

Lecture 17. Sociology 621.
The State and Accumulation: functionality & contradiction

I. THE FUNCTIONALIST LOGIC OF THE THEORY OF THE STATE

1 The class character of the state & Functionality

The central conclusion from the discussion of the capitalist character of the state is that the institutional design of the capitalist state helps explain, broadly, why the capitalist state serves the interests of capitalist and reproduces capitalism. This is not simply because capitalists manipulate the state, but because the form of the state fills this function for capital accumulation.

2 Key problem for the strong functionalist explanation = Feedback process

The central question here = what mechanisms actually regulate the “feedback loop” in this functional explanation? Is this:

- (a) Conscious manipulation by capitalists;
- (b) Class struggle -- victories and defeats of classes;
- (c) Some inherent selection principle that works “behind the backs of actors” as in the Darwinian model?

I think that the explanation for the functionality of the state must combine three processes:

1) *Political class struggle at pivotal conjunctures*

At certain historical moments the institutional arrangements are objects of struggle: the rules of the game are contested and institutionalized. Creating class-filters and system-reproducing arrangements is what the struggles are about.

2) *Systemic pressures*

What works and what does not work, however, is affected systematically by the nature of capitalism: some institutional solutions will be vulnerable because they precipitate disinvestment or fail to smooth market problems; others stabilize the accumulation process. Dysfunctional practices generate pressures for change.

3) *Institutional learning and correction of mistakes*

Mistakes are made; often no one knows what will work. Therefore there needs to be a process of trial and error and institution reconstruction in light of information about real effects: this is a crucial role for policy experts, think tanks, political feedback. There is no automatic guarantee that the learning and correction mechanisms will be optimal. It is easy for elites to learn the wrong lessons from failures.

3. Bourgeois Political Utopia.

The fantasy of capitalists is that institutions be designed in such a way that they effectively reproduce capitalism without any necessity for political intervention by capitalists. That would be a bourgeois utopia: the institutions automatically and perfectly reproduce the conditions for accumulation.

Problems: There are many problems with this utopian vision. Here I want to emphasize one in particular, which I will refer to as the problem *contested and contradictory functionality*: that is, there are a variety of ways in which contradictions can deeply enter and disrupt the functional logic of the state.

II. PROBLEMATIC FUNCTIONALITY

Three Types of contradictory functionality

1. Legitimation vs accumulation
2. Necessary autonomy contradicts subordination
3. International economy vs national states

1. LEGITIMATION VS. ACCUMULATION = CONTRADICTIONS BETWEEN STATE FUNCTIONS

Reproducing capitalism requires at least two kinds of state interventions: interventions which *legitimate the system to the masses* and interventions which establish favorable *conditions for accumulation*. James O'Connor argued in a very influential book in the early 1970s, *The Fiscal Crisis of the State*, that these two functions may contradict each other. (eg. social security vs budget deficits). The idea was basically this:

- Capitalism imposes considerable risks and deprivations in the lives of ordinary people
- The state provides a way of softening these risks and therefore reducing social conflict and political disruption
- But once a benefit becomes established it is viewed as a right – as an entitlement – and thus it is difficult to reduce.
- Spending thus has a ratchet-like quality of being sticky downwards – it is easier to expand entitlements than to reduce them.
- This generates a potential contradiction between legitimation and accumulation

There are two weaknesses in this argument:

- (1) Successful accumulation is itself a source of legitimation: a healthy capitalist economy legitimates both the state and capitalism even if people also have uncertainty and risk.
- (2) The ratchet like character of entitlements is not as strong as was thought. In the 1970s we thought that this contradiction was quite explosive: we did not anticipate the effectiveness of the Neoliberal ideological attack on the affirmative state and the important change in the legitimation pressures on the state.

2. AUTONOMY VS SUBORDINATION: CONTRADICTIONS WITHIN THE ACCUMULATION FUNCTION

(Offe's essay on *the crisis of crisis management*)

Offe's core Argument

2.1 Thesis 1: logic of capitalism → self-destructive tendencies (anarchy of market) → functional necessity for flanking systems, especially state: the state must intervene to prevent capitalism from destroying itself economically.

2.2 Thesis 2: the deeper are these contradictions → necessity for more autonomy from manipulation by particularistic interests of specific capitalists for the state to be functional, for it to provide for these steering requirements in an effective way. The state needs autonomy to be able to act functionally.

2.3 Thesis 3: FRANKENSTEIN PROBLEM: The state needs the capacity to intervene pervasively but it also must abstain from using that capacity in ways that undermine accumulation. Consequence =

Frankenstein problem = creating a monster you cannot control: to be able to autonomously intervene functionally it must have the capacity to do so destructively.

This is the pivotal problem: p.52 “the problem of whether the political administrative [system] can politically regulate the economic system without politicizing its substance and thus negating its identity as a capitalist economic system...”

[Note the extreme contradictory possibility = figure 3, p.54: the trajectory of minimum necessary interventions rises, but the maximum of system-reproducing interventions falls → decreasing room for maneuver: does the system become more or less vulnerable over time?]

Three key problems:

- Problem #1: once this capacity is created, then it becomes a target for manipulation: the state potentially “succumbs” to the control by specific capitalists or groups of capitalists.
- Problem #2: The extension and deepening of the interventionist capacity → perpetual problem of lines of demarcation between state and economy as principles of action (reprivatization vs global regulation): **no stable equilibrium.**
- Problem #3: Critical added complication: the interaction of the state with the normative system → As the state increases interventionist capacity for accumulation relations it is harder to restrict its availability for Legitimation reasons. It is hard to restrict interventionism to accumulation needs alone.

Result: The process by which the enlargement of state capacity occurs also generates tendencies for enlargement to undermine its functionality. This is a potential problem in all aspects of the state:

- fiscal crisis of state (revenues/spending tend to become uncoordinated with accumulation)
- administrative rationality: expansion of state undermines capacity for rational calculation
- loyalty erosion -- legitimation crisis (eg. prior benefits become rights, SSI); rising expectations; etc.; decommodification → greater reliance on state for reproduction, etc.

2.4 Conclusion: The contradiction thesis

1. *Functionalism thesis*: The state is functionally required by capitalism to overcome the self-destructive tendencies of capitalism.
2. *Frankenstein thesis*: to fulfill these functions the state must have the capacity to potentially act dysfunctionally (i.e. have real autonomy of policy formation and action)
3. *Contradiction thesis*: Various dynamics are set in motion which make it increasingly probable that the state will act dysfunctionally → *crisis of crisis management*.

3. Internationalization of Capital and the State: declining capacity for reconciling capitalism and democracy

States are anchored on specific territories; accumulation is global; capital can move globally. The premise of the steering/functional capacity of the state is that it can *solve free-rider problems of capitalists* by forcing them to make short-run sacrifices for long-term stability, reproduction, etc. But if each individual capitalist can escape paying for such long-term reproduction, they will do so, thus subverting the possibility of long-term stability. This in turn undermines the democratic capacity of the state: the state cannot be responsive to popular demands against capital if it cannot regulate capital. The potential for a positive equilibrium declines.

3.1 STREECK's argument:

Wolfgang Streeck develops a particularly gloomy version of this third argument. He basically argues that the erosion of the capacity of the state to contain the contradictions of capitalism will lead to intensifying crises which the state will be unable to counteract, but also this trajectory leads to a deepening fragmentation and disorganization of the social forces harmed by capitalism making them incapable of effectively challenging capitalism or forging a new settlement. The result is an interregnum, of unknown length, of partial social disintegration and micro-adaptions. Harkens back to Gramsci: “the old is dying but the new cannot yet be born...[ushering in] “an interregnum in which pathological phenomena of the most diverse sort come into existence”

Interregnum What comes after capitalism in its final crisis, now under way, is, I suggest, not socialism or some other defined social order, but a lasting *interregnum* – no new world system equilibrium à la Wallerstein, but a prolonged period of social entropy, or disorder (and precisely for this reason a period of uncertainty and indeterminacy). It is an interesting problem for sociological theory whether and how a society can turn for a significant length of time into *less than a society*, a *post-social society* as it were, or a *society lite*, until it may or may not recover and again become a society in the full meaning

This outcome is the culmination of a trajectory of the form:

“Solutions turned into problems requiring new solutions, which, however, after another decade or so, became problems themselves....”

Solutions turned into problems requiring new solutions which, however, after another decade or so, became problems themselves, calling for yet other solutions that soon turned out to be as short-lived and self-defeating as their predecessors. Government policies vacillated between two equilibrium points, one political, the other economic, that had become impossible to attain simultaneously: by attending to the need for democratic political legitimacy and social peace, trying to live up to citizen expectations of steadily increasing economic prosperity and social stability, they found themselves at risk of damaging economic performance – while efforts to restore economic equilibrium tended to trigger political dissatisfaction and undermine support for the government of the day and the capitalist market economy in general.

This begins in the 1970s and in each round the state tries to underwrite a solution on behalf of capitalism that ultimately becomes self-undermining.

1. 1970s: Profit squeeze from organized labor and tight labor markets → inflation → neoliberal offensive
2. 1980s: Neoliberalism → financialization & globalization → rising public debt
3. 1990s: Rising public debt → “consolidation state” of austerity politics
4. 2000s: Consolidation state & stagnant incomes → private debt explosion → crisis of 2008

This intersects three trends: declining growth, growing inequality, rising debt (public private and overall)

Political logic of crisis p16

All three crises began and ended in the same way, following an identical political-economic logic: inflation, public debt and the deregulation of private debt started out as politically expedient solutions to distributional conflicts between capital and labour (and, in the 1970s, between the two and the producers of raw material, the cost of which had ceased to be negligible), until they became problems themselves: inflation begot unemployment as relative prices became distorted and owners of monetary assets abstained from investment; mounting public debt made creditors nervous and produced pressures for consolidation in the 1990s; and the pyramid of private debt that had filled the gaps in aggregate demand caused by public spending cuts imploded when the bubbles produced by easy money and excessive credit blew up.

Upshot: erosion of democracy

The demise of standard post-war democracy was and is of the highest significance. Coupled to state-managed capitalism, democracy functioned as an engine of economic and social progress. By redistributing parts of the proceeds of the capitalist market economy downward, through both industrial relations and social policy, democracy provided for rising standards of living among ordinary people and thereby procured legitimacy for a capitalist market economy; at the same time it stimulated economic growth by securing a sufficient level of aggregate demand. This twofold role was essential for Keynesian politics-cum-policies, which turned the political and economic power of organized labour into a productive force and assigned democracy a positive economic function. The problem was that the viability of that model was contingent on labour mobilizing a sufficient amount of political and economic power, which it could do in the more or less closed national economies of the post-war era. Inside these, capital had to content itself with low profits and confinement in a strictly delimited economic sphere, a condition it accepted in exchange for economic stability and social peace as long as it saw no way out

Post-democracy p.22

Thus the threat of unemployment returned, together with its reality, gradually replacing political legitimacy with economic discipline. Lower growth rates were acceptable for the new powers as long as they were compensated by higher profit rates and an increasingly inegalitarian distribution.³⁹ Democracy ceased to be functional for economic growth and in fact became a threat to the performance of the new growth model; it therefore had to be decoupled from the political economy. This was when ‘post-democracy’ was born.

Globalization + financialization is at the heart of this process:

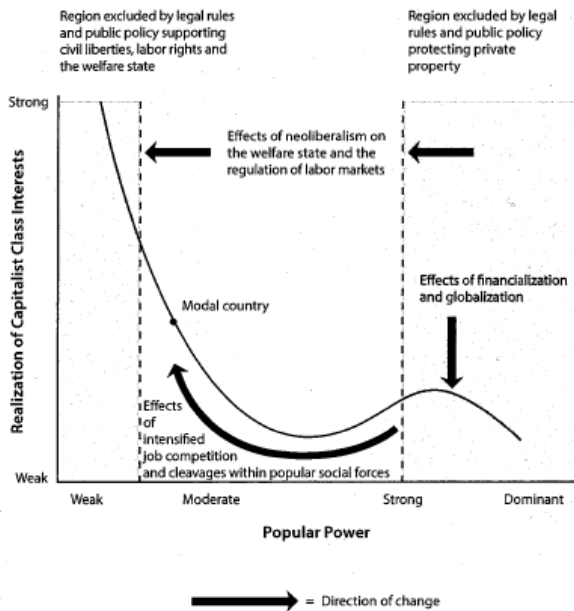
Globalization: capital can escape the prison of social democracy

p.22 for capital globalization it offered a long-desired way out of the social-democratic prison, or workhouse, in which it had been kept during the *trente glorieuse*. Now states were located in markets, rather than markets in states.

Financialization: substitutes private government capable of disciplining national political communities

p.24 Financialization turns the financial sector into an international *private government* disciplining national political communities and their public governments, without being in any way democratically accountable. The power of money, wielded by central banks both independent from states and dependent for the success of their monetary policies on the cooperation of the private financial sector, takes the place of the power of votes, adding importantly to the decoupling of democracy from political economy

Another way of looking at this: the collapse of the conditions for positive class compromise:



Additional notes:**4. CONTRADICTIONS IN THE ADMINISTRATIVE RATIONALITY OF THE STATE POLICY FORMATION PROCESS – PROBABLY SKIP**

This is a complex issue, and I will only indicate the basic idea here:

4.1 Three logics of decisionmaking

The state plays a critical role in creating and recreating conditions for capital accumulation. But what precisely the state must do to solve problems for continued accumulation varies over time: it is different in late 19th century capitalism than in the period of Fordism after WWII, and different again today. In each case the state has to generate policies, and this requires particular processes of decision-making.

Now here is Offe's critical insight: *different kinds of problems require different sorts of decision-making mechanisms in order for rational strategies to be devised*. Basically there are three kinds of decision-making processes available for state policy-formation:

1. *Bureaucratic procedures*: rational-legal application of fixed rules
2. *technical rationality*: application of expertise to solve problems
3. *democratic consensus*: formation of interest consensus via democratic-participatory forms

Throughout much of the history of capitalism, bureaucratic decisionmaking worked pretty well: many problems of creating the conditions for stable accumulation – enforcement of property rights, regulation of contracts, basic rules of the market, basic infrastructure, etc.-- could be solved by setting up rules and then applying them through a top-down, command-and-control bureaucracy. As Therborn emphasized, bureaucratic decisionmaking also had distinctive political virtues for capitalism, by virtue of the way it disempowers ordinary citizens.

But as capitalism develops technologically and spatially the conditions for the maintenance of capital accumulation become more and more complex, and as this happens a strictly bureaucratic logic of state action fails: administrative application of predetermined, fixed rules does not generate rational interventions. We see this in a wide range of regulatory failures in developed capitalist economies, such as environmental regulation. Simple, top down, bureaucratic rule enforcement becomes increasingly difficult with the complexity and heterogeneity of capitalist systems of production – monitoring costs go way up, the regulations often are ineffective for the specific problems of specific processes, etc.

4.2 Pivotal dilemma = Alternatives are also unsatisfactory in a capitalist context:

1. *Technocratic decisions*: Experts have difficulty in framing rational *ends*; they have competence only to specify means for unproblematically given ends (as in profitmaking capitalist firms). This problem is exacerbated by the need to take externalities into account (which firms displace). Consider the problem of environmental regulation, where there is a deep tension between the short run needs of maximizing profits, the long-term stability of conditions of accumulation, and the general welfare of people. Purely technocratic decision-making has difficulty balancing these ends. More generally once a simple monetary standard is missing to evaluate alternative means, the incommensurability of means and ends makes it very difficult to deploy pure technical rationality in the state.

2. *democratic-conflict-consensus*: Democratic consensus formation is an alternative to pure technical rationality or bureaucratic rule making, but this risks politicization of the goals of state action. Deepening democracy could well improve problem-solving capacity of the state, but it reduces its insulation from popular mobilization and action.

All this → contradictory articulation of *decisionmaking logic* and *functional requirements* of accumulation

The following material was dropped from the lecture, but might help clarify some of the other ideas in the Offe reading:

In Offe's approach the concept of the *capitalist* state is not based on an inventory of institutional properties in the manner elaborated by Therborn. Rather for Offe, the capitalist character of the capitalist state depends upon what could be called the functional principles of the state in the social system. There are a variety of possible institutional forms which could embody these functional principles. In his analysis, four such principles are specified:

1. **exclusion principle**: the state is excluded from direct control of production: i.e. it does not stop profitable private accumulation nor force unprofitable production: **the state is not a capitalist** [differentiation of state and capital]
- b. **maintenance principle**: the state is required to maintain conditions of accumulation and counter various threats to accumulation: **capitalism needs the state** [functional dependency of capitalism on the state]
- c. **dependency principle**: State power depends upon capitalist accumulation: **the state needs capitalism** [functional dependency of the state on capital]
- d. **legitimation principle**: In order for the state to remain legitimate it must conceal its capitalist character. This legitimation principle is what allows the three other principles to operate in a stable manner.

CENTRAL PROBLEM:

Within this general framework of functional principles, the form of state interventionism changes as the functional demands on the state change, and this leads to changing conditions for state rationality.

Decisive dimension of this change = **from allocation to production interventions.**

One way to think about this is the shift from the process that triggers state interventions: a shift from interventions in response to **DEMANDS** versus **EVENTS**:

Allocative interventions: respond to **voiced demands** with rational allocation of political resources. This follows the logic of decision rules of *politics*

Production interventions: respond to negative events (disruptions of accumulation). This follows the logic of decision rules of *policies*. Fundamental character of a policy logic in response to events is that **what is needed must be produced by the state, not just allocated.**

The administrative problem is that the decision rules to effectively respond to demands may not be optimal for the response to events.

Correspondences of decision rules and interventionist requirements:

allocative interventions → bureaucratic decision rules → congruence between functions and procedures of the state

productive interventions → bureaucratic logic fails because application of predetermined rules does not generate rational interventions.