

Money, the Market and the State.

Simon Clarke

This course will look at the relationship between money, the market and the state both historically and theoretically. The course is based on my book *Keynesianism, Monetarism and the Crisis of the State*.

The central theme of the course is the idea that we have to look at the relationship between money, the market and the state not in terms of 'economics' and 'politics' but sociologically, as different, but related, forms of social regulation. This means that we cannot look at money, the market and the state in the abstract. First, the significance of these forms of social regulation depends on the social relations which they regulate - on their sociological content. Second, these social relations are necessarily also power relations: money, the market and the state are not neutral social institutions, they are social powers. Third, we cannot look at money, the market and the state independently of one another.

My own ideas are inspired by Marx's critique of political economy, but my interpretation of Marx is very different from the orthodox Soviet interpretation. I hope that these differences will come out in the course, and students might be persuaded to return to the works of Marx with fresh eyes!

My interpretation of Marx has been influenced by the work of two Soviet scholars who died at Stalin's hands: Isaak Il'ich Rubin (1896-1937) *Essays on Marx's Theory of Value* (In Russian, Gosudarstvennoe Izdatel'stvo, Moscow, 1928), who worked with Ryazanov at the Marx-Engels Institute until he was condemned in the Menshevik trial of March 1931, and exiled to Aktiubinsk, before being re-arrested and disappearing in 1937. Evgeny Pashukanis (1891-1937), *The General Theory of Law and Marxism* (Moscow, 1924) was a Bolshevik, but was denounced by Vyshinsky in 1937 as a member of a 'band of wreckers' and 'Trotsky-Bukharin fascist agents'. I do not agree with the conclusions that Rubin and Pashukanis derive from their analyses, but I think that their work is in the best traditions of Marxist scholarship. I would like to dedicate my lectures to their memory in the hope that this tradition can be revived in the Soviet Union.

Monday December 10th.

Political Economy and the liberal state form.

We will start by looking at the liberal theory of money, the market and the state developed by Adam Smith, which has been the foundation of liberal theories ever since. According to Adam Smith the market was the rational instrument through which the pursuit of individual self-interest advanced the division of labour, and so increased the wealth of the nation. Money was simply a means of exchange, which avoided the inconvenience of barter. Capital was distinguished from money, as the accumulated 'stock' of means of production and subsistence which made it possible to employ more advanced methods of production. The role of the state in Smith's system was simply to enforce the laws of property and contract which ensured the freedom and equality of exchange.

Smith's theory provided a very clear and simple model of society, and a very powerful critique of the state of his day, in which public policy was determined by private interest. Above all Smith criticised the 'commercial system', which served the commercial and colonial interest. This system was based on trade monopolies, which presented a barrier to the development of new industries and new methods of production, and entailed the enormous cost of colonial wars, which led to a rapid growth in taxation.

Although Smith's theory provided a radical critique of the interventionist state of his day, its ideological appeal was primarily to politicians and statesmen. The growing costs of the 'commercial system', and its increasing ineffectiveness in the face of colonial rebellion and foreign competition, meant that its rising costs far outweighed its economic benefits, not only for capitalists, but also for the state. Moreover popular resistance to increasing taxation, and rebellion in the face of economic stagnation, presented the state with a formidable political challenge. Smith's theory provided a way of resolving this crisis of the state by restructuring the state and transforming its relationship to society. The reform of the state was designed partly to reduce the level of state expenditure, but primarily to remove the state from direct involvement with particular interests, so as to disengage it from damaging political conflicts. The role of the state was to secure the anonymous rule of the market by imposing the rule of money and the law of property and contract, while conflicts of economic interest would be resolved outside politics, within the framework of competition in the market. This was the fundamental principle of the restructuring of the apparatus of the British state after 1815, of the Western and Central European States after 1848, and of the Russian state after 1905.

Reading:

Simon Clarke: Keynesianism, Monetarism and the Crisis of the State, Chapters 2 and 3 (especially pp. 28--44)

Simon Clarke: Marx, Marginalism and Modern Sociology, Chapter 2.

Adam Smith: The Wealth of Nations, Book 1, Chapters 1 - 4; Book 4, last two pages.

I.I.Rubin: History of Economic Thought (Istoriya ekonomicheskoi mysli, Gosizdat, Moscow, 1929), Part 3.

Tuesday December 11th

Marx and the form of the capitalist state.

The separation of the state from civil society is the fundamental characteristic of the capitalist state form, which permits the state to stand apart from all particular interests, as representative of the general interest of society as a whole. The Marxist-Leninist view of the capitalist state is that this separation is only a veil behind which the state serves to represent the interests of the capitalist class. However, this is at best to oversimplify Marx's view of the state. For Marx the separation of the state from particular interests was real, and was a progressive achievement. The limits of the capitalist state lay in the form of state power, which was embodied in the rule of money and the law. However money and the law are not instruments, by means of which the capitalist class imposes its rule. They comprise anonymous and autonomous social powers (embodied in the 'independence' of the central bank and the judiciary), which rules both civil society and the state with equal force. The key to understanding the relationship between the state and civil society is therefore the understanding of the social power of money and the law. This understanding Marx first gained in his earliest writings, and later developed in his theories of the value-form and commodity fetishism. The abstract powers of money and the law express the most abstract expression of alienated labour, in which the product of social labour confronts the producer in the form of a thing. Within a capitalist society, in which social labour confronts the producer in the form of capital, the rule of money and the law imposes the abstract power of capital on both civil society and the state, and so subordinates both civil society and the state to the dynamic and contradictory imperatives of capital accumulation.

The separation of the state from civil society, and their mutual subordination to the anonymous power of money and the law, defines the liberal form of the capitalist state, which was the ideal of Adam Smith and his followers. However the working class was not willing to accept its subordination to the uncontrolled rule of the market. The development of the capitalist state form is determined by its response to the challenge presented by the growth of an organised working class movement. On the one hand, both capital and the state have to respond to working class demands by making substantive concessions to working class aspirations. On the other hand, they have to respond 'within the limits of their form', that is to say without undermining the expanded reproduction of capital and without undermining the rule of money and the law. Historically capital and the state have responded to the challenge of the working class by developing particular institutional forms within which working class aspirations can be confined within the social and political forms of capitalist society, with repression being used sparingly, to confine working class demands within the limits of those forms. The principal forms have been industrial relations, electoral politics, and the welfare system.

The crisis-ridden path of capitalist development has also required the state to intervene directly or indirectly in the production and distribution of surplus value. This intervention has not been so much directly on behalf of capitalists, as in response to the requirements of the economic, political and ideological reproduction of the state, including particularly the pressure of the working class. Moreover state intervention, even on behalf of capital, is contradictory, for it conflicts with the separation of the state and civil society which defines the liberal form of the capitalist state, and threatens to bring the activity of capital within the sphere of democratic accountability and political pressure. It was these considerations which lay behind the reconstitution of the system of nation states and the wave of colonialism in the late nineteenth century, which defined the national form of the capitalist state, and it was these contradictions which threatened capitalism with destruction through war and revolution.

Reading:

S. Clarke: Keynesianism, Monetarism and the Crisis of the State, Chapters 4 - 7 (especially chapters 4 and 5).

Simon Clarke: Marx, Marginalism and Modern Sociology, Chapters 3, 4.

I. Rubin (1896-1937) Essays on Marx's Theory of Value (In Russian, Gosudarstvennoe Izdatel'stvo, Moscow, 1928).

E. Pashukanis (1891-1937), The General Theory of Law and Marxism (Moscow, 1924)

Wednesday December 12th

Keynesianism and the Social Democratic State

The Soviet version of Marxism presented the struggle between capitalism and socialism as one which would be resolved by the development of the forces of production. This struggle has been resolved in favour of capitalism, which raises the question of how capitalism has overcome its crisis tendencies, and how much this owes to the state.

The post-war boom in the capitalist world was based on the high rate of profit in the immediate post-war period and the rapid liberalisation of international economic relations. The rapidly growing world market provided outlets for the more dynamic capitals, beyond the limits of domestic markets, and permitted the smooth liquidation of backward capitalists. The growing need for labour was met by the large scale movement of population, and the introduction of women into employment, which reduced pressure on labour markets. The state played a very active role in encouraging capital accumulation. In the more dynamic economies the state provided extensive training to overcome skill shortages, sponsored or built workers housing and health facilities, provided infrastructural investments on a large scale, funded industrial research and development, subsidised and managed industrial restructuring, etc. All these activities of the state were clearly to the benefit of capital, but the rapid accumulation of capital also provided a rapid growth in employment, rising wages and improved welfare provision for workers.

Rapid capitalist development put increasing pressure on the working class, but also provided material compensations. Workers still suffered unemployment, but many rapidly found new jobs. There was a tendency to the intensification of labour, but this was usually compensated by rising wages. This did not mean that class conflict was at an end. Trades unions vigorously represented the interests of workers, and were willing to strike effectively if necessary, but most conflict was resolved peacefully within the framework of the industrial relations system. The benefits were also very unevenly distributed. The core labour force received steady wages, and received satisfactory welfare benefits. However there was a growing stratum of unskilled, low paid, casual workers, particularly drawn from women and recent immigrants, whose standards of living were often below the accepted subsistence minimum. This stratum clearly performed the role of a reserve army of labour. It had limited trades union and political representation, and benefitted only marginally from the boom conditions.

Post-war capitalism was very different from that of the pre-war period. This difference can be partly put down to the rapid economic growth which marked the post-war boom, with rising wages and many aspects of social welfare being determined by the rapid growth in the demand for labour. But it also owes a great deal to the rise of the Keynesian welfare state, which reflected not only the needs of the capitalist class, but also the aspirations of the working class, expressed through trades unions and through the electoral system. Nevertheless it is important to understand that the Keynesian welfare state, like the system of industrial relations, only met the aspirations of the working class within the limits of the capitalist state form. This meant economically that welfare provision was confined within the limits of the labour needs of capital and the resources at the disposal of the state. It meant politically that the system of welfare was heavily bureaucratic, administered in an authoritarian and hierarchical way, with little or no direct democratic accountability. Thus the welfare system was a system of social policy, through which health, education and welfare provision was subordinated not to the expressed needs of workers, but to the policy objectives of the state. It is important to understand this if we are to understand the form of the crisis of Keynesianism, and the crisis of social democracy.

Although the social democratic form of the state clearly subordinated the aspirations of the working class to the needs of capital, there was a strong material base on which these could be reconciled with one another for as long as the boom lasted. This reconciliation was institutionalised in the forms of industrial relations and the welfare system, and the increasing representation of working class aspirations within the political system, both through electoral involvement and the strength of working class parties, and the direct representation of working class interests through the involvement of trades unions within the state. This 'corporatist' development increased the pressure on the state to maintain rapid economic growth, to provide the material base for its own political stability. So long as rapid economic growth could be maintained, the political stability of capitalism, and the partial reconciliation of the interests of capital and the working class, were assured.

Reading:

Simon Clarke: Keynesianism, Monetarism and the Crisis of the State, Chapter 10.

Thursday December 13th

The Crisis of Keynesianism and the Rise of Monetarism.

The post-war boom was an uneven boom. Some branches of production, such as automobiles, consumer durables, machine tools, electronics (and agriculture) grew much more rapidly, stimulated by rapid technical development, than did others. The rapid pace of technical development meant that there were powerful tendencies to overproduction in the more dynamic branches, which were absorbed by the growth of the world market, by the increasingly rapid liquidation of less advanced units of production, and by a gradually increasing pressure on profitability. The sectoral unevenness of this development was reflected in a growing geographical unevenness, so that competition pressed much harder on those countries dominated by less dynamic branches of production, or with a large stock of outdated equipment, or which faced various technical, social and political barriers to the restructuring of the technical and social relations of production. Thus the boom did not extinguish the crisis tendencies of capitalist accumulation, but they were distributed unevenly. These pressures hit the third world hardest of all, but within the advanced capitalist world Britain was the first victim, followed closely by the United States.

The forms in which the crisis tendencies of capitalism appeared in the post-war world were very different from those of previous epochs, in which, typically, a financial crisis would lead to a collapse of banks, which spread through the capitalist system in a destructive wave. The massive destruction of surplus capacity, and devaluation of surplus capital, laid the basis for a renewed burst of accumulation, but at enormous economic and social cost.

Keynes believed that the state could avert such a crisis by pursuing appropriate fiscal and monetary policies, although the post-war dynamism of capitalism meant that Keynes's theories had not been put to the test. However, it was not only the economic stability of post-war capitalism that rested on a faith in Keynesian economic management, but also its political stability. The system of industrial relations provided a framework within which employers and workers negotiated not only pay and the conditions of work, but also the reallocation and redundancy of labour in the face of capitalist restructuring. The stability of this system therefore depended on the ability of employers to offer rising wages and a reasonable working environment, and to provide alternative employment or financial compensation for those made redundant. The stability of this system depended on high rates of profit and sustained economic growth. However the system of health, education and welfare also depended for its stability on such growth, which both provided the resources to pay for the system, and limited the demands on it. If growth slowed down the tax revenues fell, while the demands on the system rose sharply: not only to pay benefits to growing numbers of unemployed, but also to meet the increased health and training needs of the unemployed and their dependents. Growing industrial conflict, stagnating wages, rising unemployment, deteriorating public services, and rising taxes led to growing dissatisfaction both with the levels of public provision, and with the authoritarian and bureaucratic forms of public provision. The 'corporatist' institutions of the social democratic state provided a range of channels through which this dissatisfaction could be expressed at the heart of the state.

The stability of the social democratic state depended on its ability to sustain economic growth and low levels of unemployment. However the crisis tendencies of capital accumulation soon made themselves felt in increased competition and falling profits. The uneven development of capitalism as a world system meant that the crisis had a very uneven impact. The most dynamic capitalist powers, such as Germany and Japan, were able to ride the waves of successive global recession without serious damage, emerging from each recession better equipped than ever to exert their competitive strength. The less dynamic, such as Britain and the US, were harder hit by the recessions, and made much less progress in the recovery phases, so that international unevenness was reinforced.

As the pressure of international competition grew more intense from the middle of the 1960s the first response from the state was to intervene more directly in production and investment to try to modernise the more backward industries and stimulate the growth of more advanced sectors. However this intervention was unsuccessful for two main reasons. First, the 'corporatist' political institutions led to the politicising of economic decision making, so that investment programmes were determined by political

and not economic factors, supporting backward industries and prestige projects, rather than those which would provide the best economic returns. Second, in the face of rising unemployment workers were resistant to investment programmes which would lead to the loss of skills and jobs, and resisted cuts in pay and the intensification of labour required to make investment profitable. Thus industrial intervention proved increasingly costly, while providing few returns, and the failure to restore profitability meant that capitalist investment continued to fall. The only way to ward off a crisis was for the government to pursue increasingly inflationary policies, printing money in order to pay for industrial subsidies and the cost of the welfare system and to enable capitalists to continue to make paper profits in the face of rising money wages.

Although the real source of the crisis was the uneven development of capitalism on a world scale, manifested in the more rapid pace of technical development and increasing international competition, the crisis appeared to be caused by the barriers to the restructuring of capitalist production presented by the institutional form of the Keynesian welfare state. For capitalists the barriers were the institutionalised power of the working class, which led to pressure for rising wages, resistance to the redeployment and redundancy of labour, and to political pressure for rising levels of public expenditure, which underlay increasing taxes and growing inflation. But the welfare state also appeared as a growing barrier to workers aspirations, as public welfare provision fell behind welfare needs, standards declined, and bureaucratic administration increasingly blocked.

In the face of growing economic and political pressure on all fronts the state was not able to continue to fuel economic growth by inflationary means. Financial pressures eventually compelled the state to adopt deflationary policies, which led to bankruptcies, rising unemployment, and the threat of a decline into depression. But such policies also led to growing unrest and intensified class conflict which provoked a crisis of the state.

The rise of the neo-liberal ideology of monetarism was not a response to the economic crisis which capitalism faced, but to the political crisis faced by the state. Monetarism provided a solution to the crisis of the state because it dismantled the corporatist forms of representation and depoliticised large areas of economic decision-making by leaving them to the rule of the market. Although the neo-liberal proclamation of the rule of the market submitted the working class more nakedly to the rule of capital, it was able to draw political support from the growing resentment at the interference of the state, at inflation and at high levels of taxation on the part of all sections of society. Moreover it opened up divisions within the working class which had been suppressed by the solidaristic forms of social democratic representation. Workers in profitable industries, and workers with scarce skills, were often able to enjoy rising wages, while the less fortunate saw their wages and welfare provision decline. Thus the 1980s saw a sharp reversal of the long-standing trend to reducing economic inequality, so that in Britain inequality is now at the highest level ever recorded, since records began over 100 years ago. However those disadvantaged are the least well-organised, and least able to represent their interests politically.

Neo-liberalism proved very successful politically, in dividing and demobilising the working class, and in removing a large number of issues from the political sphere, so disengaging the state from the economic crisis. However it has been much less successful economically. The rule of the market has led to the destruction of backward capitals, but it has not led to a regeneration of productive capital. Unemployment has remained at very high levels. Despite cuts in levels of welfare benefit, and the increasingly repressive administration of the welfare system, public expenditure has increased to record levels, while welfare services have continued to deteriorate. Economic growth has been sustained by a massive expansion of debt, which has not fed into commodity price inflation, but into the speculative inflation of stock markets and land prices, carrying the growing danger of financial collapse. The increasingly precarious and speculative basis of the growth of the world capitalist economy is making it increasingly clear that while the market may resolve the political problems of the state, it does not resolve the economic problems of capitalism. Indeed it is increasingly recognised that it is the market, and particularly the financial market, that is the problem.

Reading:

Simon Clarke: Keynesianism, Monetarism and the Crisis of the State, chapters 10 - 12, (especially chapter 11).

Friday December 14th

Crisis of Socialism or Crisis of the State.

In this final session we will discuss the implications of the arguments developed above for the future of the Soviet Union. I am in no way an expert on the Soviet Union, even by the standards of foreign scholarship, but the Soviet Union is going through a period of such fundamental and unprecedented change that expertise may even be a barrier to understanding! From my position of ignorance I am struck by two things. Firstly, that despite all the differences, the crisis in the Soviet Union shows many parallels with the crisis of the social democratic form of state socialism in the West, and particularly in Britain. Secondly, that the appeal of the market in the Soviet Union seems to be based much more on its attraction as a solution to the political crisis of the state than as a solution to the economic crisis, just as it was in the West. This is especially striking when there is a rapid loss of faith in the ability of the market to resolve the crisis tendencies of capitalism in the West. It is clear that the market is very efficient at destroying surplus capacity and liquidating inefficient enterprises, but nobody seems to know how the market is going to stimulate a recovery.

Two questions seem to be of fundamental importance. First, when people consider in any detail how the market will deal with the economic crisis, their attention seems to be focussed mainly on the labour market, and what they really mean is that it is necessary to increase wage differentials, to provide more incentives for skilled, enterprising and professional workers, to intensify labour so as to increase productivity and overcome labour shortages, and to increase labour mobility. The question we have to ask is whether these effects can be achieved by a labour market: the labour market cannot provide appropriate training for workers, it does not provide the goods which workers can buy with their increased wages, it cannot provide the housing that mobile workers need. Perhaps the call for the market is simply a reflection of the political failure of previous attempts to reform the system of labour allocation, which does not solve the problem but simply pretends to avoid it.

Second, both the crisis of the Soviet economic system, and the reform programmes are closely related to the increasing integration of the Soviet Union into the world capitalist system. The tendency for politicians in both the capitalist and socialist world is to look to the successful capitalist countries and to regard them as a model, as though it is only necessary to imitate them to achieve success. However the capitalist world is a world capitalist system, necessarily marked by extreme and growing unevenness of development, in which the failure of some is the other side of the success of others, in which it is increasingly difficult to choose your own place as the top table becomes increasingly crowded. The success stories of world capitalism in the 1980s: Germany, Japan, Hong Kong, Korea, Taiwan all laid the foundations of success under military governments which had the power to remove all social and political barriers to the accumulation of capital. In case you think I am recommending a military regime for the Soviet Union, I should also stress that far more countries have suffered brutal and ruthless military rule without seeing any economic benefits. For every Korea there are 10 Brazils.

The choice which the Soviet Union is offering itself at the moment is not a choice at all, which is why the situation is so frightening and so dangerous. There is not a choice between the 'free economy' and the 'strong state', the two go hand in hand, for the conflicts generated by the free market can only be resolved by force. Thus there is no choice between the military and the market: the market solution can only be carried through under an authoritarian rule.

The issues at the heart of the crisis are political issues, expressing real conflicts of interest which have to be resolved politically. This must mean that the priority is not to replace the rule of the Party mafia by that of the market mafia, but the development of political structures through which different interests can be represented, differences discussed, and politically resolved. Without such structures of democratic political representation democracy is reduced to periodic popularity contests between our masters/heroes. If that is all that democracy offers, people will soon tire of it, and look instead to strong leaders.

Reading:

Simon Clarke: 'Crisis of Socialism or Crisis of the State?'

(This paper is very oversimplified, but it is written to raise questions rather than give answers, so I hope that it will provide a basis for discussion)