Political capitalism and the crisis of the state

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Outline
• METU
• Crises, what crises?
• Symptomatology
• The North Atlantic Financial Crisis
• Rational vs political capitalism
• Capitalism and democracy
• Political crises
• Authoritarian statism
• The enduring austerity state
• Conclusions

Basic principles at METU
1. Scientific Approach
2. Academic Freedom
3. Interdisciplinary Approach
4. Lifelong Education
5. The Training of Qualified People

On the nature of crises
• Crises are moments of danger and opportunity: as such, they have both objective and subjective aspects
• Objectively, they occur when a set of social relations (including their ties to the natural world) cannot be reproduced, i.e., cannot ‘go on’, in the old way
• Subjectively, they are moments of indeterminacy, where decisive action can repair these relations, lead to change via piecemeal adaptation, or prompt radical innovation
• When repair work or piecemeal adaptation fails, perhaps because the crisis is deeply rooted in system logic(s), the system will also fail, perhaps replaced by a new kind

Crisis, what crises?
• Crises as ‘accidental’ products of natural or ‘external’ forces (e.g., tsunami, crop failure, SARS, invasion)
• Crises as ‘structurally-determined’: inherent crisis potentials and tendencies of given social form with matching patterns of crisis-management (e.g., profit-oriented, market-mediated capitalism)
• Crises ‘in’ are normal (expected) and may be resolved through established (via learning) crisis-management routines and/or through innovations that largely restore previous patterns
• Crises ‘of’ are less common: a real crisis of crisis-management, indicating inability to ‘go on in the old way’ that demands more radical innovation in crisis-management or move to new system

Crisis as revelatory moments
• Crises tend to disrupt (‘shock’) accepted views of world and how to ‘go on’ in it, calling into question theoretical and policy paradigms as well as everyday routines
• Crises are threat and opportunity:
  • threaten established views, practices, institutions, social relations
  • opportunity for reflection, learning in, about and from crisis, and theoretical, policy, and practical innovation
  • may also lead to re-assertion of old ideas and values, policy paradigms, and routines (traditionalism, reaction, restoration)
• In short, they are complex, objectively overdetermined moments of subjective indeterminacy, in which ‘decisive’ action can make a major difference to future
“The crisis did not take place” - I

Whoever wants to give one sole definition of these events, or what is the same thing, find a single cause or origin, must be rebutted. We are addressing a process that shows itself in many ways, and in which causes and effects become intertwined and mutually entangled. To simplify means to misrepresent and falsify. …


“The crisis did not take place” - II

• ‘When did the crisis begin? This question is bound up with the first since we are dealing with a process and not an event … It is hard in real terms to separate the economic crisis from political and ideological ones, etc’ (PN, Q15, §5)
• Crises have many spatio-temporal complexities that affect social forces in different ways. So it is hard to read crises.
• If spatiotemporal boundaries are uncertain, if causes and effects are contested, can we speak of THE CRISIS?
• Resolving them into one CRISIS involves a form of strategic essentialism, i.e., a simplified and politicized reading in hope of winning certain effects in a particular conjuncture

Interpreting crisis, governing crisis

• Getting consensus on interpretation about which of many crises matters is to have framed the problem (variation)
• Nonetheless this consensus must be translated into a more or less coherent, coordinated policy approach and solutions that match objective dimensions of the crisis (selection)
• Some policies will prove effective, adapting inherited crisis-management routines and/or finding new routines via trial-and-error experimentation, which can be consolidated as the basis of new forms of social governance, meta-governance, institutionalized compromise (retention)
• Effective construals therefore also have constructive force

Signa Data, Signa Naturalia - I

• Distinguish conventional signs from natural signs (St Augustine of Hippo, De Doctrina Christiana, 389 AD)
• ‘a sign is something that, offering itself to the senses, conveys something other to the intellect’
• Signa data depend on words or other conventional semiotic systems that link signum and signans with a view to conveying a particular meaning
• Signa naturalia (or symptoms) are natural, indexical signs that can be read as symptoms of something beyond the signum-signans relation

Signa Data, Signa Naturalia - II

• Signa naturalia are symptoms of an underlying reality, outward manifestations of some other fact, internal condition, quality, or overall state of affairs
• There is an objective relationship between invisible entity and visible sign – this is underdetermined, not one-to-one (no algorithm can establish the cause or the set of causes)
• Crises become visible through their symptoms but these need construing – a contested process – with a view to establishing deeper causes as one basis for decisive interventions
• From ancient times, many distinct schools have contested the challenge of asking “what must the world be like for x to have happened”? “Hippocrates was not the only doctor in town”

Symptomatology – I

• The challenge in crisis construal and crisis management is to relate
  • empirical symptoms
  • the actual crisis (as event or process)
  • and the underlying real mechanisms
  • as the basis for possible (and possibly) decisive interventions
• This is the field of ‘symptomatology’
• It involves trial-and-error observation and construal that draws on past experience but may also require forgetting to ensure ‘correct’ intervention (see coming slides)
Symptomatology – II

- Interpretations multiply as actors seek to:
  - make sense of the “crisis” as it unfolds in space-time
  - attribute (rightly or wrongly) ideological, institutional, technical, and personal (or organizational) blame
  - Interpretations can range from denial (“business as usual”) through claims of a major break (“turning point”) to a more radical rupture (“revolutionary moment”)
  - especially important is whether this is a crisis “in” or “of” the relevant system(s),
  - chart alternative futures to prevent or guide them, and
  - recommend specific lines of action for particular forces over different time frames and spatial horizons

Learning in Crisis

- Given the disruptive effects of crisis on inherited modes of learning and on inherited lessons, how does learning occur in the face of crisis?
  - For those directly affected, learning in crisis occurs via direct experience (Erlebnis) of the phenomenal forms of crisis. This will vary across persons, groups, organizations
  - For those not directly affected, learning in crisis occurs through real time observation of the phenomenal forms of crisis. This is often mediated through diverse forms of representation (journalism, reports, statistics, charts, etc)
  - Learning in crisis does not penetrate beneath surface phenomena to deeper causes, crisis-tendencies, etc.

Learning about Crisis

- For actors directly affected, this occurs when attention turns from phenomenal forms to deeper causes and dynamics and their relevance to crisis management
  - For ‘outside’ observers, learning about crisis occurs when they focus on real causes, dynamics, effects and observe actors’ trial-and-error attempts to solve crisis and/or how other ‘outsiders’ seek to shape its course, costs, outcome
  - Not all actors or observers can or do move to this stage; it is typically highly selective, partial, and provisional; and it is often mediated through forms of representation
  - Later learning may draw on contemporary accounts of those to describe, interpret, explain, and manage crisis

Crisis construals: true or correct?

- Construals can be assessed in terms of scientific validity:
  - note risk that scientific inquiries are distorted by scientists’ own ideological assumptions (economics is one of many examples)
  - note that theoretical paradigms differ from policy paradigms
- Construals can also be assessed in terms of correctness, i.e., the capacity to transform conjunctural potentials (crisis as opportunity) into reality by guiding action (construal leads to construction). This depends on:
  - limits set by objectively overdetermined form of crisis
  - interpretive and mobilizing power of strategic perspectives
  - balance of forces associated with different construals

“Correct construals”

- Initial variation of construals does not imply free choice among many interpretations that may be equally correct
  - ‘Arbitrary, rationalistic, and willed’ construals versus ‘organic’ or ‘correct’ construals, i.e., construals adequate to given crisis conjuncture and readily communicated to relevant audience
  - What is ‘correct’ organically (in terms of construal) and/or chronologically (first to resonate and/or win or impose agreed reading) matters more in selection than ‘scientific truth’*
  - A ‘correct’ reading creates ‘truth-effects’ and may then be retained through its capacity to shape reality.
  - This is a recursive process: know when to re-construe!
  - * Such truths are defined through paradigms and their struggles

Ideas and economic policy ...

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. ...

I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. ... the ideas that civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil

John Maynard Keynes
... but power matters too!

"Errors have been made. Others will be blamed"

- Power is the ability not to have to learn from one's mistakes (Deutsch 1963: 111).
- Those with power may try to impose costs of their mistakes onto others.
- Entrenched blocs, durable alliances, and/or temporary coalitions of the powerful may seek to shift costs of crisis management/adjustment as well as to shape learning processes.

The North Atlantic Financial Crisis

- This crisis (more commonly, and misleadingly, called the 'global financial crisis') has a specific aetiology:
  - It occurred in a world market being integrated (but not homogenized) in the shadow of neo-liberalism.
  - It spread unevenly from heartlands of neoliberalism via contagion and/or differential adaptation.
  - Financialization character involves more than growth of (boring) financial activities relative to other sectors or financialization of everyday life.
  - It cannot be explained directly in terms of a logic of crises in profit-producing (productive or industrial) capital.

Immediate Origins of the Crisis

- NAFC arose from "capitalist speculation and finance", not from "free trade in markets and capitalist production".
- Its was enabled by "unusual deals with political authority" (de-regulation of finance, rising income and wealth inequalities, etc) and "predatory political profits" (due to roll-out of neo-liberal regimes, "disaster capitalism").
- Specific form due to hyper-financialization of advanced neo-liberal economies, especially de-regulated, opaque and sometimes fraudulent financial institutions.
- NAFC has triggered crisis in neo-liberal, finance-dominated accumulation regimes in a world market that has been re-organized in the shadow of neo-liberalism.

Finance-Dominated Accumulation

- The basic principle of financialization is transformation of future streams of (profit, dividend, interest) income into tradable assets like stocks or bonds (securitization).
- A ‘pattern of accumulation in which profit making occurs increasingly through financial channels rather than trade and commodity production’ (Krippner 2002).
- Increased importance of fictitious credit, fictitious capital, and fictitious profits in economic dynamics.
- It reflects the systemic weight and power of financial markets, financial motives, financial institutions, and financial elites in national and international economy.

... and the Wider Context

- Five crises are crucial contextually (in order of importance):
  - Global environmental crisis (plus energy, food, water).
  - Crisis of US hegemony within post-1975 global order.
  - Crisis of neo-liberalism as economic and state project.
  - Crisis of finance-dominated growth regimes.
  - Crisis in particular strategic sectors (e.g., automobiles).
- These are superimposed on more local (regional, national, meso-regional, local crises) and other types of crisis (fiscal, rationality, crisis in crisis-management, legitimacy, organic, etc.). These shape spatial repercussions of NAFC and the manner in which they unfold in space-time.
EU in Shadow of Neo-Mercantilism

Shadow of neo-mercantilism in Euroland due to relative weight of export-led accumulation in the “Modell Deutschland”, to the ‘ecological dominance’ of German economic Grossraum in European Economic Space, esp. in Eurozone, to institutional flaws in design of Euro, and to Germany’s hegemonic position in EU and wider EES.

A Miracle for Whom?

A NEOLIBERAL “RECOVERY” PLAN FOR THE EUROZONE

- Worsening Economic Conditions ➔ Huge Financial Sector Bailouts ➔ Rich Get Richer, Key Outcomes Poor Get Poorer ➔ Reduced Aggregate Demand & Stagflation ➔ Harsh Austerity Measures

Why Neo-Liberalism Matters – I

- Prioritizes exchange-value aspect of capital’s contradictions over its material substratum and, thus, associated fractions of capital, their overall strategies and specific policies
- Favours colonization of other systems and lifeworld through profit-oriented, market-mediated capital accumulation (but also increasingly depends on forms of political capitalism)
- Eventually needs flanking-supporting mechanisms to limit its dysfunctions and contain backlash and resistance (“Third Way’, roll-out neo-liberalism, “double movement”, etc.)
- After highpoint and loss of hegemonic status, retains its path-shaping domination and capacity to cause damage

Kinds of Neo-Liberalism

- Neo-liberal system transformation
  - Shock therapy in post-socialist, market economies (ground zero)
- Neo-liberal regime shift
  - Principled roll back of post-war settlements, roll out of neo-liberalism
  - Most closely linked to finance-dominated accumulation
- Neo-liberal structural adjustment programmes
  - Imposed on “crisis-ridden” economies by external powers and forces
- Neo-liberal policy adjustments
  - Pragmatic adaptation of post-war growth modes to new conditions

Why Neo-Liberalism Matters – II

- Growing separation of interest-bearing capital from profit-producing capital through pursuit of neo-liberalism on a global scale, especially liberalization and de-regulation
- Global finance becomes most powerful fraction of capital in world market (or overall circuit of capital) thanks to its hyper-development of factors tied to overall dominance of capital
- Yet finance capital cannot escape need for profit-producing capital to create value within the overall circuit of capital so that money as money and money as capital have value (an illusion leading to false belief that money creates money)
Irrationalities of Neoliberalism

- We now live in a nation where
  - doctors destroy health,
  - lawyers destroy justice,
  - universities destroy knowledge,
  - governments destroy freedom,
  - the press destroys information,
  - religion destroys morals,
  - and our banks destroy the economy

(Former US Ambassador, John Craig Roberts 2012)

Economic and political crisis - I

- Financial and economic crises have more radical effects when there is a crisis in the state and political life and when crisis provokes challenges to state as well as economic forms
- Current crisis was not initially associated with a crisis in the state (i.e., dominant patterns of governance and government): instead, “market failure” led to “state rescue”
- Indeed, roll-out of free markets has been associated with extension of strong state at home and with new forms of transnational governance inaccessible to popular forces
- Both aspects limit scope for social movements to define the nature of the crisis and to shape responses

Economic and political crisis - II

- State facilitated superficial return to financial “business as usual” (elements of “extend and pretend”) but there was uncertain, limited, halting recovery in “real economy”
- State rescue has transformed crisis in private finance into crisis of public finance and sovereign debt: this is being solved through austerity politics (there are alternatives)
- Austerity is generating political/state crises at rural and urban, regional, national, EU, and international scales
- There are obvious signs of “crisis in crisis management”, ad hoc muddling through, and incoherent responses; and this is provoking popular discontent and mobilization

Economic state of emergency

- A normal response to sudden crises that require urgent action – concentrates power among key economic and political decision-makers who exploit the crisis to promote their own economic and political interests.
- Generous (and ill-defined) discretionary powers granted to solve crisis ‘because’ exceptional measures with limited consultation were essential to ensure timely, targeted, and temporary action to renew growth.
- Facilitated by formal independence of central banks, use of prerogative powers, and willingness of legislatures to enact discretionary powers under pressure of time.

The Decline of Liberal Democracy

- Liberal democracy is stronger in periods when national was primary scale of economic and political organization
- Keynesian welfare national state:
  - National economy managed by national state on behalf of national citizens to create conditions for growing welfare state
  - Class compromise between industrial capital and working class
- Internationalization undermines conditions for KWNS and its democratic shell; they are further undermined by neoliberalism, financialization, and political capitalisms
- Temporal as well as territorial sovereignty of national states are undermined, leading mutually reinforcing authoritarian statism and enduring state of austerity

Finance and Liberties

... banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property until they lose everything (Jefferson 1802)
Political Capitalism and Democracy

- Arguments about the formal adequacy of liberal bourgeois democracy for capitalist social formations assume that ‘capitalist exploitation takes the form of exchange’
- With the rise of neoliberalism and finance-dominated accumulation, exploitation also depends on three kinds of political capitalism (as defined by Max Weber, but also studied in other work on capitalism, including Marx et al.):
  - force and domination,
  - predatory forms of appropriation,
  - unusual deals with political authority
- Combined with intensifying crises on a world scale, this further weakens conditions for liberal bourgeois democracy

Authoritarian Statism

Intensified state control over every sphere of socio-economic life combined with radical decline of institutions of political democracy and with draconian and multiform curtailment of so-called ‘formal’ liberties (State, Power, Socialism 203-4)

Authoritarian Statism

- Transfer of power from legislature to executive and concentration of power within the latter
- Accelerated fusion of the three branches of state legislature, executive, judiciary – decline in rule of law
- Functional decline of political parties as leading channels for ‘popular’ political dialogue with the state and as major forces in organizing hegemony
- Rise of parallel power networks that cross-cut the formal organization of the state, with a major share in shaping its activities outside formally accountable mechanisms

Political crisis

- Political crisis is a real process with own rhythms, its high and low points, alternating offensive and defensive steps, its extended or condensed spatio-temporal dynamic.
- Political crisis is the political condensation of a complex conjuncture and shaped not only by forms of state but also by struggles over control of state, its transformation, and struggles at a distance from the state.
- Decipherable in configuration of social forces at the centre of the power bloc (elite bloc), class alliances and the role of social movements, rise of new social forces, relations among unions, parties, and social movements and their social bases

Crisis of crisis-management - I

- Economic crises are not decisive: crises can be means through which the renewal of capital accumulation is secured
- Need to focus on political struggles and the reproduction of political (class) domination (where crises are resolved or not)
- Hence importance of crises in ‘power bloc’ (in the dominant social alliances that cross-cut society and state), its hegemony over the people, representational crises, crises of state integration, legitimacy crises, ideological crises, and so on
- No technocratic guarantees of successful crisis-management: depends on balance of forces, which can involve catastrophic equilibrium of forces ➔ exceptional regimes (e.g., fascism)

Crisis of crisis-management – II

- Policy failures can occur because of:
  - Arbitrariness of crisis interpretations
  - Inadequacy of instruments and institutions
  - Ungovernability of objects of intervention
  - Crisis in or of the broader policy context
- Economic crisis and political crisis
  - State as addressee in last instance of calls to intervene
  - It may lack capacities to intervene, materially and/or semiotically
- Some dimensions of state crisis:
  - Representational
  - Institutional
  - Fisco-financial
  - Legitimation
  - Rationality
  - “Ideological”
Crisis and fast policy - I

- Crises can be profoundly disorienting, throw learning into crisis and render past policy routines ineffective.
- Yet normal politics 'takes time', creating pressures to decide based on unreliable information, narrow or limited consultation and participation, etc., even as key actors think policy is taking too long to negotiate, formulate, enact, adjudicate, determine, implement.
- Call for quick action leads to shorter policy development cycles, fast-tracking decision-making, rapid programme rollout, continuing policy experimentation, constant revision of guidelines, etc.

Crisis and fast policy - II

- Emphasis on speed affects choice of policies, initial policy targets, sites where policy is implemented, and criteria adopted for success.
- It also blocks proper evaluation of policy impact over various spatio-temporal horizons, including delayed and/or unintended consequences and feedback effects.
- Scheuerman (2000) notes trend to 'economic states of emergency' linked to decline in power of judiciary (which looks to past precedent) and legislature (which legislates for the future) and with enhanced power for the executive (which can take fast decisions).

Policy, politics, ...

- Conjunctural austerity policies
  - introduced initially as temporary measures in response to short-term or immediate problems. As conjuncture improves, these policies are suspended or reversed.
- Neoliberal politics of austerity
  - *enduring politics of austerity* ('permanent austerity') is promoted in reply to a 'chronic' crisis, real or fictitious, in fisco-financial domain and/or in wider economy
  - Intended to reorganize the balance of forces in favour of capital rather than to make policy adjustments to safeguard existing economic and political arrangements

... and the Austerity Polity

- Results from a continuing fundamental institutional reorganization of relations between economic and political in capitalist formations
- May be a possibly unintended cumulative result of enduring politics of austerity, especially where this aggravates the underlying causes of fisco-financial crisis
- May result from deliberate strategy to subordinate the polity more directly and durably to the 'imperatives' of 'globalization' as construed in neoliberal discourse

Some Features of Austerity States

- Shift economy from wage-led growth to finance-domination
- Redistribute income from wage-earners to capital
- Promote ‘precarity’ in all areas of life as disciplinary tool to reinforce the financialization of everyday life
- Recompose social and demographic profile, with growing inequality in wealth and more stratification within classes
- Facilitate penetration or capture of state by corporations
- Accelerate turn from welfare state with shared citizenship rights to a coercive workfare and, esp. in US, penalty.
- Promote the values of hierarchy and competitiveness

Conclusions

- Crises are a productive entry-point into scientific analysis: they invite us to ask "what must the world be like for these crises to occur" and to explore the many challenges of symptomatology. They also pose questions about what exists in potentia if decisive action is taken ...
- The North Atlantic Financial crisis has novel features due to the rise of finance-dominated accumulation in neo-liberal regimes.
- Hyperfinancialization and primacy of financial capital did not result from spontaneous market forces but various political capitalisms.
- The historical correlation between profit-oriented, market-mediated accumulation and liberal democracy is threatened by political capitalism and the spill-over of economic crisis into political crisis.
- Crises of economic and political crisis-management lead to crises in and of the state and threaten new forms of authoritarian statism that limit scope for popular mobilization and ramp up repression.