

Keynesianism, Monetarism and the Crisis of the State

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Chapter 5

The Form of the Capitalist State

Capital and the state

In *The Communist Manifesto* Marx and Engels described ‘the executive of the modern State’ as ‘but a committee for managing the common affairs of the whole bourgeoisie’.¹ However we have already seen in our account of the rise of the capitalist state in the nineteenth century that the industrial bourgeoisie played very little part in the formation of state policy. The political revolutions and constitutional reforms of the late eighteenth and the first half of the nineteenth century, in Europe as in Britain, broadened the base of political representation, allowing the big merchants and financiers in particular to play a more active political role, but the industrial bourgeoisie remained largely outside the political apparatus, representing its diverse interests through such organisations as the Manchester Chamber of Commerce, that petitioned Parliament and sought to influence public opinion but that had little direct influence over the executive.² The centralisation of the state,

¹Karl Marx and Friedrich Engels, *Collected Works*, vol. 6, Lawrence and Wishart, London, 1976, p. 486.

²It is important not to ignore the political influence of capitalists. See Ralph Miliband, *The State in Capitalist Society*, Weidenfeld and Nicolson, London, 1979, and Kees van der Pijl, *op. cit.* However it is the politicians who establish the consensus among their paymasters, on the basis of their

and the progressive separation of public from private power, put political power increasingly into the hands of a stratum of professional politicians and civil servants of increasingly diverse class origins. Although politicians became answerable to their parties, the electoral base of political parties rarely has a well-defined class character, nor can their political programmes be reduced to the interests of the classes or strata they supposedly represent. The most cursory examination of the historical evidence seems to disprove Marx and Engels' characterisation of the capitalist state.

In their political writings Marx and Engels were well aware of the disjunction between the industrial bourgeoisie and the state. In their writings on the revolutions of 1848 the industrial bourgeoisie is one of the least significant political actors. In discussing particular state policies they frequently note that the state is in the hands of the aristocracy of land and finance, that uses its political power to secure its own narrow interests. The Bank Acts for Marx were an expression of the power of the 'big money-lenders and usurers', restricting credit in times of difficulty to force up interest rates and to give them 'a fabulous power not only to decimate the industrial capitalists periodically, but also to interfere in actual production in the most dangerous manner - and this crew know nothing of production and have nothing at all to do with it'.³ Similarly the Factory Acts were carried, against the vehement opposition of the manufacturers, by landed Tories in revenge for the repeal of the Corn Laws, which the industrial bourgeoisie had only been able to secure by mobilising popular opinion against the state.

The apparent contradiction between the claim that the state serves the interests of capital and the empirical observation of the institutional autonomy of the state has led many to reject or abandon the Marxist theory of the state. However the problem is not simply a problem for Marxists. It is as much a problem for liberal political theorists, who equally have to explain how the institutional autonomy of the state is reconciled with the need for the state to secure the economic and social reproduction of capitalist society. According to Whig interpretations of history this reconciliation is achieved through the wisdom and far-sightedness of statesmen, but this kind of idealist solution is no more adequate than

own political concerns. It is the capitalist form of the state that underlies the political influence of capitalists, rather than vice versa.

³Karl Marx, *Capital*, vol. 3, Penguin, Harmondsworth, 1981, pp. 678-9.

the reductionism of crude Marxist conceptions of the state, for it cannot explain how the statesman can rise above immediate political pressures, any more than can the crude Marxist theory explain how the general interest of capital prevails despite such particular pressures.

It is clear that the state cannot be immediately related to the general interest, whether of capital or of society as a whole, as that interest is expressed through the formal and informal representation of particular interests, not least because the political representation of interests is structured by the constitutional form of the state. However this is not merely a contingent failure that derives from the particular constitutional form of the state. It derives from the fact that the general interest is essentially an abstract concept. Thus the theoretical problem of the relationship between the state and the general interest is essentially the problem of specifying the relationship between the general interest and particular interests.

The key to the paradoxical character of the capitalist state is the distinction between particular capitals and capital-in-general. Capital-in-general represents the total social capital that is available to mobilise labour-power in the production of surplus value. However capital-in-general only exists in the form of particular capitals, and the relationships between these particular capitals are essentially contradictory. When we consider the capitalist system of production from the physical point of view, as the production and exchange of use-values, the particular capitals are interdependent, their interdependence expressed through Smith's concept of the division of labour. On the other hand, in the capitalist form of production the production and exchange of use-values are not determined by the planned coordination of production, but by the circulation of commodities as values. The interdependence of capitals appears only in the circulation of commodities. However this interdependence does not appear immediately in the particular relations of purchase and sale into which the individual capitalist enters, for each particular relation is one of a conflict of interests. The producer of shoes cannot function as a capitalist without the producer of leather. However shoe producers do not relate to leather producers as a whole. A particular shoe producer buys shoes from a particular leather producer. In this immediate relationship the producer of shoes only has an interest in buying leather as cheaply as possible. The result of shoe producers successfully forcing down

the price of leather might well be the destruction of the leather industry, and consequently of the shoe producers in their turn. Thus the interests of particular capitalists do not merely conflict with one another, but are essentially contradictory. If the capitalist were free to pursue his immediate interest, he would undermine the conditions of his own reproduction as a capitalist.

The role of the market is precisely to mediate the contradiction between the individual interests of particular capitals and their interest as parts of social capital. The individual interest of a particular capitalist is expressed in his attempt to realise an increased capital by selling the mass of commodities that his workers have produced for as high a price as possible. However these commodities have been produced without any regard for the social need for them as use-values within the accumulation of capital as a whole. The market evaluates the contributions of particular capitals in accordance with their contribution to the reproduction of the total social capital, devaluing overproduced commodities and revaluing those in short supply. Thus the general interest of capital appears to each individual capitalist as a barrier to the realisation of his individual capital expressed in the competition of other capitals. The contradictory character of the interests of capital appears in the interest of each individual capitalist in the subordination of all capitalists but himself to the rule of the market. The *hypocrisy* of capital is not a moral failing of the individual capitalist, it arises directly out of the social form of capitalist production.

Each individual capitalist seeks, by one means or another, to overcome the barrier of the market. However the reproduction of capital as a whole depends on the subordination of all individual capitals to the discipline of the market. Thus the interest of capital-in-general appears not as the sum of the interests of the individual capitals that are its component parts, but as an external force that stands opposed to the interests of all particular capitals and that confronts them as a barrier, in the form of competition in the market. 'The division of labour implies the contradiction between the interest of the separate individual ... and the communal interest of all individuals who have intercourse with one another'.⁴ It is this opposition between the interests of particular capitals and the general interest of capital that underlies the separation of the state

⁴Karl Marx and Friedrich Engels, *The German Ideology*, Lawrence and Wishart, London, 1964, p. 44.

from civil society.

The authority of the market cannot be maintained merely by the tacit agreement of individual capitals. Unless the authority of the market is imposed on all particular capitals they will individually and severally seek to overcome the barrier of the market by suppressing competition, by fraud and, *in extremis*, by force. Thus the authority of the market can only be maintained by an external power that can meet force by force. 'Out of this very contradiction between the interest of the individual and that of the community the latter takes an independent form as the *State*, divorced from the real interests of individual and community.' The state, like the market, appears as an external power to which all individual interests are compelled to submit. 'Just because individuals seek *only* their particular interest, which for them does not coincide with their communal interest, . . . the latter will be imposed on them as an interest "alien" to them, and "independent" of them, as in its turn a particular, peculiar, "general" interest On the other hand, too, the *practical* struggle of these particular interests, which constantly *really* run counter to the communal and illusory communal interests, makes *practical* intervention and control necessary through the illusory "general" interest in the form of the State. The social power . . . appears to these individuals . . . not as their own united power, but as an alien force existing outside them, of the origin and goal of which they are ignorant, which they thus cannot control, which on the contrary passes through a peculiar series of phases and stages independent of the will and the action of man, nay even being the prime governor of these'.⁵

The state secures the general interest of capital in the first instance not by overriding the rule of the market, but by enforcing the rule of the money and the law, which are the alienated forms through which the rule of the market is imposed not only on the working class, but also on all particular capitals. However the rule of the market does not resolve the contradiction between the individual and the social interests of particular capitals, but gives rise to periodic crises which call for the substantive intervention of the state. Nevertheless, although such intervention must favour some interests against others, if the substantive intervention of the state is to conform with its social form the state must seek to secure the

⁵ibid, pp. 45–6.

'illusory communal interests' against all particular interests. The class character of the state does not lie in its expressing the interests of capitalists, but in the duality of money and the state as the complementary forms of existence of capital-in-general. In this respect Marx was merely following Smith, for whom all proposals from capitalists should be viewed with suspicion, for capitalists are not to be trusted in matters of public policy. 'The proposal of any new law or regulation of commerce which comes from this order ought always to be listened to with great precaution . . . It comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public'.⁶ Not only are such proposals frequently against the interests of the public, and of capital as a whole, they are often likely to be against the ultimate interests of their proponents, who can only see the immediate results of their schemes. As Huskisson noted in the Parliamentary debates on trade liberalisation in 1824 'I am quite aware I shall be told, that the trade is the best judge of their own particular interests . . . but I . . . deny, as a general proposition, that any branch of trade is necessarily the best judge of the peculiar interests which are connected with their calling'.⁷

The capitalist character of the state was determined, for Marx, not by the subordination of the state to interests that arise in civil society, but by the radical separation of the state from civil society and the formal character of state power that is the essential characteristic of the capitalist state form. Thus Marx did not disagree with Smith's analysis of the capitalist state, but only with his identification of the 'illusory' common interest represented by the state and the market with the 'real interests of individual and community'. In the first volume of *Theories of Surplus Value* Marx echoed the famous phrase in *The Communist Manifesto*, noting that, for Adam Smith, 'State, church, etc. are only justified in so far as they are committees to superintend or administer the common interests of the productive bourgeoisie'.⁸

⁶Smith, *Wealth of Nations*, vol. I, p. 232.

⁷*Hansard*, n.s. 10, 1824, 811, quoted Gordon, op. cit., pp. 17–18.

⁸Karl Marx, *Theories of Surplus Value*, Part 1, Lawrence and Wishart, London, n.d., p. 291.

Civil society and the state

In his earliest writings on the state Marx contrasted the separation of the state from civil society characteristic of modern society with their integration in the Middle Ages. He argued that in feudal society there was no distinction between the state and civil society because civil society was itself organised into corporate bodies (estates, corporations, guilds etc.) that came together in the state. Political organisation was therefore coextensive with the organisation of civil society.

The development of the modern state was marked by the radical separation of the state from civil society. In modern society the corporate bodies of the middle ages have given way to contractual relationships between property owners, and property has increasingly assumed the form of money. The condition for the rise of the modern state is the dissolution of all corporate forms of property, and of all natural, communal and personal attachments as property assumes the exclusive form of money, the relations between property owners being regulated by the circulation of commodities as values subject to the rule of money and the law. Thus the revolution that gave rise to the modern state, most dramatically in the French Revolution, was not only a political but more fundamentally a social revolution. The separation of the state from civil society depended on the dissolution of the political element of civil society, its corporate forms of organisation. ‘The *establishment of the political state* and the dissolution of civil society into independent *individuals* — whose relations with one another depend on *law* . . . — is accomplished by *one and the same act*.⁹

The individuals who comprise civil society are by no means the asocial monads of natural law theory. Their individuality is constituted by the dissolution of all the communal and personal affiliations associated with previous forms of property, as property assumes the abstract and impersonal form of money, and money becomes the mediating term in the relationships between individuals.

The capitalist state no longer serves as the supreme temporal power, integrating the diverse corporate interests of civil society. The state is increasingly separated from all particular interests, serving to formalise and to enforce the property rights and money

⁹Marx and Engels, *Collected Works*, vol. 3, p. 167.

form on which modern society rests. Moreover the separation of the state from civil society means that it no longer bestows property rights, as it did in the middle ages, it merely gives juridical form to the property rights created in civil society, enforcing those rights through the legal forms of the person, property and contract and of money as legal tender. 'The true basis of private property, *possession*, is a *fact*, an *inexplicable fact*, not a *right*',¹⁰ a fact that lies outside the state, in civil society.

The formal separation of the capitalist state from civil society sets limits to its powers. The state merely gives form to social relations whose substance is determined in civil society, which the state regards 'as the *basis of its existence*, as a *precondition* not requiring further substantiation, and therefore as its *natural basis*'.¹¹ It is civil society that is the precondition and limit of the modern state, so that the state 'has to confine itself to a *formal* and *negative* activity, for where civil life and its labour begin, there the power of the administration ends'.¹²

The separation of the state from civil society in no way implies the 'neutrality' or the 'autonomy' of the state. The essential feature of the liberal form of the state is the formal and abstract character of state power most adequately embodied in the rule of law and of money. With the development of capitalism property becomes its own foundation and money its only measure. The formal freedom and equality of the citizen before the law is merely the other side of the formal freedom and equality of the individual in the face of money. The state secures the reproduction of civil society by enforcing the rule of money and the law, which are at the same time its own presupposition. Thus the liberal form of the state secures the mutual subordination of civil society and the state to the anonymous rule of money and the law. The 'independence' of the judiciary and of the Central Bank is the most adequate institutional form of the alienated power of money and the law, expressing the complementarity of civil society and the state and providing the constitutional guarantee of the integrity of its form. The formal and abstract character of the law is the complement of the abstract form of property as money. As we have seen, however, the equality of commodity owners confronting one

¹⁰ *ibid.*, p. 110.

¹¹ *ibid.*, p. 167.

¹² *ibid.*, p. 198.

another in the market is precisely the form through which their substantive inequality is reinforced and reproduced. It is on the basis of the formal equality of exchange that property is accumulated in the form of capital at one pole of society, while propertylessness is reproduced at the other.

The liberal form of the state is the appropriate form to secure the political power of the bourgeoisie because their social power is embodied in the abstract form of money. 'The middle classes being powerful by money only, cannot acquire political power but by making money the only qualification for the legislative capacity of an individual. They must merge all feudalistic privileges, all political monopolies of past ages, in the one great privilege and monopoly of *money*. The political dominion of the middle classes is, therefore, of an essentially *liberal* appearance'.¹³

The separation of the state from civil society, and the formal and abstract character of state power, is the means by which the bourgeoisie secures its dominion over both civil society and the state. However the substance of state power, as the power of a particular class, contradicts its form, as expression of the general interest. It is this contradiction that the statesman has constantly to resolve.

The abstract character of state power, that expresses its separation from all particular interests, is the basis on which the liberal state represents itself ideologically as the embodiment of the general interest of society and as the neutral arbiter of all particularistic claims. The universalistic claims of the liberal state are not based on particular theories of government, nor on an accounting of interests, but are the very identity of the state, embodied in the constitution, and expressed in the concentration of military and political power in its hands.

Against the universalistic claims of the liberal state all other corporate bodies that arise to represent the interests of particular sections of society appear merely as the representatives of particular interests. The contradiction at the heart of the liberal form of the capitalist state is practically resolved as the statesman resolves conflicts of interest within the constitution. However if particular interests pursue their aims outside the constitution they challenge both the authority and the legitimacy of the state. Faced with

¹³Marx and Engels, *Collected Works*, vol. 6, p. 28.

such a challenge the state has to maintain its authority, if necessary by the use of brute force, repressing competing powers in the name of the general interest embodied in the constitution. The *tyranny* of the bourgeois state is not a deformation of its liberal form, but is inherent in its need to assert its claim to neutrality and to universality.

Liberal political theory and political economy were the ideological forms in which the identification of the domination of capital with the general interest of society was expressed theoretically. However the theoretical, no less than the political, expression of the general interest of capital can only be represented in opposition to all particular capitalist interests. This was why these ideologies were formulated by thinkers who, whatever their individual class origins, could appear as disinterested intellectuals. The problems that these ideologies addressed did not flow directly from the interests of particular capitalists, or even of the capitalist class as a whole. They were the problems of the constitution, of the legal, administrative and financial forms, and of the policies of the capitalist state. Political economy was adopted as the ideology of the state because it gave coherence to a programme which resolved the political problems faced by statesmen in a period in which the development of capitalism had established the separation of civil society from the state, and had correspondingly undermined the mercantilist forms of political regulation, leading to a crisis in both the politics and the ideology of the state. Political economy legitimated the abandonment of policies that the state no longer had the authority or resources to enforce, and so the disengagement of the state from political struggles that threatened to engulf it. Once adopted it then guided the statesmen in the construction of a form of the state adequate to the capitalist mode of production.

The theory of political economy identified the general interest of society with the security of property and the anonymous rule of law and of money. This rule was imposed on society by the state, through its responsibility for the rule of law and the regulation of the currency. Within this framework the interests of all particular capitalists would then be reconciled with the interests of society as a whole by the rule of the market. The major constitutional problem was to ensure that the state was in turn subordinated to the rule of law and of money, and conducted its duties expeditiously and efficiently. These concerns determined the appropriate form of

the state and lay behind the reform of the constitution, of the forms of administration, of public finance and of the fiscal and monetary policies of the state. The system of parliamentary representation, with a property franchise, provided a check on the temptation of the state to violate the rights of property and to impose an excessive burden of taxation. The independence of the administration from direct, and ideally indirect, parliamentary supervision ensured that politics would not interfere with the task of government. However the key to the substantive subordination of the state to capital lay not in the system of representation, but in the separation of the state from civil society that underlay the dependence of the state on the reproduction of capitalist social relations.

Capital and the development of the capitalist state form

The class character of the capitalist state is not a matter of the subordination of the state to the power of a particular class, but is inherent in the very form of capitalist state power. The historical process through which the capitalist state emerged was not, therefore, simply a matter of the transfer of power from one class to another, but more fundamentally represented a change in the form of the state, underlying which was a change in the social relations of production.

Although the development of the capitalist state form was associated with more or less violent revolutionary uprisings, these political developments were secondary, as Marx indicated, to the underlying social revolution that dissolved the corporate institutions, on which the power of the old regimes was based, as it dissolved civil society into independent individuals whose relationships were based on law and on money. While the origins of the modern state lay in the beginnings of commodity circulation and the appropriation of the means of production as private property, its full development presupposed the generalisation of commodity relations with the generalisation of wage labour.

The early capitalist class did not seek access to state power for its own sake. Those who aspired to social position and public office could acquire an estate, by purchase or by marriage, but most merely wanted to go about their business without impedi-

ment, subject only to the impartial rule of law and of money. Thus the revolutionary aspirations of the bourgeoisie were essentially negative, resisting the subordination of the power of the state to vested interests which appeared to the bourgeoisie as corruption, privilege and the abuse of the fiscal and monetary authority of the state. The bourgeoisie sought not the subordination of the state to one vested interest in place of another, although every particular interest sought to enlist the support of the state in its favour, but the subordination of the state itself to the rule of money and the law. The bourgeoisie could unite in its struggle to free civil society from the burden of the state, but when it came to substantive policy issues the bourgeoisie was by no means united, for the relations between capitals are relations of competition and conflict. It is precisely because there is no basis on which the capitalist class can achieve a spontaneous unity to express a coherent and consistent class interest that its economic and political unity has to be imposed on it by the external forces of money and the state.¹⁴

Where privilege, corruption and public profligacy presented a barrier to the advance of the bourgeoisie it might capitalise on popular distress and popular resentment against the burden of the state to mobilise politically outside the constitution, demanding the democratic representation of property as the means of checking the partisan abuse of state power. However the revolutionary ardour of the bourgeoisie was strongly tempered by the fear of popular radicalism, particularly after the experience of the French Revolution. The bourgeoisie, like political economy, was more interested in good government, and if good government could be secured without the potential for divisions, turmoil and unrest associated with elections, all the better. Thus the reconstitution of the administrative, legal, fiscal, monetary and financial apparatuses of the state was much more significant for the bourgeoisie than the more dramatic changes in the system of political representation.

The reconstitution of the state was ultimately determined not by the political triumph of the bourgeoisie but by the transformation of the social relations of production. It was the social revolution that undermined the foundations of the power of the landed

¹⁴Colin Leys, 'Thatcherism and British Manufacturing', *New Left Review*, 151, 1985, is typical of many in regarding the absence of such a spontaneous unity as being a peculiar feature of British capital, rather than the normal condition of the capitalist class.

aristocracy and of the precapitalist state, and that provided a new framework for political integration on the basis of the national and international integration of the circulation of commodities and of money. The political struggles to which this social transformation gave rise could not be ignored by the state, but they confronted the state as constraints, not as determinants of its development. Thus it was not the political strength of the bourgeoisie that was decisive in the rise of the capitalist state, but the crisis of the state form. The political crisis required even those autocratic states in which the old aristocracy retained a monopoly of political power to develop new forms of revenue and authority, based on the new forms of social relations embodied in the rule of money.

This explains the apparent paradox that the outcome of the revolutionary movements was often a strengthening of the direct hold of the old aristocracy over the state apparatus, as they sought to preserve the vestiges of their social power and to compensate for its erosion by clinging to the state apparatus to preserve a social position whose foundations in civil society had been undermined. The condition under which such a constitutional compromise was possible was precisely the consolidation of the capitalist state form, marked by the subordination of state and society alike to the rule of law and of money, within the framework of an apparently archaic constitution. The residual powers of the landowning class depended increasingly on the persistence of precapitalist social relations and forms of authority in the countryside, the protection of agriculture preserving not only the power of the aristocracy, but also the subordination of the mass of the rural population. It was only with the generalisation of capitalist social relations of production that the transformation of the state form was complete. The political triumph of the bourgeoisie was not the initiator of this transformation, but was its culmination.

Although the bourgeoisie had contested the tyranny of the absolutist state, its democratic enthusiasm was limited, for the democratic constitution was a means of imposing a negative check on the state, a framework within which to exercise the power of money, not a means of exercising the power of the state. The working class had more radical objectives in seeking admission to the franchise. The attempts of the state to subordinate the working class to the money power of capital appeared to the working class in the first instance as a subversion of the disinterested rule of the state

by the power of property, leading the working class to confront legality with the demand for justice, the rule of money with the demand for the social and economic rights of labour, and to claim admission to the franchise as the means of securing recognition of its legitimate interests by subordinating the power of property to the power of the state.

So long as the state apparatus remained in the exclusive hands of the aristocracy of land and finance its constitutional stability was constantly threatened as democratic elements of the bourgeoisie and petit bourgeoisie allied themselves with the working class demand for democratic rights. Political stability depended on the development of a constitutional form adequate to the universalistic claims of the liberal state. The foundations of such a development were laid with the political assimilation of the bourgeoisie to the nation state. which was achieved in Europe through the French Revolution, the Napoleonic Reforms, and the British Reform Bill, culminating in the constitutional settlements that followed the wave of revolution and counter-revolution of 1848, and in the colonies through the wars of independence, extending from the American Revolution, through the Latin American Revolutions of the nineteenth century, to the anti-colonial movements that followed the Second World War. Its completion depended on the extension of the franchise to the working class. However the extension of the franchise depended on the ability of the state to confine the political aspirations of the working class within the constitutional limits of the liberal state form.

The limits of the liberal state form

The struggle for the vote was the last stage in the struggle of the bourgeoisie for emancipation from the autocratic state. However it was only the first stage in the struggle of the working class for its emancipation from property. The working class sought to use its organised strength and its constitutional rights as the means of asserting its social claims. The struggle of the working class was a struggle for *social* democracy, but its struggle focused inevitably on the state.

For political economy the adequacy of the liberal state form was ensured by the adequacy of money and the law as the means

of reconciling the particular interests of capital with the general interest of society through the rule of the market. However political economy failed to grasp the contradictory form of capitalist production that appears in the tendency to the overaccumulation of capital. The overaccumulation of capital appears in the constant pressure of competition through which capitalists are forced to hold down wages, intensify labour and replace living labour by machines, through which pre-capitalist social forms are destroyed, backward capitals displaced, and workers discarded, and which leads to the eruption of ever more violent crises through which production is confined within the limits of its capitalist form. The struggle of the working class brought to the fore the contradiction at the heart of the capitalist state between its class character and its universalistic claims.

The underlying contradiction of the capitalist mode of production does not appear immediately as such. It appears to individual capitals as profits are squeezed between the pressure of competition and the resistance of the working class. Capitalists seek to overcome the barrier of competition by the socialisation of production and the restructuring of capitalist property relations. The concentration and centralisation of capital led to the development of the limited liability company, in which capital is divorced from the person of the capitalist and becomes an independent social power; to the emergence of the giant corporation, within which production is not regulated by the market, but by forms of bureaucratic management and financial regulation; and to the centralisation of the banking system, through which the ownership of capital is socialised, and the accumulation of capital freed from the limits of the market. However the socialisation of capitalist production and of capitalist property still takes place within the social relations of capitalist production, and the development of social production remains subordinate to the expanded reproduction of capital. Far from dissolving the contradictions of the capitalist mode of production, the socialisation of production within the capitalist mode of production concentrates the autocratic power of capital and intensifies the crisis tendencies of capital accumulation.

The concentration of capital fosters the development of trades unionism as it brings workers together in larger units. Trades unions overcome the divisions between workers imposed by the rule of money and the individualism of the law to mobilise the collective

strength of the working class to resist capitalist attempts to force down wages and intensify labour in the face of increased competition, and to take advantage of favourable conditions to raise the wages of sections of the working class. Although trades unionism provides a basis on which workers can develop their subjective and organisational unity and formulate their democratic aspirations, the continued subordination of civil society to the rule of money and the law limits the ability of the working class to realise its aspirations through trades unionism, and reinforces divisions within the working class. In such circumstances the only social power that appears able to constitute the unity of society and to realise the democratic aspirations of the working class by bringing social production under democratic control is the state. As Marx noted, so long as the state appears to be the only institutionalised form of human social power, it continues to express, 'within the limits of its form as a particular kind of state, all social struggles'.¹⁵

The socialisation of production defines the objective conditions for the transcendence of the capitalist mode of production. The collective organisation of the working class provides the social force whose democratic aspirations can only be realised by abolishing the contradictory form of capitalist production. However the creation of a democratic form of social production can only be achieved by overcoming the alienated forms of capitalist economic and political domination. The emancipation of the working class can only be achieved through a social and political revolution that will overcome the separation of the state from civil society, to create a new form of society in which 'man' recognises and organises his own powers 'as *social* forces, and consequently no longer separates social power from himself in the shape of *political* power'.¹⁶

The response of the state to the working class challenge is not determined simply by the political character of the regime, but is inscribed in the contradictory character of the liberal form of the state. The state responds to the aspirations of the working class 'within the limits of its form as a particular kind of state'. The attempt of the working class to assert its democratic claims on the basis of its collective strength appears to the state not as a means of transcending the limits of its form, but as a challenge to its legal power and constitutional authority. The reproduction of the

¹⁵Marx and Engels, *Collected Works*, vol. 3, p. 143.

¹⁶*ibid.*, p. 168.

state requires that it respond to such a challenge not by abdicating its power but by reasserting its authority. However the state cannot simply resort to repression, without opening up the contradiction between the class character and the universalistic form of the state, and risking a revolutionary confrontation in which the state confronts the working class as the organised power of capital. The state has to resolve this contradiction by responding to the substantive aspirations of the working class, while attempting to confine the workers' pursuit of those aspirations within the limits of the constitution, through a judicious combination of concession and repression that aims above all to separate the workers' pursuit of their material aspirations from their assertion of their democratic claims by separating the industrial struggles of the working class, on the basis of its collective strength, from its political struggles, on the basis of the constitutional forms provided for it, thereby undermining the emerging unity of the working class and subordinating it to the substantive power of capital, on the one hand, and securing the purely formal character of democracy, on the other.

The separation of the state from civil society, and the subordination of social production to the reproduction of capital, immediately implies that the ability of the state to respond to the material aspirations of the working class is confined, directly or indirectly, within the limits of capital, for the reproduction of the capitalist state ultimately presupposes the reproduction of capital, and the state eventually confronts barriers to the expanded reproduction of capital as barriers to its own reproduction. Thus the state sponsored the development of new social institutions through which it could respond to the material aspirations of the working class while reinforcing the social reproduction of the working class in its subordination to the money power of capital and the constitutional authority of the state.

The working class and the state

The development of capitalism involved the transition from the patriarchal relations of dependence of pre-capitalist society to the monetary relations of subordination characteristic of the capitalist mode of production. However the working class constantly resisted its subordination to the power of money. In the early stages

of capitalist development such resistance took the form of sporadic outbursts of civil disorder, which could escalate into localised insurrection in periods of acute distress. Although such unrest might put the limited resources of the state under serious pressure, it could normally be contained by the provision of poor relief, the protection of hard-pressed branches of production, particularly agriculture, and by military and police repression.

The growth of an organised working class movement presented a more permanent challenge to the state. On the one hand, the collective organisation of the working class undermined the residual ties of authoritarian paternalism. On the other hand, it proved a more pervasive and insidious threat to the power of capital and the authority of the state. Capital responded to the challenge by developing new forms of hierarchical organisation of the labour process, which offered higher pay and status to the better organised skilled workers, by developing incentive payment systems, that tied pay more closely to the profitability of the enterprise, and by accommodating trades unions within new systems of 'industrial relations'. However such an accommodation was a double-edged weapon. While it enabled the better-placed employers to stabilise their labour relations, it also enabled the trades unions to consolidate their organisation, to provide a base from which to resist attempts by employers to erode their gains when the pressure of over-accumulation put profitability at risk, and to build a wider class unity to pursue not only the sectional aims of particular groups of workers, but the democratic aspirations of the working class as a whole.

While the state could meet the challenge of civil disorder with a combination of repression and relief, it had to respond to the political challenge of the organised working class by making more fundamental concessions through which it could accommodate the working class within the constitution. These concessions involved the rigorous separation of the legitimate exercise of the collective strength of the working class within the industrial sphere, on the one hand, from its pursuit of its democratic social aspirations in the political sphere, on the other. The former concern led the state to recognise the legal rights of trades unions and to sponsor the generalisation of 'industrial relations', which provided a constitutional channel through which the working class could pursue its unavoidably class-based trades union aspirations, while reinforcing

sectional divisions and reproducing the subordination of the working class to the wage form. The latter concern led the state to develop institutions through which it could respond to the wider material aspirations of the working class, within the limits of the liberal state form, through the socialisation of the reproduction of the working class, the reinforcement of family dependence, and the more active involvement of the state in the regulation of the wage relation. 'Social reform' involved the development of a system of 'social administration' which categorised and fragmented the working class in the attempt to confine it within the limits of the forms of the wage and the family, while providing education, housing, health and welfare benefits.

Industrial relations and social administration responded to the material aspirations of the working class, but the price the working class paid for such material concessions was the more rigorous and systematic subordination of its social reproduction to the demands of capital, and the fragmentation of working class unity through sectional trades unionism and the differentiated forms of social administration. The working class could not turn its back on these institutions, for they were the only means through which individual workers could secure their physical and social reproduction. Nevertheless the working class constantly sought to transcend these forms. Workers individually and collectively resisted the intrusive, degrading, humiliating and often overtly repressive administration of social reform, and demanded the more liberal and generous dispensation of relief. They refused to confine their aspirations within the limits of capital imposed through the system of industrial relations. Women resisted their subordination within the form of the family, struggling not only against men, who were the immediate source of their oppression, but also against the state, whose social policies played an increasing role in reproducing and reinforcing that subordination. Through such industrial and social struggles the working class constantly sought to break through the attempts of capital and the state to confine its aspirations within the limits of the systems of industrial relations and social administration, overcoming the divisions imposed on the working class by such forms, to develop an emerging political unity. Thus the generalisation of industrial relations and the development of a system of social administration did not contain the class struggle, but gave it new dimensions and new forms.

The political agitation of the working class resulted from the inability of capital and the state to meet its social aspirations through the alienated forms of the wage and social welfare. So long as the state restricted the franchise workers would continue to pursue their social aspirations by mobilising politically on the basis of their collective strength, and so would present a permanent threat to the constitutional stability of the state, which could only be met by generalised repression, undermining the legitimacy of the state by bringing to the fore the contradiction between its class character and its democratic claims, and threatening to escalate into a revolutionary confrontation.

The extension of the franchise did not in itself threaten the power of capital, for the power of capital was not embodied in its privileged access to state power, but in the liberal form of the state. However the extension of the franchise would provide constitutional channels through which the working class could consolidate the power of trades unions by an extension of their legal rights, improve their conditions by protective and minimum wage legislation, and secure more generous welfare provision, without regard to the profitability of capital or the financial resources at the disposal of the state. The fear of the bourgeoisie was that such working class aspirations would be fuelled by populist politicians, who would seek election on the basis of grandiose promises, which could only be fulfilled by raising taxation or through the inflationary expansion of credit. It was the fear of such populist inflationism (articulated by the currency reformers in Britain, by the Proudhonists in France, and, to more effect, by agrarian populism in the United States), as much as of the direct challenge to the sanctity of property, that lay behind the caution with which even the most democratic of liberals approached the question of the franchise.

The foundations for the political stabilisation of the liberal state form on the basis of the admission of the working class to the franchise were laid by the accommodation of the trades unions to the wage form within the emerging system of industrial relations, the accommodation of the working class within the system of social administration through the sufficiently generous provision of relief, and the political incorporation of the various fractions of the petty bourgeoisie as a counterweight to the electoral strength of the working class.

The material conditions for the accommodation of the working class in the more advanced centres of accumulation were laid by the growth of productivity associated with the generalisation of more advanced methods of production in the second half of the nineteenth century, particularly in agriculture and transport, that reconciled rising real wages with the profitability of capital, relieved the pressure on the system of poor relief by absorbing the surplus population, and that expanded the financial resources at the disposal of the state.

The political counterweight to the working class was provided by the old middle class of petty producers and the new middle class of professional, scientific and administrative workers. In mainland Britain the political weight of petty producers had been much reduced by the extinction of the peasantry and the destruction of the dominant branches of domestic industry. Elsewhere the incorporation of the petty producers, threatened with extinction by capitalist competition, was achieved by the gradual transition from pre-capitalist forms of paternalistic dependence to modern forms of political patronage on the basis of the selective protection of the affected branches of production, particularly agriculture, from the full force of competition. The cost paid by capital for such concessions was that they tended to inflate wages by inflating the price of the means of subsistence, while they also bolstered the political privileges of backward landed and commercial capitalists by protecting the sources of their revenues and the basis of their social power, but this was a small price to pay for securing the stabilisation of the liberal state form.

The generalisation of capitalist production destroyed the old middle class, but at the same time the concentration and centralisation of capital, the separation of mental from manual labour, the growth of private and public bureaucracies, and the expansion of social administration provided the basis for the rapid growth of a new middle class which owed its position not so much to its ownership of its requisite means of production, as to its educational and professional qualifications and expertise. Its privileged income and status derived in part from its position of authority within bureaucratic hierarchies, but it preserved its privileges by restricting access to the appropriate educational and professional institutions through which it bestowed qualifications on itself, in the name not of sectional trades unionism, but of intellectual and professional

standards which it alone was competent to adjudicate.

The increasing routinisation of bureaucratic tasks, the development of a division of intellectual labour, and the expansion of public education threatened to erode the privileges of the professional middle class. Its ability to resist such an erosion by maintaining restricted access to advanced education, and by securing legal endorsement for professional qualifications, was determined in part by the fact that the state apparatus and the education system was itself staffed by elements of that class, but was primarily determined by its significance as a social and political counterweight to the advance of the working class.

The progressive extension of the franchise assimilated the working class to the constitution by providing a form through which workers could pursue their aspirations not as workers but as individual citizens. The individuality of workers as citizens was defined by their differentiated interests as particular categories of worker, as consumers, as taxpayers, as consumers of public services and as recipients of welfare benefits. Thus the extension of the franchise provided the form through which the state could foster the political recomposition of the working class on the basis of such differentiated interests, within the context of the political unity not of the class but of the nation. The democratic franchise correspondingly legitimated the repression of attempts of workers to pursue their aims outside the legal and constitutional framework of the liberal state form by all the means at the disposal of the state. Thus the extension of the franchise completed the development of the institutional forms through which the working class was assimilated to the wage relation and the liberal state form, institutionalising the dual strategy of repression and concession in the constitutional form of the liberal democratic state. It is essentially these institutions, whose developed forms were systematically rationalised in the 'welfare state', that have defined the continuing relationship between the state and the working class.

Although the class struggle has developed through the institutional forms of industrial relations, social administration and electoral representation, it has never been confined within those forms. The political stabilisation of the liberal state form can only ever be provisional, for the crisis-ridden tendency of capital accumulation constantly creates new barriers to the attempts of workers to secure their physical and social reproduction and to realise their

democratic aspirations, and imposes new limits on the ability of the capital and the state to respond to the workers' aspirations within the institutional forms through which they seek to accommodate the working class to the reproduction of capitalist domination. Thus the class struggle constantly overflows the institutional forms provided for it. The development of the capitalist state form is correspondingly not determined by the unfolding of historical laws, nor by the functional adaptation of the state to the 'needs' of capital, but by the development of the class struggle, which is not simply a struggle for state power, nor a struggle between the organised working class and the power of the state, but a struggle over the form of the state, conducted in and against the differentiated institutional forms of capitalist domination.

The institutional forms of industrial relations, social administration and the democratic franchise were the means by which the state sought to decompose the emerging organisational unity of the working class in order to recompose the working class politically. However these forms did nothing to counter the underlying cause of the class struggle that lies in the contradictory form of capitalist production. While the sustained accumulation of capital increased the mass of surplus value which enabled capital to meet demands for rising real wages, and which provided rising revenues to finance the growth of public expenditure, the state could respond to the demands of the working class within the limits of its form. However, as the overaccumulation of capital led to the devaluation of capital, intensified industrial conflict, the destruction of productive capacity, the redundancy of labour and the pauperisation of a growing mass of the population, the demands made on the state increased, while the resources at its disposal contracted. The political forms of industrial relations and social administration institutionalised working class expectations of stable wages and a minimum level of subsistence, while electoral representation provided the means by which the working class could impose such expectations on the state. The stability of the state was therefore increasingly dependent on its ability to ameliorate the impact of the overaccumulation of capital by intervening more actively in the regulation of accumulation. Such intervention was not simply an 'economic', but also a deeply political matter, as the state sought to respond to the economic and political impact of overaccumulation to secure its economic, political and ideological reproduction,

within the limits of its contradictory form as a class state but also as a national state.

Overaccumulation, class struggle and the nation state

The tendency to overaccumulation is a global phenomenon, as capital tries to overcome the barrier of the limited domestic market by seeking out markets on a global scale. However the capitalist state is constituted on a national basis. The concern of the state is not with the global accumulation of capital, but with securing the accumulation of domestic productive capital at a pace sufficient to absorb the surplus population, provide stable or rising wages, and growing public revenues.¹⁷ With the rise of social reform and the extension of the franchise the state became increasingly concerned with the issue of 'national efficiency', which involved the creation of a healthy, educated and enterprising labour force, the development of systems of industrial finance, the fiscal encouragement of investment, the promotion of scientific research, and a range of infrastructural investments. However the intervention of the nation state in promoting the accumulation of domestic productive capital only reinforced the tendencies to the global overaccumulation of capital, while it gave the resulting class and competitive struggles an increasingly political form.

The pressure of overaccumulation appears in the form of pressure on profits, intensified industrial conflict, pressure on the banks and financial markets, and rising unemployment, initially in particular branches of production, but as the crisis grows the pressure extends to all branches of production. As trades unions come into conflict with the repressive power of the courts and the police,

¹⁷The concept of domestic productive capital, which refers to the geographical location of productive labour, is quite different from that of the 'national capital', which is usually used to refer to the portion of global capital in national ownership. The nationality of ownership is itself an ambiguous concept. The term might refer to the very different concepts of the nationality or domicile of individual owners, or to the nationality or domicile of corporate bodies. This ambiguity in itself should be sufficient to indicate the error of attempting to use the concept of 'national capital' to explain the relationship between capital and the state, an approach that suppresses the *contradictory* character of the relation between global capital and the nation state.

and the unemployed come into conflict with the repressive forms of poor relief, the class struggle takes on a directly political form and threatens to overflow the constitutional channels provided for it. At the same time the scope for material concessions is narrowed as profits are squeezed and as the state faces a fiscal crisis, as revenues fall while expenditure rises; a financial crisis, as the state has difficulty funding its debt on hard-pressed financial markets; and a monetary crisis, in the face of speculation against the currency and a drain on the reserves.

The orthodox response in the face of such a crisis was for the state to pursue deflationary monetary policies to restore financial and monetary stability and to confine accumulation within the limits of the market. This was the course advocated by political economy, and generally adopted in Europe in the middle decades of the nineteenth century, when crises tended to be short and sharp, and recovery relatively rapid, while working class resistance tended to be localised and sporadic. However exclusive reliance on such a deflationary response became politically untenable in the more severe global crises of overaccumulation after 1870, and as the organisational and institutional basis of working class resistance, in and against the state, became more developed. Thus the state had to develop new forms of intervention in the attempt to reduce the domestic impact of the crisis. However the possibilities of intervention available to the state were constrained by the economic pressures to which it was subject and by the political struggles to which such intervention might give rise.

The obvious alternative to deflationary policies was for the state to adopt expansionary monetary and fiscal policies in response to the clamour for relief. The state can relieve the domestic impact of the crisis at a stroke by using its monetary powers to stimulate the expansion of credit. Credit expansion eases the pressure on the banks and financial markets, enabling the state to meet its financial needs and cover its spending, and relieving the pressure on capitals. However, unless capitals take advantage of such an expansionary environment to transform methods of production to improve their international competitive position, the expansion of credit will stimulate inflation, and lead to a deterioration in the balance of trade. Inflation threatens to provoke domestic industrial and political conflict, as it erodes wages and devalues rentier capital, and to provoke speculation against the currency. The limits to

the ability of the state to resolve the crisis by such expansionary means appear in the form of the political conflicts unleashed by escalating inflation, on the one hand, and the financial pressures of a deteriorating external position, on the other.

Although inflationism presented a grave threat to property, and to the financial and political stability of the state, its immediate benefits made it very attractive to opportunistic politicians, an attraction that was considerably increased with the extension of the franchise and the beginnings of social reform. It was this fear that had led to the general adoption of the gold standard and the doctrine of the balanced budget as constitutional guarantees by the leading capitalist powers in the last quarter of the nineteenth century.

The principles of the balanced budget and the gold standard meant that the limit to expansionary policies was set at the national level by the gold reserves, and globally by the supply of gold. The possibility of overcoming these limits appeared to lie in the possibility of overcoming the barrier of the limited supply and commodity form of world money. This possibility was expressed in the nineteenth century by bimetallism, which proposed to add silver to gold as a form of world money. However the association of bimetallism with popular inflationism, and the reluctance of the world's financial centres to see their monopoly of gold undermined, kept bimetallism in check. The rise of sterling as a world currency, based on its guaranteed convertibility into gold that was underpinned by the financial strength of the City of London, provided a more flexible basis for the growth of world liquidity and the internationalisation of money capital, while keeping control of the world monetary system in 'responsible hands'. The internationalisation of credit money with the rise of the gold-exchange standard made it possible to ease domestic and international political tensions by sustaining the increasingly inflationary world boom that led up to the First World War.

The stability of the currency, the constitutional principles of the gold standard and the balanced budget, and political opposition to inflationism limited the scope for expansionary solutions to the crisis. However the state could relieve the domestic impact of a global crisis by intervening directly to relieve domestic productive capital from the pressure of foreign competition by protective tariffs, industrial subsidies and imperialism. However such mercantilist

policies would relieve the pressure by favouring particular capitals at the expense of others at home and abroad, and so threaten to politicise domestic and international competition, the latter inviting foreign retaliation which could easily escalate into diplomatic, political and military confrontation. Thus the attempt to resolve the contradiction between the class character and democratic form of the state, in the face of an intensification of the domestic class struggle, by mobilising the power of the state in support of domestic productive capital at the expense of foreign competitors, merely opens up the contradiction between the global character of accumulation and the national form of the state.

Despite the dangers of provoking retaliation, protectionism and imperialism could immediately ease the domestic impact of a global overaccumulation crisis, foster the nationalist identification of the working class with the state, and create the space within which capital and the state could make the concessions required to recompose the working class politically. In the face of a growing political challenge from the working class, within and outside the constitution, the appeal of such a strategy to politicians, and to capitalists facing extinction, could prove irresistible. Once adopted, however, such policies tended to acquire their own momentum. Nationalist and imperialist sentiments, once unleashed, were powerful ideological forces, and militarism promised enormous profits for the relevant branches of production, to say nothing of its attraction to the military. Thus the rise of protectionism and imperialism from the late 1870s, and again in the 1930s, created the tensions that culminated in the First and Second World Wars.

Protectionism not only threatens to unleash the forces of nationalism and militarism, it also disrupts the integration of domestic accumulation by disrupting the relationship between the various branches of production. Thus protectionism has generally been associated with the increasingly direct intervention of the state in the regulation of accumulation. Such direct intervention, to replace the market by the state-sponsored rationalisation and monopolisation of production, and the coordinated planning of production and investment, is the most obvious means of overcoming the tendency to overaccumulation since it gets to the root of the problem, freeing the development of social production from the limits of its capitalist form. However direct intervention also raises the question of the form of the state.

The direct involvement of the state in production oversteps the boundaries between the state and civil society, integrating the power of capital and the power of the state, as the state exercises its power in support of particular capitals, raising the questions of the neutrality of the state and the democratic accountability of capital, and setting precedents for future intervention. The integration of capital and the state threatens to integrate the social and political struggles of the working class, as trades unionism brings workers directly into conflict with the state, while the political advance of the working class holds out the possibility of its bringing social production under democratic control. The possibility of direct intervention, and the forms that such intervention takes, is therefore constrained by the balance of class forces and by the latitude available for capital and the state to make concessions to the working class sufficient to contain the class struggle within the capitalist state form.

Where overaccumulation arises in branches of production protected from foreign competition it tends to take the form of chronic and persistent surplus capacity, which can be eliminated by the monopolisation and rationalisation of production, while the freedom to control prices enables such monopolies to make substantive concessions to the workers in order to contain the class struggle. This was generally the course adopted at an early stage in the development of gas, water and electricity supply, the posts and the telegraph, and in the domestic transport system. Economists provided the theory of 'public services' and 'public utilities' that could explain the exceptional character of such industries and so serve as an ideological barrier to using them as a precedent for the generalisation of public ownership. Overaccumulation in domestic agriculture was similarly combated by price support schemes or by cooperative marketing arrangements, reinforced by subsidies or tariff protection.

Political considerations have meant that state-sponsored monopolisation has usually been associated with public regulation, or public ownership, to prevent particular capitals from exercising their monopoly powers against other capitals, and with a degree of responsiveness and accountability of management not only to the political priorities of the state, but also to the aspirations of the workforce for stable employment and improved working conditions, if not always for reasonable wages, particularly if public

employment was tacitly used as a means of absorbing the surplus population and as an instrument of political patronage. The state has attempted to reconcile its direct intervention in production with its liberal form by distancing such intervention from the political sphere, reproducing the separation of the state from civil society within the state apparatus, typically in the form of the public corporation and of the tripartite representation of the interests of trades unions, capitalists and the state on consultative and regulatory bodies.

Where overaccumulation arises in branches of production that face foreign competition in domestic or world markets, competitive pressure imposes more severe constraints on the intervention of the state in the rationalisation of production, in particular reducing the scope for concessions to the working class to accommodate the workforce to the intensification of labour and the displacement of living labour by machines required to strengthen international competitiveness. Where the branches of production in question command the world market surplus profits can provide the scope for such concessions. However in the face of growing competitive pressure the contradictions of state intervention come to the fore as the industrial struggle is increasingly politicised, threatening not only the class character but also the liberal form of the capitalist state. It is such political fears, as much as concern for the interests of capitalists, that have made politicians reluctant to intervene directly in production. Where such intervention is already established the state has tended to respond to the political pressures created by a crisis of overaccumulation alternatively by withdrawing from the sphere of production by 'privatising' public monopolies and submitting them to the tender mercies of the market, or by relieving the pressure of competition by adopting mercantilist policies, at the cost of raising taxation and domestic prices and increasing international tensions. Thus the direct intervention of the state in production has reinforced tendencies to economic nationalism, protectionism and imperialism.

The forms of intervention of the state in the regulation of accumulation have not been determined simply by the needs of capital, nor by the need to subordinate capital to the growth of production, but by the attempt of the state to resolve the contradiction between the tendency for capital to expand the forces of production without limit and its need to confine the growth of production within the

limits of its capitalist form. This contradiction does not appear to the state immediately, but is mediated politically, appearing in the attempt of the state to overcome the contradiction inherent in its form, as both a class and a national state.

Before the First World War the direct intervention of the state in production was largely confined to the public utilities, although parts of the German coal and steel industries were in public ownership, despite capitalist pressure to privatise the industries. With the outbreak of war the capitalist form of production presented an increasing barrier to the war effort. However the state regulation of international trade in wartime protected capital from foreign competition, while popular nationalism secured the political integration of the working class, and the demands of the military provided unlimited outlets for the products of capital, creating conditions under which the state could take direct control over capitalist production without immediately politicising the class struggle. However resistance to the war grew and increasingly assumed a class character, particularly in the autocratic European states, the interventionist apparatus providing a basis on which the social and political struggles of the working class were fused in the struggle for state power. Although only the Russian Revolution survived the counter-revolutionary offensive, revolutionary and insurrectionary movements, based on the strength of the organised working class, spread throughout the capitalist world. The immediate revolutionary threat was met with repression, while the state accommodated the immediate aspirations of the working class with inflationism, which generated new conflicts in its turn.

The political conflicts unleashed by the wartime intervention in production and post-war inflation reinforced the orthodox commitment to monetary stability embodied in the gold standard, and to the rule of the market in the regulation of accumulation. However the lesson drawn by both capital and the state from the experience was of the urgent need to remove the barriers to the global accumulation of capital, the disruption of which had intensified both class and national conflict. These barriers had appeared most dramatically in the monetary crises that had forced national governments to adopt deflationary policies or to resort to protection in order to defend the currency, which then reverberated through the world in a deflationary or a protectionist spiral. These barriers could be removed by rebuilding the international monetary system

that would provide the international liquidity required to finance imbalances of international payments and so permit national governments to dismantle the apparatus of wartime intervention and sustain accumulation by expansionary policies within the framework of the restored gold standard. The construction of the gold-exchange standard was therefore the cornerstone of the attempt to reconstitute the liberal state form in the aftermath of war and revolution.

The gold-exchange standard indeed led to an enormous growth in international liquidity. However the expansion of credit stimulated the renewed overaccumulation of capital and an increasingly inflationary boom, that culminated in the crash of 1929. Meanwhile the gold-exchange standard had not overcome the contradiction between the global character of accumulation and the national form of the state. Despite the growth of international credit, national currencies still came under pressure in the face of a drain on the reserves and speculation against the currency, while an overstrong currency threatened to generate inflationary pressures. Rather than allow free reign to the destabilising forces of the specie-flow mechanism, national governments were tempted to manipulate exchange rates and interest rates and to sterilise reserves in pursuit of national policy aims, weakening the gold-exchange standard, which finally collapsed in 1931.

The collapse of the international financial system reinforced the recession that had followed the 1929 crash. The contraction of credit led to a deflationary spiral that plunged the world into acute depression and led to a resurgence of protectionism and militarism, which culminated in the Second World War.

The Second World War merely reinforced the lessons of the First, and the priorities of post-war reconstruction were very similar. The inter-war failure of liberalisation was attributed to the failure to address the political issue of nationalism and imperialism, to the failure sufficiently to liberalise trade, and above all to the weakness of the gold-exchange standard. The reconstruction of the international monetary system on a more secure foundation was seen from an early stage in the war as the key to post-war reconstruction. The immediate post-war political challenge of the working class was accommodated variously by inflationism and by political concessions, but the political and economic priority was to reconstruct a liberal world order in which the growth of international

credit would allow national governments to pursue expansionary policies by accommodating imbalances of international payments. Sustained accumulation would in turn permit the liberalisation of trade, that would undermine economic nationalism, and the rising wages, high levels of employment, and improved standards of welfare provision that would secure the political incorporation of the working class. The prime architect of the reconstructed international monetary system was Keynes. The expansionary strategies that the system permitted became known as 'Keynesian', and the institutional form of the liberal state associated with such strategies was commonly referred to as the 'Keynesian Welfare State'. It remained to be seen whether Keynes's plans would at last allow capital to overcome the tendencies to overaccumulation and allow the state to overcome the limits of its class character and its national form, or whether Keynesianism would prove to be merely a recipe for global inflationism, as the expansion of credit stimulated the increasingly inflationary overaccumulation of capital on a world scale.

Economics, politics and the ideology of the state

The increasing intervention of the state in civil society raised not only political, but also ideological questions. The legitimacy of the liberal democratic state depends only in the last instance on its formal claims to a monopoly of political authority and legitimate violence. Its everyday legitimacy rests on the more solid basis of its substantive claim to exercise its powers in the general interest. The class character of the state means that such claims are necessarily ideological, but the ideology of the state is a powerful political force in confining politics within the limits of the constitution. Moreover the ideology of the state gives coherence to the diverse policies and institutions through which the state accommodates the pressures to which it is subject. The ideology of the state consequently has its own momentum. Once adopted, a particular ideology serves in its turn as a constraint on the activities of the state as the latter seeks to secure not only its material and political, but also its ideological reproduction. As we have seen in the case of mercantilism, the state may cling to the dominant ideology long past the

point at which the balance of social and political forces that it articulates has dissolved, testing it to destruction and beyond. As the economic and political pressures on the state mount, and an outmoded ideology becomes a barrier to the reproduction of the state, the political crisis of the state gives rise to an ideological crisis, at which point the state seeks out a new ideology to articulate and legitimate policies and institutions dictated by new social and political circumstances.

Political economy had legitimated a regime of *laissez faire*. This by no means implied the passivity of the state, but rather the subordination of all particular interests to the anonymous rule of money and the law. Such subordination required the systematic rationalisation of the state apparatus and the centralisation of political power rigorously to enforce the rule of money and the law. In practice political expediency dictated the increasingly extensive intervention of the state in substantive matters. However political economy could accommodate such interventions ideologically as exceptions to its that were necessary not because of the failures of money and the law, but because of human ignorance and moral weakness that subverted their operation.

Political economy had established its ideological dominance in Britain by the middle of the nineteenth century, as liberalism bore fruit in the mid-Victorian boom. Elsewhere the truths of political economy continued to face resistance from romantic conservatism, that sought to preserve pre-capitalist patriarchal relations; populist inflationism, that defended petty producers from the money power of capital; positivistic socialism, that saw the state enforcing the rule not of money and the law but of science and technology; and nationalistic protectionism, that saw the nation state as a mercantilist weapon in pursuit of national prosperity. The continued social power of the landed class, the strength of the petty bourgeoisie, and the persistence of mercantilist industrial and commercial policies in the face of the global penetration of British capital were the social and political forces behind such ideologies. However the rapid generalisation of capitalist production, associated particularly with the expansion of the railways, brought liberalism to the fore from the 1840s, although nowhere did it establish a dominance to match that achieved in Britain.

By the 1870s political economy had been reduced to a set of dogmas that had little bearing on the substantive political issues

of the day. While the doctrines of the gold standard and the balanced budget were hardly challenged, the rise of social reform and the recognition of trades unionism undermined political economy's analytical foundations, while protectionism in Europe undermined the dogma of free trade. The extension of the franchise, the beginnings of social reform, and the rise of protectionism and imperialism called for new ideologies to articulate and legitimate the competing interventionist strategies at the disposal of the state, the new ideologies often drawing on older traditions. However the growing challenge of socialism made it imperative, both politically and ideologically, that the state set limits to such intervention. These limits were articulated ideologically by the new economics that emerged from the marginalist revolution.

Marginalist economics rejected the dogmatism of political economy, but it did not overturn the latter's theoretical foundations, and reinforced the orthodox commitment to the principles of the gold standard and the balanced budget. The fate of the new economics was therefore intimately associated with the fate of the attempt to overcome the contradictory tendencies of accumulation by the liberalisation of the international trade and monetary systems after the First World War. The crash of 1929, and the ensuing depression, undermined this liberal strategy, and led to the rise of corporatist alternatives, in the form of the state capitalism of fascism and the state socialism of communism, which presented not only a political, but also an ideological challenge to liberalism. The liberal response to this challenge was Keynesianism, which proposed to overcome the limits of orthodoxy by abandoning its most cherished principles. The gold standard would be replaced by a managed system of international money and credit, and the balanced budget by discretionary fiscal policy, the new Keynesian principles reconciling the sustained accumulation of domestic productive capital with the sustained accumulation of capital on a global scale on the basis of rising mass consumption and the growth of international credit.

Although the state has developed in different countries on the basis of historically different class structures and different political and ideological traditions, its historical development has increasingly been dominated by the uneven impact of the tendency to the overaccumulation and uneven development of capital on a world scale. In the following chapters I intend to trace in more detail

the development of the capitalist state form, culminating in an examination of the political and ideological crisis of the Keynesian welfare state, by concentrating on the British example. However the aim is to draw out the issues of general comparative and theoretical significance by abstracting from the contingent elements in the British experience that derive from idiosyncratic elements of British historical traditions and class configurations, the personalities of particular politicians, or the contingency of political privilege and political influence. Such factors are important for a full explanation of the strategies adopted by the British state, but are a distraction from the purpose of the present study which is concerned above all by the constraints imposed on such strategies by the contradictory form of capital accumulation and the contradictory form of the liberal state.