

## **MERCANTILISM, LIBERALISM AND KEYNESIANISM: CHANGING FORMS OF STATE INTERVENTION IN CAPITALIST ECONOMIES**

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The distinctive feature of political experience in advanced capitalist society is the extent to which state activity pervades virtually all aspects of social, cultural and economic life. The predominant role of the state in contemporary capitalist society is a far cry from the role ascribed to it during the nineteenth century, when it was subordinate to the self-regulating market. This development has posed a grave dilemma for the contractarian political theory of the seventeenth and eighteenth centuries, informed by the conception of the self-regulating market, which provided the basis for the development of modern liberal democratic political institutions. According to contractarian theory, these liberal democratic political institutions — political parties, elections, representative assemblies and a responsible executive — determine the policy role of the state. They fulfill in effect a dual role, providing the means for the expression and authoritative resolution of political differences while simultaneously providing the means to ensure that the results of the political decision-making process are regarded as just and legitimate.<sup>1</sup>

The expansion of the areas of state involvement in the economy throughout this century is largely the result of the political pressures imposed upon the state through the operation of representative political institutions. The extension of the mass franchise and the consequent development of mass-based political parties provided the mechanism by which those groups in society which were most vulnerable to the unimpeded operation of the self-regulating market could utilize the state to defend themselves. As Karl Polanyi has pointed out, the increased regulation of the destructive potential of the market was the result of the pressure exerted by the very social and economic classes which had been brought into existence by the expansion of the market:

For a century the dynamics of modern society were governed by a double movement: the market expanded continuously but this movement was met by a counter-movement checking the expansion in definite directions. Vital though such a counter-movement was for the protection of society, in the last analysis it was incompatible with the self-regulation of the market, and thus with the market system itself.<sup>2</sup>

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### The Crisis of 'Governability'

The slow but steady transformation in the economic role of the state throughout the nineteenth century and into the twentieth century was brought about by the operation of the liberal democratic decision rules for the governing of capitalist society, in themselves derived from the ideology of individualistic market competition. However, as the economic role of the state expanded to protect society from destroying itself through market competition, the political basis for the legitimacy of liberal democratic decision-making processes underwent a change as well. It became increasingly important for the policy outputs of these decision-making processes to exhibit the same principles upon which the decision rules themselves were based. In other words, the formal political equality of liberal democratic political institutions had to result in a substantial degree of social and economic equality in the policy outputs of those institutions.<sup>3</sup> At the same time, the enhanced popular expectations concerning the democratic character of the state's policy outputs have imposed a growing burden upon the representative institutions of liberal democracy to continue to play their assigned role. Concern over the ability of such institutions to respond to the rising level of popular expectations has been expressed most recently in the literature discussing the 'ungovernability' of modern democracies or the problem of governmental 'overload'. What these theories have suggested is that:

the conflict-generating potential of the institutions of the democratic polity by far outweighs their conflict-resolving capacity. As a consequence, the state becomes increasingly unable to reconcile the demands transmitted through democratic institutions with the requirements of the national and international economy.<sup>4</sup>

The growing concern with the breakdown of traditional liberal democratic modes of political representation masks, however, the true source of the problem. What has broken down, in fact, is not the mode of political representation symbolized by mass-based parties, popular elections and representative assemblies, but rather the explicit compromise over the nature and content of state intervention in the economy fashioned among the major classes in capitalist society in the period during and following World War II. This compromise, which has been termed the 'post-war settlement' between capital and labour, was based upon the premise that steady economic growth in the advanced capitalist countries, stabilized by Keynesian economic policies in a reformed international monetary system and international trading regime, could finance a sufficient level of income security programmes

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to maintain social harmony and ensure the regeneration of capitalist social relations of production.<sup>5</sup> The real source of the contemporary crisis of the liberal democratic mode of political representation is, therefore, not the inherent inability of its institutions to reconcile their conflict-generating and conflict-resolving roles, but rather the growing inability of the state in those societies to maintain simultaneously the necessary balance between a stable pattern of economic growth and capital accumulation on the one hand, and the anticipated standard of publicly-financed social consumption on the other.

The most obvious manifestation of this growing inability has been the emergence of prolonged periods of inflation in all the advanced capitalist economies. While much of the discussion of the inflationary phenomenon in these societies has focused upon its narrowly economic aspects, there has been a growing recognition that at the root of the problem lies the competitive economic struggle (which is inherent in capitalist social relations of production) over the distribution of the social product. The substantial expansion of state intervention in the postwar economies of the advanced capitalist countries, which has served to limit and to contain the socially destructive potential of the market, has also served to displace the competitive struggle to the realm of the state. Much of the recent prescriptive writing on the current dilemmas of the advanced capitalist economies has focused upon the need for governments to adopt a firmer approach to the control of capitalist economies and to restore the prerequisites of economic growth by tipping the balance in the current struggle in favour of capital. This focus implies the adoption by the state of a new role — that of a disciplinarian, restraining individuals and enterprises for the sake of their mutual long-term interest. The emergence of the belief in what Robert Keohane has termed the 'democratic disciplinary state' constitutes the late twentieth century's version of the solution afforded by Keynesian economic ideas to the crisis of the Great Depression.<sup>6</sup>

The problem with this current diagnosis of what ails the advanced capitalist economies is its inability to appreciate the inherent contradiction between the need for self-discipline and democratic political institutions. The contradiction makes the prospects for such an authoritative resolution of the current economic problems of advanced capitalism seem rather remote. A thorough understanding of the reasons for its remoteness can only be derived, however, from a detailed examination of the social and economic forces which have contributed to the evolution of the economic role of the state in advanced capitalism.

### **The Economic Functions of the State**

The state has been defined as that set of institutions within a society that

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exercises the monopoly on the legitimate use of physical force within a given territory.<sup>7</sup> In a society structured along class lines, the role of that institution which monopolizes the legitimate use of physical force is to maintain social order, to guarantee the stability of the conditions necessary for the reproduction of the social relations of production. The state is not a social entity which embodies a specific institutional essence of its own; it is a product of the existing class relations in a society. In this conception, power does not exist as a neutral institutional force arising out of the structures of the state itself, but rather represents a condensation of the relations of power existing among the various classes in the society. This conception of the sources of state power and the institutional forms of the state is fundamentally a dynamic one emphasizing that changes in the specific form and role of the state reflect changes in the mode of production and in class relations.<sup>8</sup>

Since the dominant economic feature of all class-based societies is the appropriation of the surplus product from the class of direct producers by the dominant class, it follows that the major economic function of the state in class-based societies is the maintenance of the social and political conditions under which the economic surplus can be extracted. The distinctive feature of capitalism as a mode of production is that the extraction of the surplus product takes place through the purely economic medium of the free exchange of equivalent commodities in the market. Capitalism is also the first mode of production in which the surplus itself is transformed into a commodity — capital — which provides the basis for the further extension of the cycle of surplus appropriation and thus for the further accumulation of capital. In this mode of production, the principal role of the state is to ensure that the universal rights of all producers to their private property is respected and that the sanctity of transactions based on the exchange of commodities is guaranteed. Thus, the basic economic function of the state in the capitalist mode of production has been defined as the accumulation function.<sup>9</sup>

The historical variations in the way in which the state has performed this function have been a reflection of the changing political relation of class forces in different societies. Thus the changing forms of economic policy adopted by the capitalist state represent the different ways in which the state has performed its accumulation function at different stages in the development of capitalist relations of production. Mercantilism is the economic policy conducive to the emergence of the capitalist mode of production or what Marx called the process of 'primitive accumulation'; liberalism is the economic policy of a fully developed and economically dominant industrial capitalism; and Keynesianism is the form of economic intervention adopted by the state at the stage of advanced capitalism.<sup>10</sup>

The definition of the state that has been presented also includes the notion that in order to maintain the cohesion of a social order, the state must be

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recognized as that association within the social order which has a legitimate right to monopolize the use of coercive force. The concept of legitimacy as an important element in the existence of a structure of power and domination is also derived from the work of Max Weber, who observed that the continued exercise of virtually every type of political domination required self-justification through an appeal to commonly accepted myths or values which supported the existing distribution of power.<sup>11</sup> Defined as such, the concept of legitimacy includes the whole range of myths, symbols and normative values shared by members of a social order in the religiously, customarily, legally or politically sanctioned right of the holders of positions of power and domination to exercise that power. The prevailing ideology justifies the existing distribution of power and material resources in a society.

To the extent that the state comprises the particular set of institutions in a society which maintains the social and political conditions necessary for the extraction and appropriation of the surplus product from the class of direct producers, the manner in which the existing system of power and domination is legitimated also serves to justify the particular mode of surplus extraction which characterizes that society. In capitalist society it is the ideology of the exchange of equivalents, or the free exchange of commodities in the market, which justifies the prevailing distribution of power and resources. However, this ideology is peculiar to the liberal phase of capitalism and is not a wholly appropriate description of the legitimating values of capitalism in its nascent, mercantile, or fully developed advanced capitalist phase. In each separate phase, a different legitimating ideology serves to justify both the dominant mode of surplus extraction and the particular form of economic intervention practised by the state. The types of state activity based on this set of overarching values or beliefs fulfill the legitimation function of the capitalist state.<sup>12</sup>

Each of the forms of state intervention practised by the state in the different phases of capitalist development was legitimated by its own set of overarching beliefs and values. Mercantilist doctrine was based on a theory of national development which identified military power and economic wealth. For the mercantilists, economic wealth was an absolutely essential means to power, whereas power, in turn, was valuable as a means to the acquisition or retention of wealth. On this basis wealth and power were both regarded as proper ends of national economic policy and there was further deemed to be an essential harmony between those two ends.<sup>13</sup> As such, mercantilism provided an unquestionable justification for the expansionist policies of colonial settlement and commercial wars which marked the period of the development of capitalism, especially in England, from the mid-seventeenth century through to the end of the eighteenth century. Liberalism, on the other hand, provided a diametrically opposed set of values to legitimate the elevation of the

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market as the dominant organizing principle of nineteenth century society. Economic liberalism became an almost religious faith in the economic and social benefits that could be gained from the unimpeded operation of the self-regulating market, and as such provided a supreme justification for the systematic dismantling of every aspect of the mercantilist policies of the earlier epoch and the creation of the *laissez-faire* state.<sup>14</sup>

The relationship between the accumulation and legitimation functions of the state in the final period under discussion, that of advanced capitalism, represents a fundamental break with the two earlier periods. Under both the mercantilist and liberal phases of state intervention an essential unity prevailed between the two economic functions of the state. In contrast, the forms of state intervention in the period of advanced capitalism are marked by a disjuncture between the accumulation and legitimation functions of the state directly attributable to the alteration in the political balance of class forces coincident with the development of liberal democratic political institutions.

The political conditions necessary for the creation and expansion of a capitalist market economy, namely, the legal freedom and formal equality of all possessors of property, created the preconditions for the extension of this formal equality to the arena of politics. These conditions contained within themselves a contradiction between the formal equality and rationality necessary for the free exchange of commodities and the inevitable growth of class differences and political inequality. This contradiction, in turn, generated the political demand on the part of the disenfranchised classes of nineteenth century political society for the extension of formal equality from the spheres of law and economics into that of politics as well. Thus, out of the specific political conditions created by the capitalist mode of production emerged liberal-democratic institutions.<sup>15</sup>

The emergence of liberal democratic political institutions was accompanied by the growth of another institution essential to an understanding of the relations between capitalist society and the capitalist state, namely the mass political party. The growth of mass political parties with the extension of the franchise in late nineteenth century Britain and in other capitalist countries, provided the means whereby the newly enfranchised social classes could be integrated into the political process of capitalist society, while simultaneously exerting a new level of influence on the direction and content of the policies adopted by the governments of those states. In this sense, mass political parties embody some of the central contradictions of liberal democratic political institutions; on the one hand they have served to institutionalize the previously violent and disruptive political conflict between social classes in a non-violent direction, and on the other they have provided a concrete mechanism whereby the subordinate social classes could fundamentally alter the nature of state policies.<sup>16</sup>

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The rise of mass political parties has been viewed in extremely contradictory ways. Some observers have argued that the expansion of the base of political parties to include members of the working class and even the development of labour and socialist parties based on the working class had the effect of incorporating the members of the subordinate class into the political system that perpetrates their subordination. In this view the modern party system has been the means by which universal political equality has been reconciled with the maintenance of a society based on unequal class divisions.<sup>17</sup> While there is some truth to this point of view, it only partially analyses the effects of the extension of the franchise and the formation of working class based parties in the modern state. In addition to providing the mechanisms for the incorporation of the working class into the existing institutional arrangements of capitalist society, the participation by working class parties in the democratic electoral process also provided the political means whereby the members of the subordinate classes could exploit the institutional structures of the capitalist state to effect substantial social and economic reforms. Not by accident have most social democratic political parties chosen to follow this political path, for it is

. . . precisely because workers are exploited as immediate producers and precisely because elections are within limits instrumental toward the satisfaction of their short term material interests, all socialist parties either enter into electoral struggles or lose their supporters . . . For workers the only way to obtain immediate benefits is to utilize the opportunity provided by bourgeois political institutions regardless of how limited that opportunity might be.<sup>18</sup>

In this sense, the modern party system has played a somewhat contradictory role in serving both to reconcile working class discontent with the inequities of existing social arrangements while providing the means through which the grossest of those inequities could be alleviated. Thus modern political parties have provided an important mechanism whereby change in the political balance of class forces in capitalist society have been reflected in the substantial expansion of the legitimation function of the state.

In advanced capitalist society the legitimation function of the state is performed through the adoption of a host of policies whose specific purpose is to maintain social harmony. These policies include ones designed to compensate the poor and the unemployed, the most obvious victims of the unimpeded operation of the market in the earlier period of liberal capitalism.

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Thus under advanced capitalism, the economic ideals of social welfare and full employment perform the legitimation function of the state by securing the loyalty of the democratically enfranchised mass electorate to the existing mode of production. However, to the extent that the economic ideals of social welfare and full employment undermine the social conditions necessary for the reproduction of capitalist relations of production, an underlying conflict between the two functions of the state has emerged.

The formal assumption by the state of responsibility for minimizing the most drastic economic consequences of the accumulation process has meant that the state has transformed the question of the distribution of the social product from an essentially economic question into a political one. While the conflict between the direct producers and the appropriators of the surplus product is primarily determined by the organization of the means of production, the assumption by the state of formal responsibility for stabilizing the overall level of activity in the economy and the economic returns to participants in the economy has resulted in an increasing displacement of that conflict from the level of the economy to that of the state, or a "repoliticization of the relations of production."<sup>19</sup>

### **The Changing Forms of State Intervention**

The utility of the distinctions drawn between the three different forms of state intervention and the changing nature of the economic functions of the state can only be demonstrated with reference to concrete historical experience. In the following discussion the case of Britain has been chosen in order to examine the way in which these concepts can be applied. Britain is not taken to be typical of the pattern of capitalist economic and political development. No completely typical case of the model suggested above exists given that all theoretical formulations involve abstractions and simplifications from concrete historical examples. Britain is taken as a prototype of the changing economic role of the capitalist state largely because it developed the first capitalist economy. Britain's uniqueness had two important consequences. In the first place, it established the pattern of development that other capitalist nations were to attempt to reproduce, even if the manner in which they did so differed fundamentally from the way in which capitalism developed in Britain. Secondly, largely because it was the first capitalist economy, Britain was the only country to attempt to adopt fully a consistent liberal form of state intervention. Although liberal economic ideology came to play an important role throughout all capitalist societies, only in Britain did it ever truly become the guiding principle behind the economic role of the state.

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### **Mercantilism and the Emergence of Capitalism**

Out of the English Civil War emerged a form of political system that proved to be highly conducive to the emergence of capitalism. The development of a state structure controlled by the commercialized gentry, based on the representative forms of Parliamentary government and closely allied with the rising class of merchant and commercial capitalists, led to the adoption of a series of integrated mercantilist policies which hastened the maturation of capitalist social relations of production. This integrated series of policies included the passage of the Navigation Acts; the aggressive pursuit of an expansionary colonial policy; the elaboration of a system of taxation that simultaneously produced the revenue required for the financing of colonial wars and provided a rising level of protection to Britain's infant manufacturing industries; the establishment of national monetary institutions and the use of the public debt both to finance the state's activities and to promote the accumulation of wealth in the hands of the capitalists; and finally, the vigorous use of state power to dispossess the peasantry and thus artificially create the landless proletariat that was to provide the necessary labour force for the industrial revolution of the late eighteenth century. This integrated mercantilist system, Marx argued, was the basis of the process of primitive accumulation necessary for the extended reproduction of the capitalist mode of production:

In England at the end of the 17th century, they (the different momenta of primitive accumulation) arrive at a systematical combination, embracing the colonies, the national debt, the modern mode of taxation, and the protectionist system. These methods depend in part on brute force, e.g., the colonial system. But they all employ the power of the State, the concentrated and organised force of society, to hasten, hothouse fashion, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition.<sup>20</sup>

Nowhere can the substance of the mercantilist system of Britain be seen more clearly than in the Navigation Acts passed shortly after the end of the Civil War. They marked the transition from a mercantilist policy based on the total integration of the country's trade into a national monopoly with the state playing the principal role of organizing and maintaining the monopoly on behalf of the national trading interests. The Navigation Acts allowed British merchants to buy British and colonial exports at low costs and sell them at inflated prices in Britain. Coupled with the consistent application of British

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naval and military power to defeat prospective commercial competitors, first the Dutch and later the French, the colonial system built up through the use of the Navigation Acts and the prosecution of commercial wars resulted in the creation for Britain of a virtual monopoly of overseas colonies among the various European powers.<sup>21</sup>

A related aspect of the mercantilist system developed in Britain after the Civil War was the rapid expansion of the system of customs duties. In direct response to the immensely expanded costs of prosecuting the commercial wars against the Dutch and French, customs duties began to rise in the 1690s, and in the period from 1690 to 1704 the general level of duty on imports was nearly quadrupled. Very little evidence exists that this initial rise was prompted by considerations of protection for British manufacturing, but its economic effects quickly produced an awareness of the implications of this aspect of the customs duties. By the early eighteenth century the higher level of customs duties began to produce strong pressure from manufacturers in favour of concessions, particularly on inputs into the manufacturing process. The major tariff reform of 1722 recognized these pressures by granting concessions on some manufacturing inputs. Throughout the eighteenth century the overall level of protection was gradually increased. The rapidly expanding system of customs duties provided the vital revenues needed to maintain the British military forces, to prosecute the numerous colonial wars, and at the same time, to provide an increasing degree of effective protection for the rising manufacturing industries at home. The complementary nature of these two aspects of the customs duties was important to the viability of the mercantile system:

If protection and revenue needs had ever clashed very seriously, it is by no means certain which would have won; but with the exception of the largely politically inspired prohibitive duties on trade with France, none of the special protective measures very seriously affected the revenue. Industrial protection was, on the whole, a side effect of the raising of revenue; it was secured alongside, not in conflict with, the success of fiscal policy.<sup>22</sup>

Another important development in the late seventeenth century was the creation of the Bank of England. It linked the mobilization of financial resources for government purposes and the use of the National Debt as a lever of accumulation. Founded in 1694 on the basis of a joint stock company by the approval of Parliament, the Bank quickly became the main source of government loans. In addition to an original loan to the government which

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was the basis for its establishment, the Bank of England began to make sizeable cash advances to the government and became increasingly important in mobilizing resources from all over the country. After 1709, the Bank of England became associated with the issuing of Exchequer bills as well. The development of an integrated fiscal system of taxation, national credit, and currency in the late seventeenth century under the centralized control of Parliament provided an additional means of redistributing income into the hands of the accumulating class in British society:

The new fiscal system helped the accumulation and concentration of capital. The Bank of England lent money to the government at eight per cent, and was empowered to print bank notes which circulated as currency. Payment of interest on the National Debt, guaranteed by Parliament, necessitated heavy taxes, which transferred wealth from the poorer and landed to the monied classes.<sup>23</sup>

Over the course of the latter half of the eighteenth century, the conditions necessary for the emergence of industrial capitalism were further created, as landlords intensified the commercialization of agriculture with the passage of a large number of enclosure bills through Parliament. In a Parliament consistently dominated by the landed gentry, 4,100 enclosure acts were passed between 1719 and 1845, with the vast majority coming around the turn of the century. The growth of the enclosure movement was merely the most visible aspect of a general trend throughout the countryside towards the increasing concentration of landownership in large commercially run estates.<sup>24</sup> While the enclosure movement is often associated with the process of capitalist industrialization, and it is assumed that the dispossessed labourers were absorbed into the expanding industrial labour force, the two developments did not occur simultaneously and necessarily a great deal of hardship and misery was experienced in the process.

The most obvious indication of the social dislocation caused in the countryside by the effects of the enclosure movement was the introduction of the Speenhamland system. It represented a last desperate attempt on the part of the rural authorities responsible for the administration of the traditional Elizabethan system of relief to maintain the rural social order in the face of the rapidly expanding free market in labour. Originating with a decision of the justices of Berkshire in 1795 to grant subsidies in aid of wages to the poor based on the price of corn, and formally ratified by Parliament the following year, the actual results of Speenhamland are generally conceded to have been

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disastrous. In effect all the local ratepayers subsidized the larger farmers who were more easily enabled to pay low wages, while it immobilised the rural labourers who could expect to be supported at the subsistence level in their own parish, but nowhere else.

The best that can be said for it is that, since industry could not yet absorb the rural surplus, something had to be done to maintain them in the village. But the significance of Speenhamland was social rather than economic. It was an attempt — a last, inefficient, ill-considered and unsuccessful attempt — to maintain a traditional rural order in the face of a market economy.<sup>25</sup>

The main features of the mercantile system just outlined constituted a comprehensive form of economic intervention by the state to both promote the accumulation of capital in the hands of a growing commercial and industrial capitalist class and to foster the commercialization of agriculture, thus creating the landless labour force which was indispensable to the process of industrialization. The theories and ideas of mercantilism gave both a systematic form and provided an overarching pattern of legitimation for this type of state intervention. Furthermore, it served as a unifying symbol around which the dominant and rising classes of British society could unite in the pursuit of a common goal. The ideals of mercantilism united the ruling landed interests represented by the Whig gentry with the merchants, financiers and manufacturers of the emerging capitalist mode of production:

The politics of the middle decades of the eighteenth century . . . presupposed a wide consensus within the active political community. Almost without question, the members of that community accepted not only the aristocratic order and the balanced constitution, but also the mercantile system. Indeed, the ideology of mercantilism had as great a hold upon the age as free trade came to have on the nineteenth century. Hence, although members of the landed interest held the commanding heights of political power, this did not mean that the claims of commerce were neglected. On the contrary, in their minds, as in the minds of the other great interests, commerce was “the dominant factor” in the existence and well-being of Britain. The self-interest of group and faction was conditioned by this wide

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agreement on the economic and social order. So conditioned it could be freely pursued without danger to that order<sup>26</sup>

The ideological unity provided by the theories of mercantilism thus operated to legitimate the form of intervention of the British state in this period of the emergence of the capitalist mode of production.

### **Liberalism and Competitive Capitalism**

The cohesion of the upper classes in British society began to crack in the early nineteenth century at exactly the same time that mercantilism, under increasingly severe attacks from the liberal successors of Adam Smith, began to lose much of its legitimating value. The political manifestation of these changes was the increasing pressure exerted by the new industrial middle class for electoral reform. Together, three elements — dissatisfaction with the system of political representation, criticism of the ideology of mercantilism, and unrest over the economic restraints imposed on the economy by the mercantilist system — came under attack in a social revolution whose implications were to be as profound as those of the revolutionary period from 1641 to 1688. The fundamental political and economic changes in Britain from 1832 to 1849 marked the ideological triumph of liberalism. This phase of liberal economic policies has frequently been interpreted as involving the withdrawal of the state from economic intervention, and even further, as evidence that the liberal state was a 'weak' one. This interpretation fails to recognize the point that liberalism was the form of state economic intervention specific to the competitive phase of the capitalist mode of production, just as mercantilism had been the form of state economic intervention specific to the phase of the primitive accumulation of capital. The British state in the nineteenth century was one whose political and economic power was virtually unassailable, either abroad or at home. By the end of the Napoleonic Wars British commercial and industrial supremacy in the international economy had clearly been established. The ultimate success of laissez-faire as an economic policy was based on the fact that Britain could use her significant industrial advantage to undersell any other competitor in the world market and her naval power to maintain access to world markets. The international and domestic strength of the British state allowed it to systematically dismantle the mercantilist apparatus, once its purpose had been achieved, and to introduce laissez-faire in its place. The dismantling of the mercantilist system required as great a degree of 'intervention' as had its creation in the first place. "The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism."<sup>27</sup>

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The triumph of liberalism as the guiding force of the British state resulted from the increased influence of the industrial manufacturing class which pressed for the reform of Parliament and the electoral machinery to give it a degree of political power consonant with its economic and social power. The first significant indication of its increased power was the passage of the First Reform Act of 1832. The passage of the Reform Act gave the industrial middle class a degree of direct influence in the governing institutions of the country and opened the way for a frontal attack on the bulwarks of mercantilism.<sup>28</sup> The 'creation' of the *laissez-faire* state was accomplished through four major steps: the passage of the New Poor Law in 1834, the passage of the Bank Act in 1844, the repeal of the Corn Laws in 1846, and the repeal of the Navigation Acts in 1849.

The Poor Law Reform of 1834 began with the abolition of the Speenhamland system and the discontinuation of aid-in-wages. Under its provisions no future outdoor relief was to be made available and the poor were left with the free choice of destitution on their own or resort to a workhouse institutionally designed to discourage this choice as much as possible. The new Poor Law was designed to act as a not-so-subtle prod ensuring that the majority of the labouring poor had no recourse but to remain in the labour market and sell their labour power as a 'free commodity' at whatever price the market dictated. In T.H. Marshall's formulation, the Poor Law Reform created an absolutely rigid distinction between the civil and political rights of citizenship on the one hand and the social rights of citizenship on the other hand. Under the new Poor Law, only by renouncing all rights to citizenship in the first two aspects could an individual make any claim to citizenship in the third aspect. The Poor Law was the first clear announcement that in the liberal state, the market was to reign supreme, sanctioned and supported by the full weight that the state could bring to bear on its citizens.<sup>29</sup>

The second important piece of legislation in the creation of the liberal state was the Bank Charter Act passed in 1844. The Bank Charter Act enshrined the principles of *laissez-faire* at the centre of the nation's monetary and banking system. It instituted a strict separation between the Bank of England's currency and banking functions. It concentrated control over note issue in the hands of the Bank of England, thus ensuring its domination of the nation's credit system. Furthermore, it enshrined the principle that the amount of note issue in the economy should be a direct reflection of the country's gold currency reserve. Monetary policy was thus tied automatically to the fluctuations in the economy; the trade balance and the principles of *laissez-faire* were extended to another essential aspect of the economy. However, the Bank Act also illustrates clearly the contradictory relationship between the principles of *laissez-faire* and the role of the state. The Bank Act simultaneously provided for the direction of monetary policy on a non-

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discretionary basis, but only by extending the power of the state in its direct control of the nation's monetary system and by greatly centralizing control of the monetary system in the hands of the Bank of England. *Laissez-faire* may have been the goal, but it could only be achieved through increasing state intervention.<sup>30</sup>

The systematic dismantling of the protectionist system in the late 1840s signalled the final arrival of the liberal state. The key struggle in this final stage centred around the repeal of the Corn Laws. The corn bounty was introduced in the seventeenth century to serve a dual purpose: to help strengthen the export position of Britain's dynamic agricultural sector and to ease the burden on the landed gentry of the land taxes. By the late eighteenth century the Corn Laws had become something of an anomaly, as the share of agriculture in the Gross National Product had declined significantly and Britain had become a net importer of corn except in years of exceptional harvests. At the end of the Napoleonic Wars the bounties on corn were abandoned altogether and in 1815 the sliding scale of duties which allowed the imports of corn to vary with the price was replaced by an absolute prohibition on the import of corn up to a certain price level. With this change, the Corn Laws became the most obvious piece of legislation specifically protecting the interests of Britain's landed gentry and a major bone of contention with both the industrial manufacturers and the growing industrial working class, consistently keeping the price of food artificially high and depressing the level of real wages.

The conflict was highlighted at the political level with the establishment of the Anti-Corn Law League in 1838 in Manchester. The decision by the League to contest the issue in elections in 1841 represented the first significant turning point at which the democratic electoral process became the centre of class conflicts over the direction and content of the state's interventionist role. With the abolition of the Corn Laws in 1846, the liberal forces of the industrial middle class gained their most significant victory. The victory was further consolidated with the repeal of the Navigation Acts in 1849 and the eventual abandonment of colonial preferences in the 1850s. With these developments, the liberal forces of the rising middle class had triumphed and the power of the state had been systematically turned to erase all vestiges of the mercantilist system the chief beneficiaries of which had been the members of that same middle class.<sup>31</sup>

A complementary aspect of the liberal state was the limited fiscal role of the government in the economy. Fiscal liberalism was as distinctly a product of the peculiar military and economic position of Britain in the nineteenth century as was free trade and an automatic monetary system tied to the gold standard. By the end of the Napoleonic Wars, the military and commercial supremacy achieved by Britain obviated the need for the heavy military expenditures that had placed the greatest strain on the country's fiscal

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resources throughout the bellicose eighteenth century. The military as well as commercial dominance of Britain in the nineteenth century created the necessary preconditions for the introduction of free trade, since the virtual elimination of the customs duties which took place in this period would have been unthinkable had the constraints imposed on the government's budget by military expenditures been more severe. The reduction of customs duties was begun in 1845 and continued throughout the 1850's until they were virtually eliminated in the budget of 1860. The basis for the observance of Gladstone's principles of fiscal liberalism was established firmly. The fiscal liberalism of the nineteenth century was thus the budgetary manifestation of British commercial and military dominance and the perfect complement to free trade and the *laissez-faire* state.<sup>32</sup>

The victory of the industrial middle class, symbolized by the advent of free trade, had been achieved with the temporary support of the emerging working class in spite of alternative movements such as Chartism competing for political and ideological hegemony. However, by creating the *laissez-faire* conditions for the absolute dominance of industrial capitalism, the triumph of the middle class also created the conditions for the rapid expansion of the subordinate class in the capitalist mode of production, the industrial workers. The triumph of the forces of liberalism in the mid-nineteenth century was accompanied almost simultaneously by a defensive reaction of the industrial working class aimed at protecting itself from the worst consequences of the unfettered operation of the capitalist market economy. The success of the industrial working class in winning certain concessions from the state resulted in the adoption of a new set of regulatory policies necessary for the maintenance of social harmony. The growing trend of regulatory legislation in the nineteenth century marked the commencement of a new form of state intervention and the first significant break between the accumulation and the legitimation functions of the state.

The passage of the Ten Hours Bill in 1847, limiting the hours of work of children from thirteen to eighteen in the textile industries to ten a day, constituted the first important victory for the industrial working class in its attempts to control the operation of the market. Over the next two decades, the provisions of the Ten Hours Bill were gradually enhanced and extended to other industries as well. At the same time, the extent to which the factory legislation actually subverted the dominance of the industrial middle class and its liberal ideology should not be overestimated. Many erstwhile liberals could justify the need for factory legislation as a necessary corrective to the unavoidable excesses of the free market system. By the 1860's some of the Bill's most virulent opponents had admitted that it had not had nearly the negative effect that they had feared and that its positive gains in terms of the acquiescence of the working class had been well worth the price.<sup>33</sup>

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Nonetheless, the factory legislation is significant for the way in which it presaged the increasingly interventionist role which the state was to play in the control and direction of the capitalist economy.

The power of the industrial working class in the capitalist economy was extended in the 1870s and decades following with the passage of legislation giving trade unions their modern legal status and thus the power to challenge their conditions of work. Another important change in the latter half of the nineteenth century involved the extensions of the franchise in 1867 and 1884 by which all adult males were given the vote. The extension of the franchise was the product of a variety of factors. It was partly designed to win the working class to the established order by liberalizing the political system; it also indicated that Britain's political elites, who had violently opposed the democratic demands of the Chartists in the 1840s, no longer regarded the working class as a revolutionary threat. They may have been correct, but the combination of these two developments (the legalization of trade unions and the extension of the franchise) allowed for the establishment of a mass party based on this working class that was to profoundly affect the future economic role of the state.<sup>34</sup> These developments were followed in the 1890s by the expansion of the trade union movement from its narrow craft union basis to more broadly based industrial unions and by the formation of the Labour Party in 1900 as the political wing of the Trades Union Congress. The growth of industrial unionism and the formation of the Labour Party reflected the significant change that had taken place in the political consciousness of the British working class from concern with narrow economic issues as reflected in the agitation around the Ten Hours Bill to concern for the broad social rights of workers as a class and the effects of the industrial system on their standard of living.<sup>35</sup>

Although the Labour Party did not actually succeed in forming a government until the 1920s, its influence in British politics, particularly on the economic role of the state, was felt directly after the election of 1906 in which it elected 29 Members to Parliament. The numerical weight of the Labour M.P.'s was not the critical factor in the passage of the reform legislation that followed, but what was important was the growing concern for social issues and for the protection of members of society from the worst consequences of the free market. The vast array of social reforms introduced between 1905 and 1911 was the work of the so-called "new Liberals" of the late nineteenth century who regarded the extension of social rights to all members of society as an essential component of the full enjoyment of democratic rights. The specific policies introduced by the Liberals were intended to cure the most glaring inequities of poverty, thus providing all members of British society with what was felt to be the basic minimum social standing to participate fully in its democratic institutions. This programme was a far cry from the

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philosophy of liberalism which had underlain the Poor Law Amendment of 1834, reflecting the extent to which the ideological and political representatives of the working class had made their presence felt in Britain's political life. The Liberal reforms included: the Old Age Pension Bill of 1908, which provided for direct payments from national funds to those over seventy whose income did not exceed a certain maximum yearly amount; the introduction of Labour Exchanges in 1909 to aid in the alleviation of unemployment; the passage of the National Unemployment and Health Insurance Acts in 1911; and the famous budget of 1909 that financed these reforms by imposing a graduated income tax with a 'supertax' on upper income levels and by levying land value duties on unearned increments gained in the sale of land. The scope and content of the reforms passed in these years were far-reaching. However, they were introduced with a view to alleviating existing social conditions without altering the underlying foundations of the free market itself, rather than solving the problem by doing away with the entire system.<sup>36</sup> It is in this sense that these reforms can be said to constitute the basis of the policies that perform the legitimation function of the advanced capitalist state.

The expansion of the state's legitimation function in this period was matched by an equally substantial transformation of its accumulation function. The change which occurred in the accumulation function was a product of both the changing nature of Britain's position in the international capitalist economy and the changing nature of capitalist enterprise in Britain. In the last decades of the nineteenth century the industrial pre-eminence of Britain among the advanced capitalist states, which had been the precondition for the liberal form of state intervention, began to fade as other capitalist countries, particularly Germany and the United States, industrialized at a rapid rate. In many cases, the more sophisticated capital equipment installed in the new industries in these countries not only undercut Britain's competitive advantage, but put her at a serious disadvantage. The increasing international capitalist rivalry of the late nineteenth and early twentieth century was also marked by a growing degree of imperialist expansion. Britain's major competitors were not unaware of the important advantages it had gained from its substantial empire and attempted in these years to claim for themselves colonies and spheres of influence in the underdeveloped parts of the world. The growth of inter-imperialist rivalry was another cause of the decline of the liberal state. The growing naval rivalry with Germany in the 1890s occasioned massive increases in budgetary expenditures to rearm the navy and did much to undermine the principles of Gladstonian fiscal policy. The increases in income taxes as well as other severe measures contained in the Liberal budget of 1909 were necessitated by the rising costs of naval expenditures as much as by the increased welfare expenditures.<sup>37</sup>

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As the degree of competition in the international capitalist economy intensified in the late nineteenth century many of the conditions required for the maintenance of a laissez-faire competitive economy in Britain disintegrated. The increasing degree of international competition resulted in a growing trend towards industrial concentration in Britain, as firms, especially in the new industries of the second industrial revolution, were forced to amalgamate in order to achieve the greater economies of scale. Although Britain had one of the least concentrated of the major industrial economies before World War I, she had one of the most by the start of the Second World War.

In the interwar period the devastating effects of the collapse of the international capitalist economy and the rise of autarky forced a final abandonment of any pretence towards liberalism on the part of the British state. These years witnessed a growing effort on the part of governments to reduce competition in the British economy by promoting mergers and combinations. In the period between the two wars the British government played an instrumental role in bringing about the amalgamation of the railways, the concentration and partial nationalization of electricity supply, the creation of a monopoly in the iron and steel industry and a national coal cartel and the merger of all existing civil aviation companies into a subsidized public corporation. The final blow which the Depression struck against the laissez-faire state came with the abandonment of both the Gold Standard and Free Trade in 1931. Free Trade had, of course long since become a luxury which British industry, given the decline in its competitive advantage, could barely afford. The extreme conditions of the 1930s and the rise in levels of international tariff protection finally forced the British government to follow suit. In turn, the rise of protection supported both the government and private initiatives towards greater concentration in the economy.<sup>38</sup> By the end of the Depression, the state had begun to assume the increasingly interventionist role in the promotion of capital accumulation that is a key feature of advanced capitalism. This change in the nature of the state's accumulation role was the product of two simultaneous processes: the rise of competition in the international market that made the traditional policy of Free Trade obsolete and the internal trend towards greater industrial concentration.

### **Keynesianism and Advanced Capitalism**

While the principles of liberalism became increasingly irrelevant as a guide to government policy with respect to industrial organization and tariff protection, they continued to retain a strong hold over the academic economists and over government thinking in the determination of fiscal policy. Throughout the Depression British governments strongly resisted

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demands for the generation of public works projects and other budgetary expenditures to alleviate unemployment. They clung steadfastly to the orthodox Gladstonian principles of balanced budgeting, and in the early years of the 1930s when the Depression was at its peak, the government succeeded in maintaining a balanced budget by cutting back on expenditures and raising taxes. This last remaining stronghold of liberalism came under increasing attack during these years in the work of John Maynard Keynes, who was motivated by the same concern as the 'new Liberals' to maintain the viability of the existing economic system through selective government intervention.

Keynes analysed the causes of the Depression in terms of a lack of investment and a falling level of demand. The crux of Keynes's theoretical insights focused on the relationship between savings and investment behaviour and their implications for income determination and effective demand. He argued that in conditions of heavy unemployment, the greatest danger lay in an abstinence from spending by governments and the general public which would produce a reduction in the general level of income. The threat of inadequate investment at the level of the national economy required government fiscal policy to ensure that available savings in the economy were used to generate productive investments. Keynes's influence over the determination of fiscal policy increased significantly with his appointment as a special advisor to the Treasury during World War II. From 1940 on, Britain's wartime fiscal policy revealed a markedly Keynesian orientation in its attempt to coordinate the overall level of economic activity with the goals of the war effort through the use of various budgetary devices.<sup>39</sup>

The significance of Keynes's thinking extends far beyond the increased importance it attached to budgetary policy in the economic role of the state. The general acceptance of Keynesian thinking and the formal responsibility of the state for stabilizing the level of economic activity which was announced in the White Paper on Employment Policy in 1944 signalled the end of an old era of state intervention and ushered in a new one. In the years before World War II, the British state has shown itself increasingly willing to abandon the precepts of liberalism in practice in order to achieve a specific desirable goal, but it had never been willing to acknowledge the obsolescence of liberalism as a comprehensive guide to government intervention. Before Keynes, the ideological alternative to liberalism was viewed primarily as socialism. While the "new Liberals" could justify a limited degree of social welfare on the basis of democratic principles and conservative governments could justify intervention to promote industrial reorganization as a limited and necessary aid to industry, these moves were generally viewed as exceptions to the liberal model rather than new departures. Keynes's economic theories provided a theoretical justification for a new degree of massive and continuous state intervention viewed not as an attack on the private accumulation of capital but as a necessary adjunct to it.

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Keynes's contribution to the transformed economic role of the state in advanced capitalism also provided a theoretical justification for the expanded range of welfare policies and for the political commitment to the maintenance of full employment that the state was forced to undertake during the war. The need for total economic mobilization and for the political support of the Labour Party behind the war effort forced the British government to address seriously some of the questions which it had successfully avoided throughout much of the Depression, in particular, the adequacy of the welfare system and the responsibility of the government to the unemployed. As Richard Titmuss has pointed out, there is an increasingly important link between the development of social policy and the waging of modern warfare:

The waging of modern war presupposes and imposes a great increase in social discipline; moreover, this discipline is only tolerable if — and only if — social inequalities are not intolerable . . . . The aims and content of social policy, both in peace and in war, are thus determined — at least to a substantial extent — by how far the cooperation of the masses is essential to the successful prosecution of the war. If this co-operation is thought to be essential, then the inequalities must be reduced and the pyramid of social stratification must be flattened.<sup>40</sup>

The Beveridge Report of 1942 on Social Insurance and Allied Services (the blueprint for the establishment of the postwar Labour government's welfare state) and the White Paper of 1944 on Employment Policy were the commitment made by the wartime government to the expansion of social welfare in order to maintain the legitimacy of the existing economic order. The expansion of welfare services and the commitment to full employment became the basis of what has been termed the postwar settlement between capital and labour. As such, the introduction of these policies did not represent a victory of the subordinate classes over the dominant social class in British society, but rather, reforms of the existing social order. While leaving untouched the fundamental nature of the capitalist mode of production, within its limits the reforms constituted material social and economic gains for the working class.<sup>41</sup>

The political commitment to a policy of full employment made in the final years of World War II thus symbolized more clearly than any other policy the essential nature of state intervention in the advanced capitalist economy. The basic consequence of increased state intervention in the postwar economy has

been to reduce the risks and consequences of the unimpeded operation of the market for both capital and labour. Through a full employment policy designed to guarantee a high and stable level of aggregate demand, in conjunction with a host of tax incentives and other policies designed to subsidize the costs of capital, state intervention has helped to reduce the uncertainty which large oligopolistic corporations face in the market. Simultaneously, through a full employment policy, as well as other policies designed to protect members of the labour force against the ill effects of the temporary loss of income from unemployment, the state has reduced the private costs of the operation of the labour market previously borne by individual workers. The dual role which full employment policy plays in this respect thus corresponds directly to the two basic economic functions of the state — the accumulation and the legitimation function.

Paradoxically, however, the comparative success of the advanced capitalist state in implementing full employment policies throughout the postwar period has planted the seeds of its most unresolvable problem. After several decades of relative full employment in the British and other advanced capitalist economies, the central problem became not that of chronic unemployment, but rather, persistent inflation. The emergence of this trend towards a steady increase in the secular rate of inflation was anticipated by some of the economists in wartime Britain who appreciated the full significance of the Keynesian theory that the general price level in a capitalist economy is primarily determined by the overall level of money-wage rates. As Joan Robinson has observed,

The proposition that, in an industrial economy, the level of money-wage rates governs the level of prices was an essential element of Keynes' *General Theory of Employment, Interest and Money* published in 1936. The part of his argument which concerned the need for government policy to maintain 'a high and stable level of employment' was accepted into the canon of received orthodoxy . . . even before the end of the war in 1945, but the part which concerned wages and prices was resisted much longer. It was easy to predict that if we stumbled into near full employment with institutions and attitudes unchanged, the balance of power in wage-bargaining would tip in favour of the workers, so that a vicious spiral of wages and prices would become chronic.<sup>42</sup>

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The political implications of Keynesian full employment policies were also pointed out in a somewhat prophetic article written by Michal Kalecki in 1943. Kalecki predicted that in such a situation, capitalists would recognize that the disciplinary role played by the unemployed in the labour market would lose its impact. Loss of the fear of unemployment would prompt workers and trade unions to adopt a more militant and intransigent attitude in their wage negotiations with the capitalists. Although the capitalists would recognize that full employment was beneficial in terms of providing them with continuously profitable investment prospects, they were more appreciative of the importance of "discipline in the factories" and "political stability". Kalecki argued "their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the normal capitalist system."<sup>43</sup> On the other hand, Kalecki also foresaw that in slump conditions the pressure of the masses would likely force the government to undertake public investment schemes financed through borrowing. Such action is what has in fact occurred.

Throughout the postwar period, governments in the major advanced capitalist countries have been subjected to conflicting pressures from capital and labour to utilize fiscal policy for the maximum benefit of each. Wage earners and members of the organized labour movement have demonstrated a consistent unwillingness to tolerate governments that would not do all they could to maintain a high level of employment. The enhanced bargaining power which labour has enjoyed throughout the postwar period can be attributed in substantial measure to the impact of the fiscal stabilization policies resulting from that political pressure. At the same time, the emergence of inflation as the central economic problem of the postwar era has been the product of the efforts of the trade unions to use their bargaining power to improve money wage levels. The success of wage earners in translating money wage increases into real wage increases has been undermined by the ability of firms (particularly the larger, oligopolistic ones) to raise their prices in order to maintain profit margins. This competitive struggle between organized wage labourers and large oligopolistic firms to redistribute real income towards wages or profits lies at the root of the contemporary inflationary phenomenon.<sup>44</sup>

The result of increased state intervention in the economy, principally through the adoption of Keynesian stabilization policies, has been to alter dramatically the nature of the historical confrontation between capital and labour. To the extent that the implementation of full employment policies has undermined the traditional role that the fear of unemployment played in maintaining wage discipline, it has improved the relative bargaining power of labour and contributed to the persistence of inflation. In reaction to this development, growing numbers of business spokesmen and conservative economists have rejected the Keynesian policy prescriptions over the past two

decades, initially in favour of wage and price controls, and more recently in support of the restrictive economic policies of the monetarists. The growing response to the neo-conservative call for the need to redress the bias in state intervention away from labour and in favour of capital represents a significant attempt to undermine the important political compromise which was instituted as part of the postwar settlement. However, as Robert Keohane has perceptively argued, the adherents of this perspective have been better at analysing the sources of the current dilemma than at suggesting solutions to overcome it:

Their optimism about the ability of governments to pursue disciplined internal policies is questionable. If they are correct, disciplinary states are necessary for the prosperity of capitalism, but such states are unlikely to be established democratically . . . . In some countries, democratic institutions and modern capitalism may be compatible; but there is no guarantee that this will be the case everywhere. In the short run, one can expect a continuation of current patterns of uneven development: strong economies . . . will become stronger relative to the weaker ones . . . . In the longer run, political upheaval and crisis may occur in several countries.<sup>45</sup>

### Conclusion

The growing politicization of the relations between capital and labour in advanced capitalist society has thus resulted in a situation in which it is increasingly difficult for the state to perform simultaneously its accumulation and legitimation functions. The current impasse which the state faces in this regard is in many ways a reflection of the relative balance of political class forces and the tensions among liberal democratic institutions in advanced capitalist society. The relatively stagnant levels of economic activity in many advanced capitalist countries in recent years, combining both low levels of profitability and growth with high levels of inflation and unemployment, suggest that the political limits of the Keynesian compromise may have been reached. The growing failure of the Keynesian prescription to provide the policy means by which the advanced capitalist state can continue to perform simultaneously its accumulation and legitimation function also indicates that the terms of the postwar settlement between capital and labour have begun to break down. The increased attempts by labour and other wage earners to utilize their political bargaining power to redistribute a greater degree of the

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product of the production process to themselves has placed increasing pressure on the profitability and competitiveness of capitalist firms, thus undermining the ability of the state to perform successfully its accumulation function. At the same time increased pressure on the state from business interests to adopt economic policies tolerating higher levels of unemployment, or to impose wage controls, have intensified the legitimation problems faced by the state. The dilemma posed by the growing contradiction between the performance of the two economic functions of the state in advanced capitalism lies at the root of the central problem for state intervention in the capitalist economy of the present era.

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### Notes

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1. Claus Offe, "The Separation of Form and Content in Liberal Democratic Politics," *Studies in Political Economy*, no. 3 (Spring 1980), pp 5-6.
2. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of our Time*, Boston: Beacon Press, 1957, p. 130.
3. Claus Offe, "Introduction to Part III: Legitimacy vs. Efficiency," in *Stress and Contradiction in Modern Capitalism*, ed. Leon N. Lindberg et al., Lexington, Mass.: Lexington Books, 1975, p. 249.
4. Offe, "The Separation of Form and Content," p. 7 Some of the more important writings on this subject include Michel J. Crozier, Samuel P. Huntington and Joji Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission*, New York: New York University Press, 1975; Robert Nisbet, *Twilight of Authority*, New York: Oxford University Press, 1975; Daniel Bell, *The Cultural Contradictions of Capitalism*, New York: Basic Books, 1976; Samuel Brittan, *The Economic Consequences of Democracy*, London: Temple Smith, 1977; Irving Kristol, *Two Cheers for Capitalism*, New York: Basic Books, 1978.
5. Ian Gough, "State Expenditure in Advanced Capitalism," *New Left Review*, no. 92 (July-August 1975), p. 69.
6. Robert O. Keohane, "Economics, Inflation and the Role of the State: Political Implications of the McCracken Report," review of *Towards Full Employment and Price Stability*, by Paul McCracken et al. *World Politics* 31 (October 1978), p. 122.
7. Max Weber, *Economy and Society: An Outline of Interpretive Sociology*, vol. 1, ed. Guenther Roth and Claus Wittich, New York: Bedminster Press, 1968, p. 54. Although this particular definition of the state originates with Weber, it has also been applied by a number of Marxist writers on the subject. Cf. Harold Laski, *The State in Theory and Practice* London: George

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Allen and Unwin, 1935, p. 21. Compare this with the definition of the state used by Hal Draper.

The state is the institution, or complex of institutions, which bases itself on the availability of forcible coercion by special agencies of society in order to maintain the dominance of a ruling class, preserve existing property relations from basic change, and keep all other classes in subjection. *Karl Marx's Theory of Revolution*, vol. I: *State and Bureaucracy*, New York and London: Monthly Review Press, 1977, p. 251.

8. Nicos Poulantzas, *Classes in Contemporary Capitalism*, London: New Left Books, 1975, pp. 14-24.
9. The use of this term is derived from the work of James O'Connor, *The Fiscal Crisis of the State*, New York: St. Martin's Press, 1973, p. 6; and Claus Offe, "The Abolition of Market Control and the Problem of Legitimacy (I)," *Kapitalstate: Working Papers on the Capitalist State*, no. 1 (1973); p. 111. In using the concept of functions to analyse the economic role of the state in capitalist society, an important qualification pointed out by Ian Gough must be noted.

Implicit in any discussion of the state's functions is the assumption that the analysis tells us something about the determinants of state action, that the state responds to the functional requirements of capital. This is quite unjustified. The fact that some function is required for the accumulation or reproduction of capital . . . tells us nothing about whether or not the state meets those requirements or the manner in which it responds to them. This involves a study of the way these requirements are translated into political demands and policies . . . *The Political Economy of the Welfare State*, London: Macmillan, 1979, pp. 50-51.

10. A similar topology has been suggested, although from a significantly different theoretical perspective in John Holloway and Sol Picciotto, "Capital, Crisis and the State," *Capital and Class*, no. 2 (Summer 1977), pp 86-94. See also Bob Jessop, "Capitalism and Democracy: The Best Possible Political Shell?" in *Power and the State*, ed. Gary Littlejohn et al., London: Croom Helm, 1978, pp. 20-22.
11. Weber, *Economy and Society*, vol. III, pp. 953-954. The concept of legitimacy is also discussed in vol. I, pp. 31-38 and 212-216. See also Claus Offe, "Introduction to Part III," p. 248. Note also the definition used by Jurgen Habermas,

*Legitimation means a political order's worthiness to be recognized. This definition highlights the fact that legitimacy is a contestable validity claim; the stability of the order of domination (also) depends on its (at least) de facto recognition. Communication and the Evolution of Society*, Boston: Beacon Press, 1979, p. 178.

12. The concept of legitimation function has been used by Alan Wolfe in a similar fashion to examine the justifications of different forms of state activity in the economy, albeit using a slightly different typology than is employed here. See his *The Limits of Legitimacy: Political Contradictions of Contemporary Capitalism*, New York: The Free Press, 1977, pp. 9-10, 247-249.
13. Jacob Viner, "Power vs. Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," in *Revisions in Mercantilism*, ed. D.C. Coleman, London: Methuen, 1969, p. 71; Perry Anderson, *Lineages of the Absolutist State*, London: New Left Books, 1974, pp. 36-37.
14. Karl Polanyi, *The Great Transformation*, p. 135; Jurgen Habermas, *Legitimation Crisis*, Boston: Beacon Press, 1975, p. 24.
15. Draper, pp. 270-274.

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16. Maurice Duverger, *Party Politics and Pressure Groups*, New York: Thomas Y. Crowell, 1972, pp. 40-76; Samuel H. Beer, *British Politics in the Collectivist Age*, New York: Vintage Books, 1969, chap. 2; San Francisco Bay Area Kapitalistate Group, "Political Parties and Capitalist Development," *Kapitalistate: Working Papers on the Capitalist State*, no. 6 (Fall 1977): 13-19.
17. C.B. Macpherson, *The Life and Times of Liberal Democracy*, Oxford: Oxford University Press, 1977, pp. 64-69. Note also the interesting discussion on this point by Andrew Martin in "Political Constraints on Economic Strategies in Advanced Industrial Societies," *Comparative Political Studies* 10 (October 1977): 329-330, 344-345.
18. Adam Przeworski, "Proletariat into a Class: The Process of Class Formation from Karl Kautsky's *The Class Struggle* to Recent Controversies," *Politics and Society* 7, Summer 1977, p. 379.
19. Trent Schroyer, "The Re-politicization of the Relations of Production: An Interpretation of Jurgen Habermas' Analytic Theory of Late Capitalist Development," *New German Critique*, no. 5 Spring 1975, p. 117.
20. Karl Marx, *Capital: A Critique of Political Economy*, vol. I: *Capitalist Production*, ed. Frederick Engels, London: Lawrence and Wishart, 1970, p. 751.
21. Christopher Hill, *Reformation to Industrial Revolution*, vol. 2 (1530-1780) of *The Pelican Economic History of Britain*, Harmondsworth, England: Penguin Books, 1969, pp. 155-160; Barry Supple, "The State and the Industrial Revolution, 1700-1914," in *The Industrial Revolution*, vol. 3 of *The Fontana Economic History of Europe*, ed. Carlo M. Cipolla, Glasgow: Fontana Books, 1973, p. 315.
22. Ralph Davis, "The Rise of Protection in England, 1689-1786.," *Economic History Review*, 2nd ser. 19 (1966), p. 317.
23. Hill, p. 187; Rudolf Braun, "Taxation, Sociopolitical Structure and State-Building: Great Britain and Brandenburg-Prussia," in *The Formation of National States in Western Europe*, ed. Charles Tilly, Princeton: Princeton University Press, 1975, pp. 283-291.
24. E.J. Hobsbawm, *Industry and Empire*, vol. 3 (From 1750 to the Present Day) of *The Pelican Economic History of Britain*, Harmondsworth, England: Penguin Books, 1969, pp. 101-103; Beer, p. 27.
25. Hobsbawm, pp. 104-105; Phyllis Deane, *The First Industrial Revolution*, Cambridge: Cambridge University Press, 1967, pp. 143-144; Polanyi, pp. 78-97.
26. Beer, p. 32.
27. Polanyi, p. 140; Hobsbawm, pp. 226, 232.
28. The argument that the passage of the Reform Bill in 1832 signified the increased political power of the industrial manufacturing class is not meant to suggest that this was followed by the direct representation of the industrial bourgeoisie in the political institutions of the country. In fact, the bourgeoisie seems to have continued to elect substantial numbers of landed aristocrats to Parliament in succeeding decades. See Perry Anderson, "Origins of the Present Crisis," *New Left Review*, no. 23 (January-February 1964), pp. 31-32.
29. T.H. Marshall, "Citizenship and Social Class," in *Sociology at the Crossroads and Other Essays*, London: Heinemann, 1963, p. 83; Polanyi, pp. 101-102.
30. Polanyi, p. 139; Dean, pp. 180-184; Hobsbawm, p. 236.
31. Deane, pp. 190-210.
32. *Ibid.*, pp. 186-188; Hobsbawm, pp. 232-235.
33. Deane, pp. 214-217; Marx, *Capital*, vol. I, pp. 278-279; J.B. Brebner, "Laissez-faire and State Intervention in Nineteenth Century Britain," in *Essays in Economic History*, vol. III, Essays

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- edited for the Economic History Society by E.M. Carus-Wilson, London: Edward Arnold, 1962, p. 256; Maurice Bruce, *The Coming of the Welfare State*, London: B.T. Batsford, 1968, pp. 74-79.
34. A somewhat less sanguine view of these developments is taken in Anderson, "Origins," pp. 35-37; Tom Nairn, *The Break-up of Britain: Crisis and Neo-Nationalism*, London: New Left Books, 1977, pp. 38-44.
  35. Asa Briggs, "The Welfare State in Historical Perspective," *Archives Européennes de Sociologie* 2 (1961), pp. 233-239.
  36. *Ibid.*, pp. 242-246; Bruce, pp. 172-220; Beer, pp. 60-61.
  37. Hobsbawm, p. 239.
  38. Nigel Harris, *Competition and the Corporate Society: British Conservatives, the State and Industry, 1945-1964*, London: Methuen, 1972, pp. 32-45; Hobsbawm, pp. 241-244.
  39. Donald Winch, *Economics and Policy: An Historical Study*, London: Hodden and Stoughten, 1969, pp. 167-172, 204-209, 259-263.
  40. Richard M. Titmuss, "War and Social Policy," in *Essays on 'The Welfare State'*, 2nd ed., London: Unwin University Books, 1963, pp. 85-86.
  41. Leo Panitch, "The Development of Corporatism in Liberal Democracies," *Comparative Political Studies* 10 (April 1977), pp. 74-79; Gough, "State Expenditure in Advanced Capitalism," pp. 68-70. The reasons for the unique suitability of the social democratic Labour Government to implement the terms of the postwar settlement have been suggested in Alan Wolfe, "Has Social Democracy a Future?" *Comparative Politics* 11 (October 1978), pp. 103-106.
  42. Joan Robinson, *Economics: An Awkward Corner*, London: George Allen and Unwin, 1967, p. 19.
  43. Michal Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy, 1933-1970*, Cambridge: Cambridge University Press, 1971, p. 141.
  44. This phenomenon of the modern capitalist economy has been analysed by Joan Robinson as the 'inflation barrier' to raising real wages or profits. See Joan Robinson and John Eatwell, *An Introduction to Modern Economics*, London: McGraw-Hill, 1973, pp. 190-191; Gough, p. 70; Aubrey Jones, *The New Inflation: The Politics of Prices and Incomes*, Harmondsworth, England: Penguin Books, 1973, pp. 44-45. This is not meant to suggest that the political bargaining power of organized labour is the only cause of the inflationary phenomenon of the advanced capitalist economies; however, it certainly is a prime factor. A fuller discussion of the problem can be found in Dudley Jackson, H.A. Turner and Frank Wilkinson, *Do Trade Unions Cause Inflation? Two Studies: With a Theoretical Introduction and Policy Conclusion*, University of Cambridge Department of Applied Economics Occasional Paper 36, Cambridge: Cambridge University Press, 1972.
  45. Keohane, "Economics, Inflation and the Role of the State," p. 123.
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