

## THE STATE AND THE ECONOMY: SOME THEORETICAL PROBLEMS

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The relation between the state and the economy is the central issue for all who try to understand the upheavals of the past decade and a half.<sup>1</sup> Even the most academic economic theorist, building mathematical models on monetarist assumptions, has it as a central problem (at least implicitly). Marxists address the problem without Marx himself having formulated a concept of the relation. His writings on the capitalist economy and on the state are, on the whole, separate. In *Capital* and *Theories of Surplus Value* we have the basic elements of the economy and economic ideologies but the references to the role of the state, however suggestive, do not constitute a concept of the state—a political economy in the strong sense. And writings such as *The Eighteenth Brumaire* which take the state as their object say almost nothing directly about the economy.

Thus Marx did not develop an analysis of the relationship, in either direction, between the state and the economy. On the one hand, he did not present a developed theory of the manner in which capital accumulation affects the form of the state. Instead, in key passages he established a general framework for treating the issue in terms of a relation between the superstructure and an ultimately determinant base, but the enigmatic nature of these passages has stimulated a modern controversy which has revealed precisely that because the concept of that relation is undeveloped it is far from robust.<sup>2</sup> On the other hand, Marx also did not give an adequate analysis of the manner in which the capitalist state regulates, intervenes in, or is integrally involved in the economy. Instead, his study of the Factory Acts and the 1844 Bank Charter Act and his comments on state employees within the productive/unproductive labour taxonomy, are isolated passages which do not yield a general concept to the reader. In consequence, when the present generation of Marxist theorists face up to contemporary problems like the nature of corporatism, the development and contradictions of the welfare state, the nature of Keynesianism and Monetarism, or the state's role in production, in the reproduction of the labour force, and in the control of credit, they have no well-developed concepts from which to start.

The past decade has witnessed a burgeoning of books, articles, conferences and debates on the problem that Marx had left for later work, the interconnections between the state and capital accumulation. The

contributions can be classified into two main groups: those such as Altwater and Yaffe<sup>3</sup> who argue that it is possible to derive the concept of the capitalist state and its relation to the economy in terms of the functions that it 'has to' perform for capital, and those such as Holloway and Picciotto who adopt a less functionalist approach. The latter argue that contradictions in state policy are associated with the fact that the capitalist state has to act in a context of class struggle where capital accumulation is predicated upon victories in the struggle rather than being an automaton which simply sweeps all before it. All this work has held out an exciting prospect for, since it could not utilise well-developed Marxian concepts, it had to develop such concepts anew. This was a refreshing contrast with much work in other areas which was content merely to repeat the basic concepts handed down by Marx. Unfortunately, however, the enterprise has so far been a failure. In this paper I explain this conclusion and discuss the directions that should be taken to overcome the problem.<sup>4</sup>

I am going to focus on one aspect of Marxist work on the state/economy relation: the area sometimes known as The Political Economy of the Welfare State. A book of that title by Ian Gough and two other recent books, by Norman Ginsburg and CSE State Group respectively,<sup>5</sup> are representative of the state of thinking on the subject and I shall use them to illustrate my argument. Concentrating on the political economy of the welfare state rather than other aspects of the relation between the state and economy does, moreover, correspond to developments in the real world; current political and economic policy force the state-run welfare system (rather than, say, industrial policy) to the forefront crystallising the difficulties that relations between the state and the economy experience. Expenditure cuts, monetarism and the changes in the welfare state with which they are associated are subjects that even non-Marxists would expect Marxist theory to be able to analyse better than orthodox economics or political science if for no other reason than that Marxism is not confined by narrow disciplinary boundaries.

It is indeed, the case that it has yielded some valuable insights and has established a groundwork on which more fruitful theories may be developed. But the theory has failed in two senses, first, it provides no basis for a socialist policy toward the welfare state; the 'anti-cuts campaigns' that have developed have been weak and in the absence of an alternative policy, have achieved their limited successes only in particular fights for particular services (a local hospital, for example) and those successes themselves are rare enough. Second, the theory has failed in an epistemological sense. Each writer has attempted to overcome the polarisation between theories of structure and theories of action, but the attempt is abortive. Action theories of society base their explanations upon the activities of distinct subjects, individuals, interest groups or

classes acting in pursuit of definite objectives. A Marxian variant of action theory would be an explanation of the welfare state which relies upon the consciously organised struggles of the working class and bourgeois class in its creation; with each conceived as a 'class for itself' the proletariat has demands and the bourgeoisie has needs, and these have come together in particular ways to produce the welfare state. Structure theories, on the other hand, explain social phenomena such as the welfare state by the anonymous forces of the social system without reference to the conscious actions of classes or other agents. Such theories rely upon a specification of the functions that the welfare state performs for the cohesion and reproduction of the capitalist system without considering the agency through which the welfare state is established; class conflict is admitted as part of the capitalist system but it is the needs of the system itself rather than the conscious actions of classes that bring about social changes like the establishment of the welfare state. The action/structure dichotomy has marked orthodox work in all the social sciences, and Marxist theory claims to overcome it. The recent Marxist work on the state and the economy, however, fails to do so.

This failure is related to the wider methodological confusion current in Marxist theory just as the first failure is related to the confusion in socialist policy. I shall return to these themes later in the article. First, I lay the groundwork by focussing on two questions. How have Marxist theories of the welfare state's political economy explained its existence and its development over recent decades? And how do they analyse the attacks on it that have become qualitatively of a new order since 1976?

### *Explaining the Existence of the Welfare State*

In writing of the welfare state, it is common to be less than precise about the definition of the object. I shall not attempt to depart from that tradition, but assume that in Britain we are broadly concerned with the non-marketed services provided to individuals by institutions of the state since World War II. They include services produced by the state such as education, social work and health care and also redistribution of income through mechanisms like pensions and supplementary benefits. They did not arise from nowhere after the war, but the post-war government did systematise the state, charitable, and friendly-society provision of such services that had existed, thereby creating the coherent whole that we understand as the welfare state. In explaining it Marxists have to answer two distinct questions: why have such services been expanded, systematised and entrenched since the war, and why have they been provided through the state rather than the private sector. The answers that Marxist theory so far provides for the first question are now commonplace but, nevertheless, problematic; the second question, however, is virtually unanswered.

Let us start with the first question. Why has British capitalism since the

war seen an expansion of education, health and other welfare services and rises in pensions and other forms of income which do not directly derive from employment? Why, to use Gough's phrase, has there been such expansion in these areas which 'modify the reproduction of labour power and... maintain the non-working population'? The answers from Marxist writers are of two kinds: welfare services have expanded because they satisfy the needs of capital or because labour has demanded them. Contemporary writers put forward both explanations as complementary, but there are differences in emphasis. The CSE state group and Ginsburg argue that ultimately the welfare system in Britain has been shaped by the needs of capital. The books of each start with theoretical introductory chapters relating the growth of the welfare state to the two-sided class conflict that accompanies the accumulation of capital. But their main chapters are concerned with the specific historical analysis of particular aspects of the welfare state's expenditure and in each case those analyses virtually reduce the explanations to an argument that the system grew, and grew in particular ways, because it accorded with the needs of one side in the class conflict, the needs of capital. In Ginsburg's analysis of the development of British housing and social security systems, for example, he argues that 'the working class through the organs of the trade union movement and the Labour Party has exerted very little "real" as opposed to "formal" control over the shape of welfare policy'. Gough, by contrast, takes as his recurrent theme the interaction of both sides of class struggle, capital's needs and labour's demands. His book is a wide ranging survey of concrete developments in the welfare state and of relevant aspects in Marxist economic theory and political theory. In it sentences such as the following play a central role: there are 'two factors of importance in explaining the growth of the welfare state: the degree of class conflict, and, especially the strength and form of working class struggle, and the ability of the capitalist state to formulate and implement policies to secure the long term reproduction of capitalist social relations'.

To the extent, however, that all three writers recognise that *both* labour and capital had an interest in the development of the welfare services in Britain (while at the same time conflicting over the ways in which those services should be organised) they are uncontroversial. The benefits to the working class of welfare services do not require elaboration although it is undoubtedly the case that their particular forms have disadvantages as well as yielding benefits. What of the benefits for capital or for the social system which is the condition of capital's existence? Gough sees welfare services as important to the reproduction of capitalist social relations primarily through their effect upon the reproduction of labour power; they ensure the existence of a labour force which is educated, healthy and housed enough to meet capital's requirements. Income maintenance programmes under the welfare state (redundancy payments,

social security and others) ensure that when Marx's reserve army of labour is expanded in crises and in periods when capital is restructured, it is managed and maintained without decimation of the labour force which capital is holding in reserve. Moreover, because capital is dynamic it generates changes in social conditions which produce new needs of capital for welfare services. Gough, for example, identifies proletarianisation as a trend generating a need for social security payments and the changing division of labour as the basis of the need for education policy.

No Marxist worth his or her salt would deny that the post-war development of welfare systems has benefitted both labour and capital; nor, surely, would any orthodox writer. To that extent the theoretical framework built around the couple 'capital's needs/labour's demands' and used, with different emphases, by CSE, Ginsburg and Gough, has a definite appeal. But even at this point where we are examining only the question of why welfare systems develop (without looking at the problem of why they are the responsibility of the state) severe problems with that framework become apparent. The primary problem is that to say that both labour and capital benefit from welfare services is not the same as *explaining why* those services have developed at a particular stage of capitalism. This underlying problem has several aspects and corollaries. One is that it is a specific example of the problems of explaining social change which, in a broader context, underlie the dichotomy between action theories and theories of structure. I take up this problem later. Another is that it leaves as unexplained puzzles aspects of the welfare services which appear to be inefficient and disadvantageous from the point of view of both labour and capital. Consider one example of this inefficiency. Radical work in the area of health policy has redefined ill health as, in part, something that is produced by the capitalist economy and yet it is clear that capital, like labour, benefits from the existence of health services for workers. But why should either capital or labour make do with health services that concentrate upon curing individuals using advanced techniques, when in many instances preventive medicine in mass campaigns together with curbs on the effects of industrial activity would be more 'cost-effective' for capital as a whole? The needs of capital or labour's demands either by themselves or in combination cannot account for such facts. <sup>6</sup> This weakness arises partly from the framework's neglect of competition between different sections of capital (and within the working class). I discuss this in a different context below, but here it is sufficient to note that it is an example of the difficulty that the framework has in explaining why things develop as they do. Another indication of the same problem is that the framework by itself cannot explain why welfare systems differ markedly between countries, as instanced by, for example, the international differences in housing policy that Ginsburg quotes (*op. cit.*, p. 136).

One way in which to characterise the inadequacy of the theoretical

framework employed by recent writers for explaining why the welfare services have developed at this stage of capitalism is to note that there is a tendency for it to be used in a teleological manner. In other words, there is a tendency toward a historical analysis which, instead of explaining developments, looks back from the present and assumes that everything that has happened in the path to the present had to happen; in teleological writings all developments have a historical necessity to them which is evidenced by the fact that they happened and did bring us to the present. This tendency results from the weakness of the 'capital's needs/labour's demands' approach; if it is not adequate for explaining why welfare systems have developed in particular ways there is a temptation for those who use it to do so simply by looking back from the present and judging that everything there is so because of capital's needs or labour's demands. To avoid such teleology the 'needs of capital/demands of labour' approach would at least have to be used in such a way that it can demonstrate that particular policies happened because there was no alternative or because the particular needs of capital and demands of labour would have had to be different if alternative policies were to have ensued. The books by Ginsburg, Gough and the CSE State Group do go some way to overcoming such teleology by providing detailed historical studies of some areas of welfare policy; while Ginsburg examines the historical development of housing and social security the CSE book has (all too short) chapters on education, housing, social security, social work and health. But historical studies by themselves are insufficient for if their underlying problematic is one of 'capital's needs/labour's demands', they can reinforce a simple teleology by interpreting historical information in a way which suggests that the balance of needs and demands was always inevitably right for the policies that happened.

The teleology that can result from careless use of the 'capital's needs/labour's demands' framework however, can happen with many frameworks applied to historical problems. Associated with it in the present case is the danger of the framework collapsing so that in the hands of some writers (such as the CSE State Group or Ginsburg) it is effectively dropped and all that is emphasised are the needs of capital, while in the hands of others such as Dorothy Thompson what is emphasised is that the welfare state is a victory for working class values.' With other writers there is a danger not of ignoring one side or the other in the framework, but of combining both in a purely eclectic manner. Saville,<sup>8</sup> for example, is a writer whom Gough criticises on the grounds of eclecticism, for writers like him stress: 'both aspects of the welfare state but leave open the way in which they are related'. Gough's intention is to avoid such eclecticism, to look at: 'the effect of class conflict on welfare policies, at the way in which the state represents the interests of capital and at the interrelation between these two sets of forces'.<sup>9</sup>

But despite these good intentions Gough fails to elucidate these inter-relations. He sets out the brief facts of the growth of working-class parties and follows this by noting only that there is another side to things because 'there *are* imperatives created by the capitalist industrialisation process' so that we have 'to explain how the long-term interests of the capitalist class are formulated and enacted'. Gough's failure to avoid eclecticism arises because there is no framework in which to analyse a hierarchical relationship; to avoid eclecticism it is necessary to be able to say that capital's needs or labour's demands are related to each other in particular ways, either one being more important than the other because it determines it or because a third set of factors determines each of these in definite ways. I shall argue that writers in the 'capital's needs/labour's demands' framework are unable to avoid either such eclecticism or an arbitrary insistence on the primacy of one side or the other, and this is for a basic reason: their concepts of the state and the economy are unduly limited so that the manner in which these needs and demands are conceived is inevitably restricted to one where they have no determinate hierarchical relation to each other except an arbitrary one.

There are, therefore, weaknesses in the answers that Marxist theory has so far provided to the question of why welfare services have grown. Answers to the distinct but related question of why all these services have in Britain been developed through *state* provision equally suffer from significant weaknesses. The question is why the state should have undertaken the *production* of welfare services. This is distinct from the problem of why it is concerned with redistributing wealth but the two are related; why should the state produce welfare services instead of providing the means for people to buy them themselves? Why should the education, health and housing of the labour force not have been provided entirely through the operations of the market with private schooling, private doctors and hospitals, and private landlords and home ownership? If both capital and labour benefit from these services why does capital not provide them in response to labour's desire to purchase them? Marxist answers are closely allied to the general Marxist theory of the capitalist state, and within that area there is a division over the relative emphasis upon the needs of capital and class conflict over labour's demands respectively.<sup>10</sup> The 'capital-logic' school best represented by Altvater and Yaffe argues that the capitalist state's functions are directly connected to, are derived from and can be deduced from the requirements of capital itself. By contrast, Holloway and Picciotto and others, while not denying the need of capital for a state which has a direct economic role, have developed a conceptual structure which allows them to argue that the political actions of the working class (and bourgeoisie) mediate, in important ways, the relationship between the state and the economy. The Holloway and Picciotto view finds expression in the CSE State Group's book on the welfare state,

whereas the capital-logic approach is the basis of Ginsburg's work. He quotes Altwater approvingly on capital's need for a state providing such 'necessities' as welfare services since capital:

requires at its base a special institution which is not subject to its limitations as capital, one whose transactions are not determined by the necessity of producing surplus value, one which is in *this sense*, a special institution 'alongside and outside bourgeois society' and one which at the same time provides, on the undisputed basis of capital itself, the immanent necessities that capital neglects."

The problem with Ginsburg's explanation of why the capitalist state has the responsibilities that it does have is that it leaves unanswered (and unasked) the question of why capital itself neglects these necessities, why welfare services are not provided by private capital. And this problem exists in the Holloway and Picciotto approach, too, as it must for any approach that in any way relates the state to capital's needs; If capital needs it, why does it not provide welfare services? If it could make a profit from them why not produce them for sale? The problem's historical relevance is highlighted by the fact that capitalist countries other than Britain have relied upon private capital to provide many welfare services. The United States and Japan provide clear examples, with the latter being renowned for the system by which the large corporations provide complete welfare services for their employees. Those countries provide some benchmark by which we can judge common views on why British capital relied upon state provision. One common view is that capital could not provide adequate resources for the development of welfare services but if applied to capital as a whole, this is clearly an inadequate response; to the extent that the state's revenue is drawn from surplus value, the welfare services are effectively financed by capital. Nor is there any reason to believe that individual firms cannot mobilise the resources. Private firms in the USA and elsewhere do get the resources to produce welfare services such as health as commodities for sale and private education, equally, is produced for sale. Moreover, if it is argued that firms cannot afford the resources to finance *free* social services to their own employees, the comprehensive schemes provided by the large Japanese corporations are counter-examples. A more sustainable view is that individual firms cannot provide free welfare services to secure the health and quality of their labour force because they would lose the value of their investment in the workforce when they shed labour in the processes of crises and redundancies that accompany capitalist accumulation; the competition of capitals (as one argument of the capital-logic school goes) necessitates the state acting on behalf of all capital. This view appears to find a counter-example in the welfare systems the large Japanese corporations provide for their own employees but, in fact, they are the exception that proves the rule. For the

specific feature of the Japanese economy is that the large corporations rely upon a system of sub-contracting by which production processes are farmed out to a myriad of small firms without welfare systems. In times of crisis the large corporations retain their labour forces and compel redundancies in the small sub-contractors, so that the value of their own expenditure on welfare services is preserved. Thus it does appear that as long as crises are the concomitant of capitalist accumulation, provision of free welfare services by all private firms is impossible. No universal coverage is possible on that basis, but it is possible with state provision. This explanation of *state* provision rests upon competition between individual firms, but current work does not examine that competition and its effect on the welfare state. Indeed, concentration upon the needs of capital (as a whole) and labour's demands discourages it.

The universality of welfare services is important for another reason, too, in explaining the state's activities according to one school of thought. This is the school that emphasises the welfare state's function as a means of social control. Can the explanation of the existence of state rather than private provision lie in the fact that the education, health and other welfare systems under the control of the state act to discipline and condition the labour force, to reinforce individualism and the values of capitalism (a role which the state has taken on as the changes in the family have weakened its former functions in the reproduction of labour power?). The role of the state in reinforcing the ideology and values of capital and weakening the potential for class organisation has been emphasised by many writers, such as George and Wilding, and is reaffirmed by Gough, Ginsburg and the CSE State Group. As the latter writes:

when we speak of the role of the state in the reproduction of capital, we must remember that we are speaking not simply of performing certain material functions for capitalist industry but of reproducing a certain form of social relations. More simply: what makes the state a capitalist state is not so much what it does as the way in which it does it. For example, any society would have to educate workers for industrial production: what is particular about capitalist education is that it reinforces the atomisation on which class domination is based under capitalism.<sup>12</sup>

Whatever the value of this type of analysis—and studies of the ways in which the welfare services are organised are a welcome feature of recent studies—it cannot provide an explanation of why the state runs the welfare services. A private educational or health system, for example, would undoubtedly reinforce the centrality of the market at least as well as a welfare state system outside the market. The studies by Gough, Ginsburg and the CSE State Group (particularly the latter two) do provide a further body of evidence that the organisation of the welfare state does reinforce social control and its recent re-organisations strengthen that function. But

it does not follow that its ability to perform this control is the reason for state provision of welfare services; the evidence fits well with the view that whatever the cause of the state's involvement in welfare provisions, the form of the welfare state has been subject to social pressures pushing it in a direction where its social control and ideological functions are brought to the fore.

Nevertheless, whatever the merits of explanations of the state's role in terms of the need for social control or the need to by-pass the competition between capitals the underlying question remains. Why was the British state drawn into the production of services instead of simply redistributing income to guarantee that all classes can afford privately produced services? Why were labour's demands and capital's needs not resolved through a tax-credit system or a system of negative taxes of the form proposed by Friedman instead of by the establishment of the National Health Service, municipal housing and so on? If we are to explain the welfare state that is what we have to explain, but the Marxist theory of the state and the economy has not succeeded in doing so.

#### *Explaining the Attacks on the Welfare State*

If Marxist theory has not been able to provide an adequate explanation of the existence of state production of welfare services, its greatest test has come with the attacks on the welfare state that Labour and Conservative governments have pushed forward since 1976. Since the welfare state's existence has been explained by its congruence with capital's needs and labour's demands, how can the state's threats to it be explained? Have capital's needs or labour's demands declined? There have been three types of answer. One concentrates upon ideology, the 'Tories' attempt precisely to alter labour's demands by stimulating the ideology of the market and anti-statism, but I shall not consider it here, for it is a major subject in its own right and cannot be adequately covered in the present context. Another takes the view that the welfare state and the long boom of post-war capitalism were preconditions for each other, and with the end of the latter the former inevitably came into question; and the third argues that the development of the welfare state contained its own contradictions which have come to fruition in the cuts.

The connection between the welfare state and the long boom is unclear but widely believed to exist. The end of the long boom is seen to produce the necessity both for cuts in welfare state expenditure and for a drastic reorganisation of the welfare services. Asking why this reorganisation is taking place the CSE State Group answers: 'quite simply because the old patterns could not be maintained, because capital is in crisis'.<sup>13</sup> In Gough's analysis, the connection between the boom, its end and the welfare state are more explicit. Since a growing national product 'permits all groups to gain a larger slice' the long boom provides the 'material base

for reformism and the welfare state'. Thus, if 'the long boom of post-war capitalism and the golden age of the welfare state share a common origin, so they may share a common fate'. But simply to postulate a connection between the boom and the growth of the welfare state is not a sufficient explanation of either, nor of the attacks on state expenditure at the end of the boom. (Moreover, it assumes that the long boom was unproblematic whereas in fact it was punctuated by several economic disturbances and threats to the development of state expenditure.)

The third approach appears to be superior. It does not merely put the long boom and the welfare state side by side and suggest that they are linked so that the end of one spells the crisis of the other. It goes a step further and considers how that crisis arose, and it argues that the long boom and the development of the welfare state themselves generated contradictions which could only be resolved by the traumatic end to the boom and the harsh attacks on the welfare state that we have witnessed. In particular the long boom itself has, according to Gough, caused a fall in profitability and this has forced capital to reconsider whether it can continue to afford the cost of the welfare state or whether it can achieve its 'needs' without high levels of government expenditure—without, that is, the welfare state. The idea that the long boom and the welfare state generated contradictions which made inevitable a crisis temporarily to resolve them plays a central role in Gough's analysis and it has a clear Marxist lineage since it hinges on the dialectics of change. It is a point which is central to Yaffe's 'capital-logic' analysis of the crisis but Gough's explanation of the underlying contradiction is different from his.<sup>14</sup>

For Gough the central contradiction is the militancy of the labour force. It first gave rise to a 'settlement' between a powerful working class and the bourgeoisie as they emerged from the Second World War and then grew as a result of the settlement until it threatened the basis of the arrangement itself. According to Gough this settlement included the construction of the welfare state and a commitment to state intervention to maintain full employment and growth and it did in fact succeed in producing that result, the long boom. But the boom itself stimulated further labour militancy which, by pushing up wages, ate into the profits of capital. Falling profitability, according to this thesis, brought high rates of accumulation—the boom—to an end. It also had a direct impact upon capital's attitudes to the welfare state. Since state provision of welfare services on a universal basis is ultimately financed out of taxation it does, within Marxist political economy, reduce the amount of surplus value that is available for appropriation by private capital, and that element is perpetually in conflict with the fact that the welfare system yields indirect benefits which satisfy 'capital's needs'. When profitability falls, the cost of the welfare state overrides the benefits in the calculations of capital and stimulates a political movement, Thatcherism (or perhaps it should be

called Healeyism), to reduce the costs of the welfare state. The thesis is appealing, but it does suffer from several problems. Although there was undoubtedly a significant fall of profitability during the post-war boom it is not likely that it resulted from trade union militancy pushing up wages. Apart from the doctrinal dispute that has raged for a decade over the issue of whether high wages cause low profits (and as a result of which it is clear that Marx did not attribute low profits to this cause) <sup>15</sup> there is the fact that high rates of wage rises occurred in the years after the sharp rise in unemployment after 1967. Increases in wage militancy became noticeable and severe after the long boom's end had arrived, rather than during the years of high employment. Nevertheless, whether or not Gough is right to ascribe falling profitability to wage militancy stimulated by full employment, it is undoubtedly the case that falling profits have stimulated the attack by capital upon the financing of the welfare state. What remains unexplained is why the 1940s have been different from the 1970s. Why should a combination of labour militancy and precarious profits in the former period lead to a willingness by capital to build a settlement with the welfare state as its cornerstone, whereas in the latter period militancy and low profits have stimulated an attack on the welfare state? That, surely, is the type of question that we would expect a theory of the state and economy to be able to answer, and it is highly pertinent to the formulation of alternative policies. But it is a mark of the theory's weakness at present that it has provided no answer.

The closest that Gough comes to explaining the circumstances of the attack on the welfare state is an exposition of the prescient thesis put forward for the United States by James O'Connor in *The Fiscal Crisis of the State*. The crisis in the accumulation of capital intensifies the general momentum for increasing state expenditure but at the same time the sources of revenue to finance it are restricted. Taxes on the working class or capital, borrowing and the creation of money are all unable to act as the source of new funds to finance the expansion. Each form of fund raising has undesirable consequences or meets resistance in one way or another so ultimately the only option is to restrict the growth of state expenditure. The picture painted is intuitively appealing for it appears to correspond to the financial problems posed in 1974/75 in Britain. The rise in state expenditure as private accumulation contracted caused a rise in the Public Sector Borrowing Requirement to levels that were unheard of in the City and did present real problems of financing. How could the state borrow the large amounts of money without pushing interest rates too high?

If this contradiction (or what Gough calls the 'Catch-22 situation' in which a hypothetical Chancellor of the Exchequer finds himself) is what accounts for the attacks on the welfare state, then it deserves to be analysed fully. However, it has not been and concentration on the simple framework of capital's needs/labour's demands appears to prevent such an

analysis. The way in which that framework hinders analysis is related to the fact that it encourages a concentration upon the actions of different classes and groups rather than the structural forces that affect the fiscal crisis. In the remainder of this essay I discuss that contention further.

### *Problems in Structure/Action Dichotomy*

The framework in which all Marxist writers on the welfare state now work is one of trying to avoid each of two extremes. On the one hand there is the functionalism of the view that the welfare state exists because the capitalist system's structure requires the functions that it performs; on the other hand, there is the action theory perspective of the view that its origins, development and limits arise from class conflict. The CSE State Group, Ginsburg and Gough in their own ways are all conscious of the need to avoid these extremes, and Marxism appears to offer the way to do so by treating the system and class conflict as an integrated whole rather than polar opposites. As Gough writes:

In other words, the dichotomy between these two basic approaches to understanding the welfare state, can be overcome within Marxist political economy. It has the merit over pluralist theories of social policy in situating the 'conflict' within an ongoing mode of production, and it has the merit over functionalist theories of social policy in relating the socio-economic 'system' (its structure and its development through time) to the class conflict which is an integral feature of it. Of course, it does not simply sit these two theories side by side: both elements are developed within a completely different theoretical framework.

None of the writers on the welfare state, however, justify this claim.

To start with, there is a serious confusion over the nature of the dichotomy between structure and action. It is confused with the dichotomy between capital's needs and labour's demands since 'capital's needs' are seen as expressing the requirements of the structure or mode of production. In fact, however, it has quite a different status. The 'capital's needs/labour's demands' framework concerns only class conflict, action theory. The dichotomy between capital and labour is relevant only for asking and attempting to answer questions like 'is the welfare state a victory won by the working class in struggle against the bourgeoisie; or is it constructed by the bourgeoisie in its own interests or is it both in differing degrees?' These are questions about the *actions* of the different classes; questions about the anonymous effects of the structure are of an entirely different nature, as I explained earlier, but the framework of capital's needs/labour's demands is only relevant to the former. What is important here is that the capital's needs/labour's demands dichotomy is quite distinct from the structure/action one and focuses only on the action part. The central question of the structure/action dichotomy is whether the welfare state is shaped by class struggle (action theory) or through

structure forces other than the conflicts of classes, anonymous system forces which guarantee that the welfare state exists in a way which is functional to the reproduction of the system. Marxist theory does have a way of moving beyond the structure/action dichotomy with that type of central question, but it is not attainable by focussing on the different dichotomy of capital's needs/labour's demands and it is itself enmeshed in controversy.

Marxist theory overcomes the dichotomy between structure and action in the following way. At a high level of abstraction, the mode of production is the structure and it has its own laws of development. In other words, it has a history which is produced by the working of anonymous system forces. On the basis of it, and as a condition for its existence, there exist classes which act and through their action modify and make concrete the history of the structure. Thus the structure (mode of production) and the agents of action (classes) are inextricably bound together rather than being dichotomised. Marxist analysis of historical phenomena such as the relation between the state and the economy has, therefore, the basis for moving beyond a concentration upon either the structure or the actions of classes, but by using the capital's needs/labour's demands framework, in its current condition it is forced to concentrate on the latter alone. That is one problem with the capital's needs/labour's demands framework; it neglects the structure. A second problem is that it does not even permit a robust analysis in terms of action theory itself.

Let me begin with the question of why the action theory that is inadvertently practised by current Marxist writers is weak even in its own terms. It will assist in the subsequent discussion of how structural analysis may be conducted. The problem with an action theory that focuses on the needs and demands of capital and labour is that it is at a high level of abstraction. In more concrete historical analysis it is necessary to take into account finer divisions of social groups—fractions of classes, for example. Capital is not homogeneous but is divided into fractions, primarily financial capital, merchants' capital and industrial capital. Even though these may be bound together in particular ways (as financial and industrial capital are in the category of finance capital) they have distinct interests and effects. Similarly, the working class may be divided into distinct fractions (as theorists have attempted to do with concepts like the aristocracy of labour). To analyse the actions of different agents in an explanation of British history, it is at least necessary to take into account the behaviour of these different fractions as well as the interests of capital and labour as wholes. In several traditions, it is common to do such work. Marxist studies of the labour process and technical change, for example, do take into account the actions of distinct fractions of the working class and their trade union organisations.<sup>17</sup> And studies of British financial policy do take into account the distinct actions of financial capital (the City) and industrial



theories of the state that I have surveyed here neglect these fractions and are concerned only with the actions of capital as a whole and labour as a whole. This is a regrettable weakness and two examples indicate why. Historically the establishment of the welfare state in Britain was not seen as an unalloyed victory for the working class as a whole; those well-organised groups with established friendly societies had different attitudes toward the development from other workers. And the attacks on the welfare state have been orchestrated by City interests in quite a different, more powerful, way from the influence exerted by industrial capital. Thus, an adequate historical explanation of the development of the welfare state along action theory lines requires a developed treatment of the different fractions of capital and labour.

If Marxist theory is to move beyond action theory alone and provide a complementary structural explanation in terms of the anonymous system forces exerted by the mode of production a different problem arises. How can we conceive of these structural forces? It is one thing to say that the welfare state performs certain functions for the structure at certain times and that cuts in it perform a function at other times, but it is another thing to explain *how* the structure causes this useful apparatus to arise. Apart from the conscious or organised actions of the classes and fractions of classes, are there anonymous structural forces that have any concrete, empirical relevance? I think that the 'laws of demand and supply' so often quoted by right-wing politicians to justify their policies do, in fact, act as anonymous system forces giving effect to the structure's influence.<sup>19</sup> In other words, the markets for labour, commodities and finance do impose their own constraints upon the development of the economy, the state and other aspects of society, and they would do so in an anonymous way even if trade unions, employers, traders and bankers did not play any organised political role on those markets. Take the influence of the market for finance upon the policies of the state.

The Labour Government in 1976 was forced to impose major cuts upon state expenditure. Against the expectations of many it actually succeeded in reducing the ratio of state expenditure to Gross National Product. The circumstances that forced the government's hand were market forces and although they were intertwined with the actions of definite agents (such as the intervention of the International Monetary Fund which was triggered by market events) these forces had an effect of their own. As was described in the 'fiscal crisis of the state' thesis, the government found itself in 1975 and 1976 in a position where it had to borrow unprecedented amounts of money. The difficulties of doing so without paying very high interest rates and without disrupting the flow of finance to industry were instrumental in causing the government to cut back its expenditure in order to cut its borrowing requirement. The way the financial markets operate, their 'laws

of demand and supply' dictate that if the state has a high borrowing requirement usually it can only meet it without paying higher interest or disrupting the financial flow if it creates more money, or, in other words, increases the money supply. With the expectation of money supply rising in 1976 there was a 'knock-on' effect upon the market for foreign exchange for these factors caused an outflow of money which led to an extremely sharp fall in the exchange rate. That was another market phenomenon that affected government policy and determined the government to cut state expenditure in order to cut its borrowing and its effect upon the money supply.

The argument is, then, that the study of the state and economy requires two developments that have so far been absent. One is that within action theory, it is necessary to take account of distinct fractions of capital and labour. The other, and the more important one, is that it is necessary to develop the concept of structural forces and that to do so we have to come to grips with the operation of market forces and the way they influence the state and the economy. Without an analysis of structural forces operating through markets, there is a strong tendency for writers to concentrate on purely political mechanisms within the state and assume that the economy can only affect policy through such political mechanisms. Gough, Ginsburg and the CSE State Group are, for example, concerned only with such political questions as the role of the Labour Party, and of an ill-defined 'class conscious political directorate' within the state machine. There is one exception to this. When Gough discusses the 'fiscal crisis of the state' he does present the Chancellor's 'Catch-22 situation' in the context of problems like the difficulty of borrowing money and the problems of the money supply, but because his earlier discussion of the economy does not encompass the distinct fractions of capital, a concept of how markets work, or any analysis of money, he is forced to mention such problems briefly, with errors, and pass on. For a Labour Government which is constrained by such problems, however, it may appear that they cannot be despatched briefly but are a danger to a reform programme as strong as the politically conscious activities of the representatives of capital. It is interesting to see the distinction between action theory and a theory of the structure in the minds of Labour politicians themselves. Foreign exchange crises which affect government policy are open to different interpretations. In the mid-1960s Harold Wilson blamed them for blowing his government 'off-course' and saw in them the hand of the Gnomes of Zurich; his theory of the relation between the state and the economy was clearly the 'action' variant. In the mid-1970s, by contrast, Denis Healey clearly based his policy on the view that the anonymous forces of the money market and foreign exchange market set definite limits to what is possible; the laws of supply and demand have a political effect. It is pertinent to ask what the left wing's

policies are or should be based upon: an awareness of the danger of right-wing actions by gnomes, a respect for the 'laws of supply and demand', or a third view which encompasses both.

My argument that concepts of class and concepts of market forces have to be further developed if the theory of the state and the economy is to progress is an argument that both the concept of the economy and that of the state require elaboration if their relation is to be theorised adequately. In arguing that a strengthening of the concept of the economy is necessary, I am not suggesting that market forces are all that matters, that we should commit the error of concentrating upon structure instead of action, but, instead, that without analysing them no study of the state and economy's relations can succeed in the task of integrating structure with action. Regrettably, however, such a programme cannot avoid its own problems. One is that market forces are themselves borne by agents who are not political eunuchs; a run on the pound when a Labour government looks leftward is not independent of the political positions of market operators, but such events are nevertheless distinct from organised political action and are, in any case, relatively rare and insignificant in comparison to the everyday pressures of market forces upon government finances. A second is that while it is illustrative and convenient to picture the financial system as placing constraints upon the state and forcing cuts and reorganisations in the welfare state it is equally important to be able to examine how structural conditions in the markets were particularly favourable to the development of the welfare state in the immediate post-war period. A third is that the concept of the state, as well as that of the economy, has to be developed further if the influence of the structure and the action of its agents is to be adequately understood in the relation between state and economy.

In developing the concept of the state it has first to be recognised that the state is not only a political body but also has a significant economic aspect. Its branches are themselves economic agents enmeshed in market forces. As an employer the state's branches have to buy labour-power in the labour market; they have to buy other commodities and in the case of nationalised industries sell them; and they have to borrow money. Although the state may carry great weight in these markets for labour, commodities and finance they remain markets whose operations are thoroughly conditioned by the capitalist system and, accordingly, the state's branches' situation as economic agents is the channel through which the effects of the structure make themselves felt. Secondly, in order to complement a theory of structural forces with a theory of the organised actions of distinct classes it is necessary to develop the concept of the state in other directions too. In this context the present concept of the state is severely limited by its concentration upon the nation state as if it were a well defined unitary structure. Writers such as Gough do look at its relations with other nation

states, thereby avoiding a too narrow focus on Britain alone, but that in no way avoids the idea that 'the state' is 'the nation state'. If Marxist theory were to continue to make this identification it would be difficult to account for important interventions which have affected the development of the welfare state. For example, the interventions of the International Monetary Fund in British policy at different conjunctures like 1968 and 1976 (conjunctures where in relation to these actions by agents, the structural influence of financial market forces in the foreign exchanges were especially important) can only be treated as the appearance of a *deus ex machina* if our concept of the state is the same as the nation state. For with such a perspective we can have no analytical concept of the IMF (is it a bank, a central bank, a political elite for the whole capitalist world or something else). To have such a concept it is necessary to think of the state as more than the nation state. I think it should be conceived as a hierarchical structure of state institutions, only one set of which are those encompassed by the idea of the nation state. At one level in the hierarchy we have to place international state institutions such as the IMF, the organs of the EEC, the Bank for International Settlements, and NATO. At a different level we have to place the institutions of 'the local state' of towns and regions. With such a hierarchical concept of the state it is possible to analyse the relations between the actions of agents in its different parts, the manner in which organised class forces in one part affect the others, and how market forces affect each part of the structure.

### *Conclusion*

At the start of this article I stated that weaknesses in the analysis of the welfare state are related to epistemological problems and also parallel the inadequacy of the labour movement's response to 'the cuts' and recent governments' strategies for reorganising welfare services. A large part of that response has focussed upon particular cuts—actions to protest at the closure of this hospital, that nursery and so on—and it has generally failed. I am not one who thinks that theory always necessarily yields strong lessons for practice or that the types of things that follow from the arguments in this paper are in any sense new. Nevertheless, it is useful to draw them out. One is that protests about particular cuts are necessarily weakened by the fact that the branch of the state immediately responsible is only one part of a hierarchical structure so that particular campaigns only have a future if they are integrated with, at least, a national programme. Another is that such a wider programme has to place the question of welfare services in the context of the relation between the state and the economy as a whole. If economic market forces are an important structural force within which the actions and policies of different classes are constrained, a political campaign around the subject of the welfare services will not succeed if those structural forces maintain

their constraints. Thus, policies to develop the welfare services should be placed in the context of a break in the links between market forces and the state. This, of course, is the general thrust of the Alternative Economic Strategy<sup>20</sup> with its perspective on foreign exchange controls, nationalisation of financial institutions and planned reflation; the reflation and the building of a new expanded system of welfare services is there conceived as possible only to the extent that nationalisation, controls, and planning loosen the influence on the state of structural, market forces.

## NOTES

1. I am grateful to Marjorie Mayo, Ben Fine, Ron Smith, Sonja Ruehl and Linda McDowell for helpful comments upon an earlier draft and to the editors of the *Socialist Register* for valuable suggestions.
2. Major texts in this controversy are, among others, L. Althusser, *For Marx*, (London, 1969); N. Poulantzas, *Political Power and Social Class*, (London, 1973) and A. Cutler, B. Hindess, P. Hirst and A. Hussain, *Marx's Capital and Capitalism Today* Vols. 1 and 2, (London, 1977, 1978).
3. E. Altwater, 'Some problems of state interventionism', *Kapitalistate*, 1 and 2, 1973; D. Yaffe, 'The Marxian theory of crisis, capital and the state', *Economy and Society* Vol. 2, no. 2, 1973.
4. Examples of recent work are in John Holloway and Sol Picciotto, *State and Capital*, (London, Edward Arnold, 1978), Ernest Mandel, *Late Capitalism*, (London, NLB, 1975), James O'Connor, *The Fiscal Crisis of the State*, (New York, 1973), Ben Fine and Laurence Harris, *Rereading Capital*, (Macmillan, London, 1979), Leo Panitch, 'The Development of Corporatism in Liberal Democracies', *Comparative Political Studies*, Vol. 10, no. 1, April 1977, Bob Jessup, 'Recent Theories of the Capitalist State', *Cambridge Journal of Economics* Vol. 1, no. 4, December 1977 and Suzanne de Brunhoff, *The State, Capital and Economic Policy*, (London, 1978). Of course it is not true that recent work on the relationship between the state and the economy is the first by Marxists. Writers such as Hilferding and Lenin were notable earlier theorists, but recent writers are effectively the first to tackle the problem in the context of the stage of capitalism known as State Monopoly Capitalism with its Welfare State, Keynesianism and credit policies.
5. Ian Gough, *The Political Economy of the Welfare State*, (London, Macmillan, 1979), Norman Ginsburg, *Class Capital and Social Policy*, (London, Macmillan, 1979), CSE State Group, *Struggle over the State*, (CSE Books, London, 1979).
6. This is not to suggest that preventive medicine as such is necessarily 'a good thing'. As is noted in Lesley Doyal, *The Political Economy of Health*, (London, Pluto, 1979), pp. 211-212 preventive medicine itself can be adopted and promulgated in such a way as to emphasise the individual's failure rather than the social determinants of disease.
7. Dorothy Thompson, 'Discussion: The Welfare State', *New Reasoner* no. 4, 1958, pp. 127-8.
8. John Saville, 'The Welfare State: An Historical Approach', *New Reasoner* no. 3, Winter 1957/8.
9. I. Gough, *op. cit.*, p. 57.
10. Neoclassical economic theory, too, has developed theories of market failure and that school of thought can demonstrate the restrictive nature of the assumptions that have to be satisfied if markets were to work optimally. Their failure to be

set up or work satisfactorily leads some neoclassical economists to argue for the existence of state provision (in contexts such as the US medicare programme). In the present article, however, I concentrate upon Marxist analyses which are based upon the concepts of classes rather than individuals.

11. N. Ginsburg, *op. cit.*, p. 28.
12. CSE State Group, *op. cit.*, p. 18.
13. CSE State Group, *op. cit.*, p. 3.
14. In 'The Crisis of Profitability: A Critique of the Glyn-Sutcliffe Thesis', *New Left Review* 80, July/August 1973, Yaffe criticised Gough's explanation when it was put forward by A. Glyn and B. Sutcliffe, *British Capitalism, Workers and the Profit Squeeze*.
15. These debates are surveyed in B. Fine and L. Harris, *Rereading Capital*, (London, 1979).
16. I. Gough, *op. cit.*, p. 46. Ben Fine and I also argue in *Rereading Capital* that class struggle and concepts of a structural determination are integrated in Marxist theory, but I think that we, as much as the authors discussed here, fail to present a satisfying integration. Instead we leave open the question of how class struggle and structural forces have an effect.
17. See, for example, the symposium by B. Elbaum, W. Lazonick, F. Wilkinson and J. Zeitlin in *Cambridge Journal of Economics*, Vol. 3, no. 3, 1979.
18. Two examples are F. Longstreth, 'The City, Industry and The State' in C. Crouch (ed.), *State and Economy in Contemporary Capitalism*, (London, 1979) and J. Coakley and L. Harris, 'The City, Industry and the Foreign Exchanges: Theory and Evidence', mimeo. Both these articles examine only the action theory aspects of the division between financial capital and industrial capital and neglect structural forces.
19. The disingenuous element in such politicians' reference to these laws is in the implication that they are immutable and cannot be tampered with.
20. A statement of some major aspects of the Alternative Economic Strategy is given by London CSE Group, 'Crisis, the Labour Movement and the Alternative Economic Strategy', in *Capital and Class*, no. 8, 1979.