>22</sup>

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<sup>22</sup> Since the work of Mandel, the debate on long waves was intensified with the organization of a series of international conferences, whose proceedings are being published [Viena: Frisch and Gahlen, eds. (1984); Weimar: Tibor Vasko, ed. (1985); Siena: Di Matteo, Goodwin and Vercelli, eds. (1986); Brussels: 1989, not yet published].

**Table 4.1 The Slow Down in the 1970s and 1980s  
(% GDP)**

	<b>U.S.</b>	<b>Japan</b>	<b>W. Germany</b>	<b>France</b>	<b>Britain</b>
1960-68	4.4	10.4	4.1	5.4	3.1
1968-73	3.2	8.4	4.9	5.9	3.2
1973-79	2.4	3.6	2.3	3.1	1.5
1979-85	2.5	4.0	1.3	1.1	1.2
1986	3.0	2.5	2.3	2.1	3.1
1987	3.6	4.2	1.9	2.2	3.8
1988	3.0	7.7	3.5	3.7	6.0
1989*	2.8	5.0	2.2	2.7	3.9

Sources: OECD (Historical Statistics 1960-1987, Paris, 1989). IMF (World Economic Outlook, April 1989), for the data and projections after 1987.

This is not the moment for a discussion of long cycles or long waves. It is also not the moment to discuss the reasons for the stagflation of the 1970s and why the rates of productivity and of GDP growth remained hopelessly low after the rates of inflation were again under control in the early 1980s. I am only registering these economic facts here in order to use them to draw the more general political and social consequences in which I am interested in pointing out in this book.

Many explanations may be given for the downturn of the long cycle. Two of them are particularly significant: the exhaustion of the wave of innovations that came with World War II, and the exhaustion of the authoritarian Taylorist (or Fordist, according to the French regulation school) techniques of managing personnel in business enterprises.<sup>23</sup> Both explanations are based on the limitations of the productive capacity of the private sector. Both emphasize the relative decline of productivity. A third explanation usually adopted by

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<sup>23</sup> On this explanation, which has been adopted by the French regulation school, see, in particular, Robert Boyer (1986a, 1986b) and Benjamin Coriat (1976).

conservative economists, but also shared by some economists of the left, relates the slow down with the excessive and distorted growth of the state.

The first is based on the classical Schumpeterian analysis of the business cycle. In the declining phase of the cycle there are inventions; in the expansion phase, the innovations, the wave of investments. The second explanation originated in studies developed by the business administration schools in the U.S., particularly the pioneering studies made in the 1920s and 1930s by the School of Human Relations headed by Elton Mayo.<sup>24</sup> However, corporations in the U.S. and Europe have not been able to effectively introduce the changes proposed by this school of thought. Only in Japan - as a result of its quite different culture - has a significant development in this direction occurred. The ability of the Japanese corporations to win participation and cooperation from workers, while effectively increasing their real wages and reducing income differential, is most likely one of the main reasons why they were able to overcome the resistance of workers to the old Taylorist methods of the West and achieve extremely high rates of growth in productivity.

The third explanation, which is implicit in the theory of the cyclical pattern of state intervention, suggests that the piling up of regulative measures after the Great Depression and World War II, in response to particular interests of lobbies, provoked allocative distortions and a fiscal crisis that had negative consequences on the rate of growth. The new right reason along the same lines, but tends to think in absolute rather than in relative and historical terms: according to it, state intervention is an evil in itself. Whereas for the cyclical approach new forms of state intervention will replace the old ones, for the new right the goal to be achieved is the minimal state.

These three explanations are complementary. A fourth explanation for the slowdown - the Keynesian theory of a structural or long run insufficiency of demand - is not applicable to the present case. Keynes was probably the greatest economist of this century. His theory was extremely successful in explaining the depression of the 1930s and in offering a way out of it, and continues to be helpful in explaining the normal business cycle. But, given the fiscal crisis of the state and the slowdown in productivity rates, the idea that demand management policies based on temporary budget deficits (when these deficits are already chronic) may be effective for overcoming the present crisis is not acceptable. On the other hand, as Lester Thurow (1983) observed, as the problems and anxieties of the Great Depression were forgotten and inflation became an acute public concern in the 1970s, mainstream economics turned conservative, toppling

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<sup>24</sup> See Elton Mayo (1946), Roethlisberger and Dickson (1939), Georges Friedman (1946), Chester Barnard (1958) and Douglas McGregor (1960).

Keynesianism after fifty years. It should be added that this was the result of the tendency of the economists to be ideologues of the establishment and to hide themselves from the uncertainties of the real economy - uncertainties that the post-Keynesians, following Davidson's (1972) and Minsk's (1975) contributions, analyzed so well. It is also a consequence of the inability of the original Keynesian analysis to explain and offer solutions for the present slowdown.

It is true that some industrialized countries - particularly West Germany and Japan - have been fighting inflation at the expense of growth. The aversion of West Germans to inflation since their experience of hyperinflation is well known, and they may have exaggerated their concern for a balanced budget. However, it is worthwhile to notice that it is precisely these two countries that have been the more successful in terms of growth rates.

On the other hand, in spite of this orthodoxy - or because it was not strong enough in the U.S. -, the enormous budget and trade deficits, leading to increasing international indebtedness, represent a serious threat of a new and acute crisis in the developed world today. A second threat comes from the absurd estimate of stock prices, particularly in Japan. The September 1987 stock market crash, which was almost repeated in October 1989, did not develop into a much deeper crisis only because of the decisive intervention of the central banks of the seven industrialized countries, that supplied huge amounts of liquidity to the economic agents interested in sustaining the stock prices. The coordination of macroeconomic policies among the G7 countries, regardless of their limitations, has been successful in maintaining a precarious equilibrium.

Sweezy and Magdoff (1987, 1988) believe that mature monopoly capitalist economies are subject to contradictions that, in the absence of sufficiently powerful forces, will lead to stagnation. The counteracting force par excellence to this tendency is an explosive increase in indebtedness by the state, corporations and individuals, which began in the 1960s and gained momentum after the recession of mid-1970s.<sup>25</sup> Actually, the debts of households and corporations should be distinguished from those of the state. First, private debts are offset by private credit, whereas public debt is not offset by other types of public credit. Hyman Minsky stressed that the emergence of financial instability in the U.S., starting around the mid-60s was directly related to the increase in overall indebtedness, and particularly to private indebtedness (1986: 68-95). Indeed, private debts are a major source of instability and uncertainty in monetary economies. But they are not a cause for general bankruptcy, whereas the indebtedness of the state, is. High indebtedness is always a cause of

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<sup>25</sup> According to Sweezy and Magdoff (1988: 14), the ratio of outstanding debt to GNP, that was around 1.5 in the 50s and 60s, reached 2.25 in 1987.

uncertainty in monetary economies, but the unbalancing and distorting effects of a high public debt are more serious than the same effects of a high private debt. A major increase of the public debt is the consequence of an increase of state expenditures and of chronic and increasing public deficits. The resulting fiscal crisis has profoundly distorting effects on the whole economy. It feeds stagflation or prompts chronic - and often incomplete - adjustment policies that reduce growth rates without effectively resolving the fiscal crisis.

## **2. The New Right Attack on the State**

The slowdown of the growth rates in the 70s was a consequence of the fiscal crisis of the state, of the exhaustion of the wave of innovations during immediate post-World War II period, and of the increasing resistance of workers to the Taylorist methods of production. These are endogenous causes of the downturn of the long cycle. The two oil shocks (1973 and 1979) are relatively exogenous factors that play also an important part in explaining the slowdown, that is the origin of the crisis of the state. On the other hand, because it undermined the Keynesian consensus, this slowdown opened the way for the rise of a new right intellectually well equipped for fighting the state. Thus the crisis of the state gained a new fount: the relatively successful attack from the new right.

The new right may be defined and classified in several ways. Dunleavy and O'Leary used this expression to designate a group of theorists whose intellectual origins lie in liberal and conservative philosophy, but who added novelty and rigor to their ideological positions (1987). Although it is a political view of contemporary capitalism, it was developed basically by three groups of economists in the 60s: the monetarist, the neoclassical and the public choice schools. A fourth group could be added, the Austrian school of Hayek and Von Mises, given the large audience that their ideas have received in recent years, but their original contributions were made somewhat earlier.

This is not the moment for a survey of the ideas of the new right<sup>26</sup>, nor for a survey of the endless debate between monetarist and neoclassical on one side, and post-Keynesians and Marxists on the other.<sup>27</sup> The monetarists led by Milton

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<sup>26</sup> For a critical survey see Nick Bosanquet (1983), Ruth Levitas, ed. (1986) and Dunleavy and O'Leary (1987); for an favorable survey, see Norman Barry (1987).

<sup>27</sup> See, among many others, Brian Morgan (1978), Sidney Weintraub (1978), Milford and Peel (1983), Lester Thurow (1984), Jerome Stein (1984), George



Friedman, as early as the 60s, and the neoclassicals of the rational expectations theory, led by Robert Lucas and Thomas Sargent developed an alternative macroeconomic theory to the Keynesian model in the 70s. They adopted the macroeconomic approach introduced by Keynes, but looked for its micro-foundations. They restored the classical macroeconomics implicit in Say's law ("supply creates its own demand") and in the quantitative theory of money based on the old exchange equation ( $MV = Yp$ ).<sup>28</sup> With his proposal of a "positive economics" (1953), in which the realism of assumptions was not important, Milton Friedman initiated the restoration of the highly formalized and abstract - and thus highly ideological and disconnected from reality - neoclassical economics.

The full restoration of this type of economic thinking was completed by the "new classical" school, with its assumption of rational expectations that, tautologically, conform to the old neoclassical hypotheses of economic behavior. Their basic conclusion is that monetary and fiscal policy do not produce real effects, given a perfect market-clearing hypothesis and the capacity of economic agents to anticipate the consequences of economic policy. The analysis of the monetarists and new classicals, however, remain basically in the realm of macroeconomics - a supposedly "positive" macroeconomics. The political problem of the state is not directly addressed except by Milton and Rose Friedman's manifestos in favor of a "free society" (1962 and 1979). Monetarist and rational expectations schools criticize Keynesian economics instead of the state. The criticism of the state is a consequence of the critique of Keynes' ideas.

The question of the state is directly tackled by the public choice school, that has a Nobel Prize in Economics that was awarded to James Buchanan, and also Mancur Olson, Gordon Tullock and William Niskanen as their best known representatives. Their starting point is a radical individualistic, pessimistic view of mankind. Buchanan is quite clear when he says: "My approach is profoundly individualistic" (1975: 1). All social actors - voters, politicians, bureaucrats, businessmen, workers - are seen as utility-maximizing individuals, unable or uninterested in organizing themselves for collective action. Their pessimism, that reminds very much of the classical Hobbesian "homo homini lupus" view of human nature, is clearly recognizable:

The public choice perspective... is pessimistic in extreme. The perspective, full of insight as it is, is driven by the most despairing vision of

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Feiwel (1985), Michael Bleaney (1985), Hyman Minsky (1986), Stanley Fischer (1988).

<sup>28</sup> Money (M) times income velocity of money (V) equals real income (Y) times the level of prices (p).

mankind, in that wealth-maximizing agents universally and relentlessly engage in wealth destruction, locked, apparently unescapably, into a horrendous prisoners' dilemma. (Monaco and Rowley, 1987: 229)

Public choice theorists are American economists and political scientists who write about contemporary Western parliamentary capitalism. They take pluralist and democratic societies for granted, where there is a "poliarchy", in Robert Dahl's sense of the word (1971, 1985). It is this type of society, where the state would be an arbiter among the individuals and groups represented in it,<sup>29</sup> which the public choice theorists criticize. They are not particularly interested in authoritarian societies, which they obviously repudiate. They are interested in pluralist societies, whose problems would derive from the increasing size of the state, or, more broadly, from the impossibility of collective action.

Mancur Olson (1965, 1982) developed "the logic of collective action". The individual in large groups will only get a very small share of the gains derived from collective action, no matter what sacrifices he/she makes to achieve the common goal. Thus individuals will only support collective action through lobbies for other reasons than the public goods they provide - for the "selective incentives" the individual will be able to receive privately. This condition limits collective action to small groups with very special interests, groups where the gains can be shared directly among the participants. Classes or political parties that will defend the interests of many are practically out of the question. Only special interest groups will be able to form "distributional coalitions", whose objective will be to increase the income of its members by lobbying for legislation to raise certain prices or wages, or to tax some types of income at lower rates. It does not matter if the results of this action will reduce the efficiency and output of society:

The organizations for collective action within societies that we are considering are therefore overwhelmingly oriented to struggles over the distribution of income and wealth rather than to the production of additional

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<sup>29</sup> Observe that this pluralist view of the state has quite interesting connections with Poulantzas' approach. The difference is that Poulantzas, as a neo-Marxist, emphasizes classes as political actors (state policies would be a condensation of class interests), while pluralist (and public choice theorists) underline the role of individual voters.

output - they are 'distributional coalitions' (or organizations engaged what, in one valuable literature, is called 'rent seeking'). (Olson, 1982: 44).<sup>30</sup>

Adam Przeworski, studying the rational choice or public choice approach, observed that if this methodological individualism is correct, the working class will never be able to transform itself into a collective historical actor (1985b). Worse than that, however, men and women will never be able to form states and elect governments that will strive for the common interest. The state will always be the Leviathan, the evil. The prisoners' dilemma and the free rider's attitude govern all actions. Solidarity among men and women is believed to be impossible. Actually, the public choice theory, besides being extremely pessimistic, also disregards or minimizes the "selective incentives" (using their own terminology) accrued by the leaders of large groups. Their analysis is void of all historical meaning. Classes, dominant classes, and dominated classes, do not exist. History is not taken into consideration, only individuals and lobbies.

This pessimism and this methodological individualism has, however, a very clear ideological purpose: to advocate the minimal state. The action of the state is necessarily inefficient and counterproductive. A government can be "representative" as long as its politicians are elected by the people in free elections. But this means very little. Voters are rent-seekers, and politicians are vote-maximizers, always thinking in the short term. Thus, governments will tend to spend more resources than are available. They will tend to adopt populist attitudes. On the other hand, voters are poorly informed. The cost of information tends to be greater than the benefits derived by being informed on public matters. Thus, James Buchanan argues that the existence of a majority voting system will not guarantee that the production of public goods by the state will be assured, even if a cost-benefit criterion (gross benefits must exceed gross projected costs) has to be satisfied. Most likely a dominant coalition of voters will be formed to protect setorial interests by using the state budget. As a consequence, "budgetary excess will emerge from democratic process, even if overt exploitation is avoided" (Buchanan, 1975: 162).

The rational or public choice analysis is basically non-historical. It is an individualistic, pessimistic method of viewing political economy. According to its approach, state intervention, productive state, "big government", the Leviathan are evil in themselves. However, they sometimes reason in historical terms, meaning that the state can be maintained under control. According their

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<sup>30</sup> Olson is referring to a basic tenet of the public choice school: individuals are rent-seekers rather than producers. According to him, this theory was developed originally by Gordon Tullock and Anne Krueger. The more significant papers on the subject are in Buchanan, Tollinson and Tullock, eds. (1980).

analysis, for the century and a half before the onset of the Great Depression, U.S. budget deficits were created only in response to the needs of war and recession. Then in the 30s the constraints on public deficits began to be eliminated. The first to go was the progressive weakening of the gold standard, starting in 1933. The second was the slackening of "the moral resistance inculcated specially by the Victorians against the burdening of future generations with a rising national debt". The third constraint - the constraint of the economists - was a result of the emergence of Keynesian economics. Freed from these constraints, "deficits arise... because politicians in Congress, and the President responding to Executive pressure, find it to be in their respective self-interest to take the easy way out in budgetary politics" (Buchanan, Rowley and Tollinson, 1987: 3-5). In consequence, "modern American politics operates in accordance with a set of rules that makes effective resolution of the deficit issue almost impossible" (Buchanan, 1989: 8). After the sophisticated analysis developed by the public choice school, this simple conclusion may help explain the huge budget deficits in the U.S., but it does not explain why a reasonable fiscal balance was achieved in other industrialized democratic countries.

The aim of the public choice school is to revive classical liberalism. Their neoliberalism is radical. Buchanan says quite plainly that his utopia is anarchy, where "the state does indeed wither away" (1975: 3). Essentially, it is a utopia very similar to that of Marx and Engels of the communist mode of production. But, in contrast to the bureaucratic followers of Marx and Engels, for whom ending the state has resulted in the creation of an all encompassing state, the public choice school wants a minimal state, that, according to them, would be "between anarchy and Leviathan"<sup>31</sup>. The minimal state is one whose "role is one of enforcing rights to property, to exchanges of property, and of policing the simple and complex exchange process among contracting free men" (Buchanan, 1975: 163). Why this minimal state is in between anarchy and Leviathan, rather than very near anarchy - an anarchy of the wealthy and the strong limitedly contrived by imperfect market - is a question to which the public choice theorists cannot respond. Their liberalism, their individualism and their pessimism is too great to allow for a "positive" judgment, moderately free of ideology.

Yet it must be said that the attack on the state led by the new right was successful. Today criticism of the state is widespread. Denationalization and deregulation are on the agenda of practically all governments. To be sure, this attack was reinforced by the slow down of the economy and the size of a state that had lost functionality. Monetarist, new classical, and rational choice

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<sup>31</sup> This is the subtitle of Buchanan's book, *The Limits of Liberty* (1975). For a survey of Buchanan's work see Agnar Sandmo (1990).

theorists developed their ideas a favorable environment. Yet there is no doubt that they were intellectually competent in pointing out the inefficiencies and distributive imbalances of the technobureaucratic or welfare state.

The new right criticized the state successfully, but it was not able to provide a real alternative. As Claus Offe observed:

The basic fault I see in this (conservative) analysis has less to do with what it explicitly states than with what it leaves out of consideration... It is extremely hard today in Western Europe to conceive a promising political strategy that would aim even partially at the established institutional components of the welfare state... Even more significant, however, is the second failure of the conservative analysis: its failure to demonstrate that 'advanced-capitalism-minus-the-welfare-state' would actually be a workable model. (1980: 152-153)

According to Peter Flora, that led an extensive research on the welfare state in Europe, the late 70s witnessed the "golden age" of the welfare state.<sup>32</sup> After that the strong growth trend was broken, the relative growth (to GDP) of the state was interrupted, but the relative one was not. The growth of the welfare state reached a kind of "limit", as the social security systems, the health and education systems experienced an enormous expansion. Considering the long distance the welfare state has come, Flora says that its major advances are certainly behind it. The growth rates of the past seem unnecessary. However, he adds, survey results across Europe create the image of a still vast and often overwhelming support for the welfare state. In spite of the neo-liberal economic philosophy, "the articulated enemies of the welfare state have remained in the minority" (1988: XXV). It remained in the minority because it did not offer a real alternative to the welfare state.

Actually neoliberalism is rather a rhetoric than an effective practice. Alain Lipietz (1989) suggests in his last book that technobureaucratic capitalism - or, according to the terminology of the French regulation school, "Fordism" - has been replaced by "liberal-productivism". The industrialized countries would have replaced the old welfare-state by a new form of economic organization based in neo-liberal policies. This new form of capitalist organization would be based in an enormous emphasis in competition among firms and nations, on a great emphasis in technological development, on the reduction of the state and of all

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<sup>32</sup> - According to Flora (1988: XXII), around 1930 average expenditure on social insurance amounted probably less than 3 percent of GDP. by 1950 it had increased to 5 percent, by 1960 to 7 percent and by 1974 to 13 percent. Social expenditures that around 1950 varied between 10 and 20 per cent of GDP, had grown by mid-1970s to between 25 and 33 per cent of GDP.

types of collective action, on a strengthened or renewed individualism. Although some of these features indeed appeared in the 80s, they are very far from representing a real alternative to technobureaucratic capitalism. The welfare policies were only slightly reduced, the state remains an extremely important actor and is assuming new and very important roles, particularly in promoting technological growth and international competitiveness. Lipietz himself, that adopts a critical view of "liberal-productivism", is not sure about the effective possibilities of this form of organization of capitalism, that, "far from representing a positive consensus, is nothing but the signal of the absence of such consensus" (1989: 69).

Shapiro and Taylor, after surveying the role of the state in industrial strategy, observe that:

In contrast to their predecessors, the legacy of the 1980s-vintage development economists will be the documentation of imperfect policy-making. The operating assumption of imperfect markets has been replaced by the presumed inevitability of imperfect states. Many have concluded that the former is the lesser of two evils... This perspective only reinforces the profession's economic tendency to view economics and politics as distinct spheres. When economists finally discovered the state, they found it wanting, and tried to reason it away" (1989: 41).

The attack of the new right to the state is clearly an attempt to "reason it away" the state. Is to say that government should get away from the economy. The problem, however, as the two authors emphasize, is not "a choice between evils". Imperfect markets and imperfect policy-making are essential characteristic of contemporary technobureaucratic capitalism. The real problem is how to live with these problems.

### **3. The Attack From the Left**

The crisis of the contemporary technobureaucratic state was also reinforced by the criticism from the left. There is a common belief that the left favors state intervention and that the right is against it. This is misleading. Indeed, in the past, reform-minded socialists tended to think that nationalization would be part of the gradual transition to socialism. The bureaucratic left, usually associated with the communist parties, used to be statist almost by definition. The social democrats and pragmatic conservatives built the welfare state by supporting mild but effective state intervention. On the other hand, the rhetoric of the right was always radically against state intervention. Yet when their representatives are in government they seldom reduce state intervention. They just try to reorient the intervention in favor of accumulation rather than of consumption, in favor of profits rather than of indirect wages and in favor of the consumption by the rich rather than of the consumption by the poor.

The left's attack on the state has a long tradition. However, we are only interested here in the recent attack on the technobureaucratic state. Claus Offe summarized the socialist criticism welfare state:

The welfare state is said to be: (1) ineffective and inefficient; (2) repressive; (3) conditioning a false ('ideological') understanding of social and political reality within the working class. In sum, it is a device to stabilize, rather than a step in the transformation of capitalist society. (1980: 154)

The state was ineffective because it had done little or nothing to alter income distribution in favor of labor. Moreover, the welfare state does not eliminate the causes of social disparities; it just partially compensates for the injustices. The state is inefficient because bureaucracies absorb a large part of the resources that are reserved for social policies. It is repressive because the customers of the social services must prove not only their "need" but also that his merit of the help. Lastly, the state is "ideological" because it performs "a political-ideological control function" that is a "source of false conceptions about historical reality which have damaging effects for working-class consciousness, organization and struggle" (Offe, 1980: 154-156).

The criticism that Offe attributes to the left in general are consistent with his own vision of the capitalist state:

The state is neither a 'servant' nor an 'instrument' of any class. While it does not defend the specific interests of a single class, the state nevertheless seeks to implement and guarantee the collective interests of all members of a class society dominated by capital (1975: 120, italics my own).

Thus, according to Offe, there is an essential contradiction in the welfare state. It is explicitly oriented to protect the workers and the poor, but it is basically an institution of a society dominated by capital. The social actions of the state are a form of legitimizing the capitalist system, but the limits of this action are set by the basic function of the state: "securing the commodity form of labor" (1973: 139).

This could be called a "Marxist contradiction" of the contemporary state. Offe sees a second contradiction in the welfare state that could be called a "Weberian contradiction". The logic of the legal-bureaucratic administration is essentially different from that of the welfare state, but both are present in the contemporary technobureaucratic capitalist state. In the legal-bureaucratic administration, efficiency means consistency of inputs and outputs, the observance of calculable legal norms, routines, and organizational programs. The inputs, the condition of following rules, is basic. In contrast, in the welfare state, "administrative action is rationalized with respect to specific results... efficiency is no longer defined as 'following the rules', but 'causing effects'" (1974: 304-305). As the welfare state loses the protection of the bureaucratic

action programs, the heterogeneity of interests involved and the tendency to demand overload on the part of interest groups may lead to the ineffectiveness of its welfare action.

James O'Connor, with his timely book *The Fiscal Crisis of the State* (1973), has probably written the most exhaustive critical analysis of the state to come from the left. According to O'Connor, "the capitalistic state must try to fulfill two basic and often mutually contradictory functions - accumulation and legitimation" (1973: 6). In other words, the state is supposed to promote economic growth and social harmony. Contemporary capitalist economies are divided into three sectors: the competitive sector, the monopoly sector and the state sector, which includes the large private corporations that preferentially supply the state. In order to perform its function of accumulation, the state tends to be close associated to the monopoly sector. In its attempt to perform its contradictory functions of accumulation and legitimation, the state is to a fiscal crisis:

The growth of the state sector and state spending is functioning increasingly as the basis for the growth of the monopoly sector... Although the state has socialized more and more capital costs, the social surplus (including profits) continues to be appropriated privately. The socialization of costs and the private appropriation of profits creates a fiscal crisis, or a 'structural gap', between the state expenditures and the state revenues... The fiscal crisis of the state is exacerbated by the private appropriation of state power for particularistic ends. A host of 'special interests' - corporations, industries, regional and other business interests - make claims on the budget for various kinds of social investment. (1973: 7-9)

The criticism of the French regulation school is directed against the regulation mode ("mode de regulation") rather than directly of the state. The regulation mode is a broader concept than the concept of the state. For each accumulation regime, i.e., for each systematic form of organizing production and distribution predominant over a relatively long period, there is a corresponding regulation mode, i.e., a collection of institutions, procedures, values and habits with coercive power over private agents (Lipietz, 1985b; Boyer, 1987). As Aglietta emphasizes, this concept rejects both the neoclassical idea of a self-regulating market independent from the social environment and the concept of a regulating state which would be external to the fundamental economic relations (1982: III-V). The state is viewed as an intrinsic part of the regulation mode. The crisis of Fordism, i.e., of the regulation mode that has prevailed over the last fifty years, is also a crisis of the state. De Bernis observes that the specific form the state assumes changes according to the different modes of regulation, but "the role of the state is always questioned during the initial phase of the crisis; this is normal because the form of the state depends on the nature of the dominant forces" (1990: 36).



The Fordist crisis, defined in terms of the reduction of the rate of productivity is, as we saw at the beginning of this chapter, explained in terms of: (1) the increase in the organic composition of capital due to the adoption of increasingly capital-intensive methods of production; and, particularly, (2) the exhaustion of the authoritarian labor relations implicit in the Taylorist and Fordist systems of production. This crisis of the "Fordist-Keynesian state", according to the more representative members of the regulation school<sup>33</sup>, is not a crisis of overproduction or underconsumption, as the Great Depression of the 30s was. Instead, it is similar to the Great Depression of 1873-1895 (actually, the declining phase of the second Kondratieff cycle), when there was an exhaustion of the wave of innovations that had been led by England and a deterioration of labor relations due to the organization of strong unions. The Keynesian or the social-democratic state, that was successful in overcoming the great crisis of the 30s, was finally defeated by the reduction of productivity and the intensification of the class struggles. After the victory of a social-democratic party in France, Alain Lipietz wrote a book criticizing this experience, and concluded that the leaders of the Socialist Party were unable to face the crisis of Fordism:

They were confident that the old progressive alliance of the welfare state with economic growth was still possible. Disturbed by the crisis and the impotence of state voluntarism, they try today the salvation through a new modernist alliance, that of the technological transformations and of entrepreneurship (1984: 354).

The quotation above emphasizes not only the crisis of the state but also the crisis of the left - a crisis that is well illustrated in Adam Przeworsky's analysis of social-democracy (1985). After a very critical analysis of the social-democratic parties and governments, he demonstrates and explains why, when they were in power, social-democrats did not nationalize the economy, and why their reforms, even when successful in improving working conditions and reducing inequality, did not lead to socialism.

This means that the technobureaucratic or social-democratic or Keynesian, or welfare state - the name we use for the state in contemporary

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<sup>33</sup> See Aglietta (1982, 1986), Robert Boyer (1986a, 1986b, 1986c), Alain Lipietz (1985a, 1985b), Glynn, Lipietz et al. (1988), de Bernis (1990). See also the books edited by Boyer (1986 and 1986c). For a survey see Daniel Cataife (1989) and David Klots (1990) that includes also Gordon's, Bowles' and Weisskopf "social structure of accumulation theory". See also the special issue on the subject of the *International Journal of Political Economy*, vol.18, no.2, Summer 1988.

capitalism does not matter - is quite limited in its capacity to reform society. The state is an intrinsic part of society. It is possible to separate the state from civil society, but it is not possible to put the state above and independent from the economic and social system. The economic and social crises are reflected on the state. Moderate reformism, the moderate state intervention strategy of the social-democrats - as well as of conservative parties, in many circumstances - was successful for a time, while the state was not too big in relation to the civil society, and while the several forms of state intervention were new and had not been distorted by time and special interests. However, when the state, under the external pressure of demands and the internal pressure of technobureaucrats, grew too much, it also became increasingly inefficient and ineffective. The crisis of the state erupted - a crisis that the criticism coming from an aggressive right and a perplexed left only deepened.

### **3. The Colapse of Statism**

Nothing has underscored the crisis of the state more dramatically in the last quarter of this century than the perestroika and glasnost - the reorganization of the Soviet economy and the democratization of the Soviet authoritarian regime - launched by Mikhail Gorbachev, the General Secretary of the Communist Party of U.S.S.R., in 1985. For conservatives the perestroika means the acknowledgement of the failure of socialism; for the bureaucratic-left, a new, decisive step in the direction of socialism; for the democratic "revolutionary" left, a "response of the modernist wing of the bureaucracy to the threat to the stability of its rule" (Mandel, 1989: XI); and for social-democrats, a confirmation of their reformist proposals. In his book (1987) and in his speeches, Gorbachev insists that the perestroika does not mean giving up the socialist goals. But, as it proposes to transform the Soviet economy into a market oriented economy, it is a definite acknowledgement of the failure of statist strategy. Finally, the perestroika reformist approach failed. The crisis of the communist regimes, starting in Poland, spread itself to the rest of Eastern Europe and to Soviet Union.

The expression "real socialism" used to describe the Soviet system does not make sense. The Soviet Union and China are or were statist social formations not socialist countries. Statism - which I will examine at length later in this book - was present in the Soviet Union in its almost pure form. If we imagine something like a "pure capitalism", a system fully controlled by a self-regulating market, we can also imagine its opposite - "pure statism" - a social formation where the state regulates the whole economy in market co-ordination

practically absent. The Soviet Union was very close to this model. The collapse of statism represented a major blow in the state.

Gorbachev and his associates used to say that they are changing the economic and political regime, not the economic system (Baynac, 1988: 14). They intended that the Soviet Union would remain socialist. Actually, perestroika and glasnost were a revolution that failed in reforming statism, but were successful in precipitating its collapse. The end result will be a middle of the road position between pure capitalism and pure technobureaucratism.

Obviously, pure capitalism and pure statism do not exist. If we consider a scale of state intervention going from pure capitalism, where there is very little state intervention, to pure statism, where market coordination is very weak, the Soviet Union will be located in the third quarter of this scale, while technobureaucratic or oligopolistic capitalism will be in the second quarter. In the last century, competitive capitalism would have been in the first quarter, and the present Soviet social formation in the fourth quarter.

This gradation does not mean that the difference between the two systems is just a question of ranking. On the contrary, capitalist and statist relations of production are quite different. Changes in the "quantity" or intensity of state intervention - or its complement, market coordination - lead to a qualitative change. The success of the revolution in the Soviet Union that followed perestroika does not mean that the Soviet Union will be transmuted into a typical capitalist social formation, but it will definitely bring its Soviet statism much closer to contemporary technobureaucratic capitalism.

Some authors, such as Zinoviev (1981) believe that the statist system in the Soviet Union is so closed and self-sufficient that it is immutable.<sup>34</sup> The obstacles to the current democratic revolution are certainly enormous. Problems are not only related to the resistance of the technobureaucracy. Workers are also afraid of transformation. Adam Przeworsky and Michael Wallerstein (1985), when discussing the difficulties inherent to the transition to socialism, observed that a major obstacle was worker resistance to the loss of income that will necessarily occur during this transition. Revolutions always produce turbulence in which the economy suffers.

This revolution is taking place in the Soviet Union and in Eastern Europe. It is an economic and political revolution. Up to now, the political revolution has been more successful than the economic revolution. In 1989 a democratic

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<sup>34</sup> Consistent with his previous ideas, Zinoviev expressed this belief in a lecture at the University of Campinas in July 1988.

revolution took place in Eastern Europe. In this year, for the first time a statist regime - Poland - had a non-communist party in power. The Berlin Wall was turned down. Czechoslovakia and Romania have also non communist governments. In Hungary and East Germany the communists, under the pressure of the masses, are introduced profound democratic reforms and finally were out of government. In Romania a real democratic revolution supported by Soviet Union ended with a ruthless dictatorship. Nonetheless, the results of economic restructuring in these countries are still uncertain. To introduce democracy is easier than to make successful market oriented reforms. In the first case, free elections and a free press are the essential elements, whereas in the second it is necessary to change the price relations or the exchange relations between economic agents. It is true that that it was the attempt of a democratic revolution in China that ended in bloodshed in May 1989. In Eastern Europe the democratic revolutions are taking place, but the economic revolutions will take more time. The communist parties may lose power, but the technobureaucrats that belong or belonged to the communist parties will remain necessary to make the economies work. Economic liberalization, the increase of the market role will be the main objective. But the market cannot be created from nothing. If in the capitalist countries we have, as Galbraith pointed out so well many years ago (1967), a market sector and a planed or industrial sector, these economies will have also to divide themselves between an increasing market sector and a planed or state controlled one.

What is quite clear, however, is that this revolution represents the worse moment of the crisis of the state. Capitalism may emerge victorious from this revolution, or democratic socialism may have a new, decisive chance, but, in any case, statism is dead. This revolution is a political rather than economic revolution. Glasnost is more important than perestroika in the long run, which for the moment has been more successful. When millions of Chinese, Czechs, Polish, East Germans, Bulgarians and Romanians demonstrate for democracy, they are repudiating statism or technobureaucratism as an economic system and especially as an authoritarian political system.

It is very common to hear today that we are living at the "end of utopias". This is a new term for Bell's "end of ideology" and it is as ideological as its predecessor. However, we do not live end of utopias, but the crisis of utopias. Neo-liberal utopia is, most certainly no alternative for socialist utopia. It is not even an alternative to the welfare state that neo-liberals criticize so severely. On the contrary, the basic weakness of the neo-liberals' minimal state proposal is that it does not present a real alternative for society.

The theory of the cyclical pattern of state intervention may help to solve the enigma that the state represents for society. A global attack on the state, as

we see it today, is as irrational as a defense of statism without reserves. The state is an essential part of capitalism. The market alone will never be able to coordinate a capitalist economy. The same is true for socialism. It is a utopia that will sooner or later be transformed into reality. Yet in democratic socialism will the coordination of the economy be shared by the market and the state? In what proportion? Given the cyclical character of state intervention, there is no precise answer to this question.