

# The State Under Neo-liberalism

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Much has been written on the subject of the capitalist State in the era of neo-liberalism. Two features of the “neo-liberal State” in particular have been highlighted<sup>1</sup>. One relates to the change in the nature of the State, from being an entity apparently standing above society and intervening in its economic functioning in the interests of society as a whole, even at the expense of the unbridled interests of finance capital (such as for instance the State in the era of Keynesian demand management), to being an entity acting exclusively to promote the interests of finance capital. This change in the nature of the capitalist State, which is sometimes mistakenly called the “retreat of the State”, is manifest in the shift that occurs from its being a spender, an investor and a producer, to its new role in carrying out “privatization” and “disinvestment” (all of which benefit finance capital) and undertaking State expenditure deflation (which accedes to a perennial demand of finance capital).

The second obvious feature relates to the fact that since finance capital in the contemporary era is not exclusively tied to any particular national domain (and its imperial adjunct), but has an international character, to protect and promote it on the global plane where it operates, a surrogate global State necessarily has to come into being; and this role is performed by the major capitalist States acting in unison under the leadership of the most powerful State, the U.S., and enjoying the support of the less powerful nation-States whose own large capitalists and financiers are in favour of such an arrangement. The so-called “unipolar” world where all nation-States “adjust” to the leading role of the US is in fact the coming into being of a surrogate global State to protect the interests of international finance capital. I shall not expatiate on these features in the present paper, whose objective is to draw attention to an altogether different, a third, feature of the “neo-liberal State”. This concerns the change that occurs in the “texture” of the State, that is, in the nature of the bureaucracy, other State personnel, and the “organic intellectuals” at large, in the era of neo-liberalism. The implications of this change, I wish to argue, are quite far-reaching. But before doing so, let me make some general comments an aspect of capitalism which surprisingly has received little attention.

## I

Capitalism, as Marx had shown, differs from all previous modes of production in the sense that, unlike the earlier modes, the relations of production underlying it are opaque. The extraction of surplus from the direct producers occurs not through the use of personalized coercion camouflaged as “custom” or “tradition”, as under feudalism, but in a situation of equivalent exchange among a group of commodity-owners entering into voluntary commerce on an apparently equal footing. This transition from obvious

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<sup>1</sup> For a detailed discussion of these features see Patnaik (2003)

transparent methods of exploitation to a more complex, impersonal, and not directly visible, method of exploitation, also accompanies a change in the position of the State with respect to civil society. The State acquires a degree of autonomy vis a vis civil society. Even as it remains a class-State, defending the fundamental capitalist property relations, it acquires an apparent standing of independence, an apparent role of benevolent supervision “in the interests of all”, an apparent position as the custodian of the interests of society as a whole. In a feudal society where the King is as much a landowner as anyone else, indeed the largest landowner of them all, the possibility of any conception of the State as standing apart from or above the directly visible process of exploitation simply can not arise. The King may be considered benevolent in so far as he curbs the “excesses” of some of his nobles, *but he is not apart from them in the “normal” state of things*. This possibility of the State being apart arises only when the mode of exploitation itself acquires an opacity, and this possibility becomes a reality precisely as a complement to this opacity. Or putting it differently, *the opacity of the process of exploitation also introduces a similar opacity to the relation of the State to civil society*.

Indeed a central concern of Marxism has been to break down, both in theory and in practice, this latter opacity, as much as it has been to break down the former. One may even say that after the initial labours of Marx, Marxism has been more concerned with breaking down the opacity of the relation between the State and society than with breaking down the opacity of the process of exploitation. The reason for this is simple: even after the process of exploitation is understood, unless the class nature of the State too is grasped, which is a more difficult task, a half-baked understanding of the totality is produced which effectively forecloses the possibility of transcending the system of class exploitation. Lenin’s remark that a belief in the reality of class struggle is not enough to make one a Marxist, and that only that person is a Marxist who believes that class-struggle must lead to a replacement of the bourgeois State with a dictatorship of the proletariat, underscores the importance he attached to overcoming the opacity of the State-society relationship.

The greater difficulty in understanding the State-society relationship arises from the fact that while exploitation is directly experienced by the working class, its encounters with the State, *in its persona as a class-State*, are episodic rather than regular, occurring only when State coercion is brought in to break workers’ economic struggles. On the other hand the proletariat can carry out a *political* struggle only if it acquires an understanding of the class-nature of the State. In *The Poverty of Philosophy* (1847) there is a suggestion that the process of economic struggle itself pushes the proletariat into acquiring political consciousness, but the *Communist Manifesto* (1848), written shortly afterwards, introduces the idea that revolutionary consciousness comes to the proletariat from “outside”, through certain bourgeois intellectuals who “de-class” themselves and see the “historical process as a whole”, an idea that was to figure so prominently in Lenin’s *What is to be Done?* and constituted perhaps the central theme of Leninism.

The objective basis of this opacity in the State-society relationship, it may be thought, lies in the “self-acting”, “self-regulating” nature of the capitalist order, which Classical Political Economy had emphasized even before Marx, and which requires of the

State only the maintenance of the “rules of the game” of the system<sup>2</sup>. But this notion of a “self-acting” “self-regulating” economic order is a myth. Capitalism, it is true, has not generally been a wildly chaotic economic system (barring episodes like the Great Depression), but the reason for that lies not in its innate characteristics but in the cushion it has always provided itself against crises through colonialism and imperialism<sup>3</sup>, and, for a brief period after the Second World War, through Keynesian State intervention. Since colonialism and imperialism have always been sustained through military intervention by the State, one can say that capitalism, contrary to the “liberal” picture of it, has always been sustained by State intervention *in its functioning*. The basis of the opacity of State-society relationship then lies not in the fact of capitalism’s being “self-acting” and “self-regulating”, independent of the State, but in the fact that State intervention itself has usually been carried out in the name of society as a whole, rather than in the ostensible interests of the capitalist class.

The social legitimacy of the bourgeois State has arisen from this fact, which is why one can say that *the position of the bourgeois State as an apparently supra-social entity, acting, not in the ostensible interests of the capitalist class exclusively, but for society as a whole, constitutes a necessary condition for the stability of the system*. And the need for the State to have such a position becomes even greater when the form of the State is a bourgeois democracy. Even when the State acts exclusively in the interests of finance capital, *it invariably claims that it is acting in the interests of society as a whole*. But the social legitimacy of the State depends upon the degree to which such a claim carries credibility.

For the bourgeois State’s claim to be acting for society as whole to be credible, it is necessary that it be internalized as an ideology within the State itself, that substantial segments within the bureaucracy (which together with the standing army constitutes, as Lenin had argued, the core personnel of the State) actually believe this. If they do not, then the pretense of the State that it stands above society and acts on its behalf can scarcely be sustained for any length of time. It follows then that the stability of the bourgeois system is based on a peculiar condition, namely that *the ideology which informs the State personnel, which is internalized by them when they act in the name of the State, should be different from that which underlies the behaviour of the bourgeoisie itself*. For the State to stand apart from bourgeois society, the motivations of the agents of the State must be different from those of the main agents of the bourgeois society, namely the bourgeoisie itself. *The separation of the State from civil society must mean a parallel separation between the leading agencies of the two domains, at least in their motivations and basic ideologies*.

And now we come to the central paradox: while such a separation constitutes as we have seen a condition for the stability of the system, the tendency of capitalist development is to obliterate all such separation, to assimilate *all* into the spontaneous bourgeois agenda of “money-making”. In other words, the very logic of a bourgeois

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<sup>2</sup> For a discussion of the classical notion that capitalism was a “self-acting economic order”, see Maurice Dobb (1973).

<sup>3</sup> This proposition has been argued at length in Patnaik (1997)

society precludes the possibility of sustaining such a separation between the motivation of the personnel of the State and the motivation that not just activates the bourgeoisie, but tends to get generalized as the attribute of society as a whole (and meets its resistance only because the socialization of labour produces a counter-consciousness in the proletariat which emerges as an agency for change). *A major contradiction of the bourgeois system in short lies in the fact that its spontaneous tendencies tend to undermine the condition for its own social legitimacy.*

This is a somewhat different point from the usual one made with respect to the contradictions relating to the “economic base” of the system. Not only is it unrelated to the “base” of the system, but it amounts to making a strong and novel assertion, namely that *the bourgeois system is incapable of ever being a “complete” one, that the development of the “base” itself undermines the possibility of having a “superstructure” that is both in conformity with it and also complements it by refurbishing its social legitimacy.*

## II

This contradiction remained in check, since for a very long time the personnel of the bourgeois State were drawn from among the remnants of the old feudal aristocracy, so much so that Joseph Schumpeter developed a whole theory of imperialism based on this fact. Schumpeter (1951) argued that the bourgeoisie is essentially peace-loving, that its desire for “space” does not extend beyond “home and hearth”. While it would make use of all profitable opportunities offered by the existence of an empire, it would not bestir itself into acquiring one. The fact that the leading capitalist economies have nonetheless acted vigorously to acquire empires can be explained not by economic motives activating the bourgeoisie, but by non-economic ones, centred around notions of “honour” and “glory”, which are pursued by the feudal aristocratic elements providing the personnel of the State machinery in bourgeois societies.

Oskar Lange (1964), while rejecting Schumpeter’s non-economic explanations for the imperialist drive of the late-nineteenth century, and attributing it instead, in common with the Marxist tradition, to economic phenomena associated with the emergence of monopoly capitalism, argued nonetheless that with monopoly capitalism a change takes place in the personnel of the State. The remnants of the old feudal aristocracy which, he argued, manned the State *during the period of “free competition capitalism”* get supplanted by the monopoly capitalists themselves, or their direct agents, during the period of monopoly capitalism. Lange in short also believed with Schumpeter that the bourgeois State’s personnel were drawn from the old ruling circles of the pre-bourgeois order, but differed from Schumpeter in confining this phenomenon only to the pre-monopoly stage of capitalism.

### III

Lange was perfectly right in drawing attention to the fact that in the era of monopoly capitalism a profound change occurs not just in the policies but also in the personnel of the State. Rudolph Hilferding in his classic work *Das Finanzkapital* had talked of a “personal union” between industry and finance which threw up a financial oligarchy, and a similar “personal union” between this financial oligarchy, which sat in control over vast amounts of finance capital, and the State. There was a movement of persons from the ranks of the bureaucracy and the army, to employment by finance capital, and, conversely, employees and paid agents of finance capital occupied important positions in the State. This closeness between finance capital and the State personnel reached its apogee in the era of fascism, and has been described by a host of writers from Daniel Guerin to Michael Kalecki. Indeed Kalecki talks of the State machinery under fascism being “under the direct control of a partnership of big business with fascist upstarts” (1971, 141). The nuances of this “partnership” in the case of Nazi Germany have been explored at length in both literature and films, where Lucino Visconti’s *The Damned* (1969) remains a classic of this *genre*.

Now, when the State becomes so completely enmeshed with finance capital, the social legitimacy it derives from its image as an entity standing above society and guarding its overall interests, gets undermined. Even though the general authoritarianism of regimes characteristic of the era of the hegemony of finance capital (at least of that particular era) may suggest to some that the State does not *need* any social legitimacy, that authoritarianism acts as a substitute for social legitimacy, such is not the case. Even the most authoritarian State, even the fascist state, notwithstanding its pervasive use of terror, is still in need of social legitimacy. Authoritarianism and terror can never fully substitute for social legitimacy. And this legitimacy is sought to be acquired by such regimes through other means: by invoking an enemy that is a common foe of the entire society, against which the State is projected as engaging in struggle; or by uniting society for a common purpose behind some imperialist project of acquiring “glory” or “national pride” (Hilferding had talked of the ideology of finance capital consisting *inter alia* in a “glorification of the national idea”); or launching an imperialist project in the name of righting some “past injustice done to the nation”. In other words, the social legitimacy lost in the economic domain is sought to be made up elsewhere, through the invocation of the construct of a “nation” that is essentially imperialist, racist and xenophobic (as opposed to the anti-imperialist nationalism of the oppressed people), and the manufacture of a consent around it, through the use of the media controlled by the financial interests themselves. Indeed the very enmeshing with finance capital, the very use of pervasive terror are sought to be justified in the name of fighting this common enemy of the society, or achieving this common purpose. War, aggression and annexation are all sought to be justified in the name of this common project. They represent however an alternative quest for social legitimacy by the State.

This, to be sure, is not their sole purpose. There are powerful economic factors at work behind such annexations and war; but the problems relating to the superstructure also play an important additional role in promoting annexations and war. This point was

made by Lenin himself in *Imperialism*, when, in addition to discussing the economic motives behind imperialism, he also drew attention to the fact that the “non-economic superstructure which grows up on the basis of finance capital, its politics and its ideology, stimulates the striving for colonial conquest” (2000, 110).

We thus come to a conclusion which is both similar to, and also the direct opposite of, Schumpeter's. There are powerful factors, in addition to the economic ones but themselves not directly reducible to the economic, which play a role in unleashing imperialism, war and annexations in the era of monopoly capitalism. But these do not represent an atavistic throwback to the feudal hunger for glory and honour, expressed by an old aristocracy manning the bourgeois State machine. Rather they are the outcome of a changed superstructure where the remnants of the old feudal aristocracy, which hitherto manned important State positions, have been supplanted by upstarts having close “personal union” with finance capital. They are in short, quintessentially “bourgeois factors”, and the logic of bourgeois society which brings finance capital to hegemony and which destroys the earlier social legitimacy of the State, also entails recourse to them in the quest for a new social legitimacy.

#### IV

The post-war period of de-colonization and Keynesian demand management represented in some ways a setback to the hegemony of finance capital, made possible by the specific conjuncture of the aftermath of the war. Internationally, the Soviet Union had emerged from the war with enormous losses but also with enormous prestige, and the socialist camp had expanded dramatically. Domestically, the working class in the metropolis, which had made great sacrifices during the war, was unwilling to go back to the old days. In France, Italy and Greece, a socialist take-over was prevented by monopoly capital with great difficulty, in the last of these through an actual war; and in Britain, Winston Churchill, the war-time Prime Minister, who was as committed to the maintenance of the British empire as he was to financial orthodoxy in matters of domestic economic policy, lost the post-war elections to the Labour Party. And of course the national liberation struggles in the colonies had acquired such momentum that imperialism was in no position to reassert its hold over them, though it tried to prevent Communist-led, or more generally militant, national liberation struggles through wars in Malaya, Algeria and Vietnam, the first of which it won by fomenting internal dissensions between the ethnic Chinese and the Malays (much the way it had done earlier vis a vis the Hindus and the Muslims in the Indian subcontinent).

In this changed conjuncture, a revival of the concept of a State standing above society and acting as the guardian of the social interest as a whole, could take place, and the State did act in ways that finance capital would have disapproved of. Keynesian demand management, which was anathema for finance capital (because of which Keynes himself had called for “the euthanasia of the rentier”) pushed metropolitan economies as close to full employment as is ever possible under capitalism. *Dirigiste* development strategies in third world countries entailed not only substantial state expenditures but even the permanent and significant presence of a public sector, which again was

anathema to metropolitan finance capital (the domestic financial interests in the third world were as yet of limited strength).

To say this is not to claim that imperialism disappeared. Imperialism, as suggested above, has always been an integral part of capitalism and continues to remain so in all its phases. De-colonization represented a setback for imperialism, not the end of it. The same changed correlation of international and domestic class forces which brought an end to colonial empires also brought about a change in the State-society relationship all over the capitalist world. The aggressive annexationist drive by rival monopoly powers that had underlain the two world wars was checked in the new conjuncture and even somewhat reversed, even as metropolitan capitalism sought other ways of keeping intact its hegemony over the world economy.

But this post-war conjuncture passed, as it had to. The logic of capitalism reasserted once more the hegemony of finance capital, not in its old “national” form but in the new garb of a “globalized” finance capital. The result was a retreat from Keynesian demand management in the metropolis, a retreat from the *dirigiste* development strategy in the third world, and the pursuit everywhere (except the US whose currency, being “as good as gold”, allows it a certain degree of freedom in the matter) of deflationary policies with regard to State expenditures, which finance capital favours and which had been abandoned with great difficulty in the aftermath not so much of the Great Depression, as of the second world war.

Simultaneously however, and not surprisingly, the old question of the social legitimacy of the bourgeois State has reasserted itself, especially in the wake of the enormous increases in disparities in income and wealth that have occurred both in the metropolis and in the third world in this new, post-*dirigiste*, conjuncture, where the freshly-acquired hegemony of international finance capital is being expressed through the pursuit of neo-liberal policies. The bourgeois State which once more is getting enmeshed with finance capital and whose pursuit of neo-liberal policies lies directly at the root of the increases in wealth and income inequalities, has to find new ways of acquiring social legitimacy, as it had to in the earlier pre-war period of hegemony of finance capital. It is not surprising in this context that a new enemy, “terrorism”, is being apotheosized, and a religious and communal consciousness is being promoted to manufacture a new social legitimacy for the bourgeois State that is today so closely enmeshed with international finance capital<sup>4</sup>.

One important conclusion that emerges from the foregoing is that the hope for a “peaceful capitalism” is a chimera. The basic reason for this is that capitalism requires imperialism as an economic necessity, though the specific nature of contemporary

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<sup>4</sup> It may be argued that since “terrorism” is a very real phenomenon, to talk of “terrorism” being apotheosized to provide social legitimacy to the capitalist State is to underestimate the genuine threat from “terrorism”. The point however is that while “terrorism” is very real (though it owes its origin to imperialist nurturing), the way it is sought to be combated by metropolitan States, especially the leading metropolitan State, is such as to keep alive the threat from “terrorism”. The aggression on Iraq clearly demonstrates this.

imperialism is shaped by the domination of the globe by international finance capital, which is significantly, but not exclusively, metropolitan, and which has fractions within the third world as well. There is however an additional reason for this, namely that the “non-economic superstructure” (to use Lenin’s words) in the era of international finance capital, necessitates, for the social legitimacy of the bourgeois State, the location of an outside enemy against which the entire society can be united. And once such an enemy is located, peaceful co-existence with it becomes impossible.

## V

Everything that has been said till now has a relevance for India as well. The Nehruvian State, which undertook public investment and built up the public sector, was also supported by a bureaucracy, substantial segments of which were influenced by the Nehruvian ideology. This was true of other *dirigiste* regimes of the third world as well. Michael Kalecki’s (1972) proposition that these regimes constituted “intermediate regimes” where the petty bourgeoisie constituted the ruling class was no doubt an exaggeration, but the relatively autonomous *bourgeois State* which apparently acted in the interests of society as a whole (even to the point of institutionalizing “planned development” and calling itself “socialist”) certainly acquired its specific character, its *distance* from the capitalist class, by drawing its personnel from the ranks of the petty bourgeoisie, both urban and rural. The State personnel drawn from the ranks of the petty bourgeoisie were generally skeptical about, and even to a degree hostile to, the capitalist class and were committed to State capitalism which they also saw as a means of self-advancement in the new situation of de-colonization. The State was a bourgeois State, laying the foundations for capitalist development. But the motivation, the ideological inclinations, and the class background of the State personnel ensured that the State had a degree of autonomy both vis a vis imperialism and also vis a vis the domestic capitalists.

The contradictions, both at the domestic and at the international levels, that led to the superseding of the *dirigiste* strategy by the neo-liberal one, need not detain us here. But associated with the neo-liberal strategy, which is but an expression of closer integration into the world of globalized finance, there is a different set of State personnel. The “neo-liberal State” too is a bourgeois State like the *dirigiste* State, but the personnel of the former differ fundamentally from the personnel of the latter, not just in their ideological predilections, which are closely aligned to the views of the Bretton Woods institutions, *but also in their being deeply enmeshed with the world of finance and big business*. What we find in today’s State personnel is not just a different set of ideologues, World Bank ideologues, as distinct from the Nehruvian ideologues that manned the *dirigiste* bourgeois State, but a set whose motivation is no different from that of the big bourgeoisie and financial interests and which therefore has no compunctions about being closely integrated with the latter.

The undermining of the social legitimacy of the State that results from this, especially in the context of the tremendous increase in wealth and income inequalities associated with the pursuit of the neo-liberal strategy, and the quest for an alternative source of legitimacy, through the concoction of a mixed brew of two notions, of the



“nation” becoming a superpower (“India shining”), and of the “nation” being under threat from external enemies supported by an internal “fifth column”, are phenomena which are all too visible in the Indian case.

Two points follow from the above argument. First, the view that is fondly entertained by many, including people of progressive persuasion, that the amelioration of the abysmal conditions of life for the bulk of our population can be achieved through the pursuit of the neo-liberal strategy, which ushers in high growth rates, is completely wrong. It is wrong not just because of well-known economic reasons, namely the low employment elasticity of such growth (“jobless growth”), and the *decline* in employment elasticity that occurs with an *acceleration* of such growth. It is wrong for an additional reason as well, having to do with the “non-economic superstructure”, namely *that the State which pursues the neo-liberal strategy is intrinsically incapable of ameliorating the distress of the poor*. Its personnel, precisely because of the pursuit of the neo-liberal strategy, are too enmeshed with big business and financial interests, too embroiled in the world of “money-making”, to be even capable of ushering in any change in the living conditions of the poor. When the Planning Commission in its Approach Paper for the Eleventh Plan talks of high growth providing the enabling condition for the removal of distress, or when the Prime Minister thinks that an acceleration of growth to ten percent will remove distress, what they ignore is that the neo-liberal State that is supposed to bring in high growth is intrinsically incapable of removing any distress.

In Kerala where I am currently working, Wyanad is one of the poorer districts which has witnessed the maximum number of peasant suicides. A number of “packages” of Central assistance have been announced for this district. But very few officers are willing to go to this district either as District Collectors or as Medical Officers, or to take charge of public educational establishments. Money lies unspent since the personnel of the State, far from being interested in spending the money, are not willing even to get posted to that district. What is true of Wyanad, is true of other poorer districts of Kerala, and what is true of Kerala is certainly true of other states as well. The personnel of the neo-liberal State which show great alacrity in taking up the so-called “development projects” related to the so-called “infrastructure” sector, which is often a euphemism for land speculation, are too enmeshed with the financial interests that promote such projects to have any time for poverty alleviation.

The matter relates not just to anti-poverty programmes. The personnel of the neo-liberal State have little interest in running the public sector, which is one reason why the public sector becomes financially unviable over time, and provides grist to the mill of those who want it privatized. Even normal government functions are not carried out by the bureaucracy, which is more interested in networking with patrons in the world of corporates and foreign donors, or in attending World Bank-sponsored training programmes, than in the nitty-gritty of administration. More and more government functions as a result are “outsourced” to private agencies, which promises profits for all.

The neo-liberal State that is so enmeshed with financial and big business interests thus becomes intrinsically incapable of undertaking any poverty alleviation, a fact that

only underscores the vacuity of the “stages theory” which advocates neo-liberal policies in the “first stage”, as a means of preparing the ground for redistribution in the “second stage”.

The second point which follows from our argument is that, notwithstanding the current interregnum, the tendency towards violence and repression by the State on the one hand (which in turn generates counter-violence), and jingoism and the aggressive pursuit of the agenda of becoming a big power on the other, will continue to operate in India, as elsewhere, in the era of neo-liberalism. Notwithstanding the much-hyped high growth rate, the dream of a peaceful and prosperous India will continue to elude us. The *Hindutva* forces may be in disarray at the moment, and may continue to be in disarray in the foreseeable future, but the basic agenda of repression-cum-big power chauvinism that they had launched, will continue to haunt us, since that agenda is in conformity with the essential character of the neo-liberal State. It is not just the economic tendencies pushing large numbers of people into the ranks of the excluded and the marginalized that would provoke protest and retaliatory violence by the State. The State in addition will have a tendency towards inflicting unilateral unprovoked violence against some perceived “enemy of the people” as a means of refurbishing its social legitimacy.

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