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Managing the mixed economy:

The necessity of welfare policy

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MANAGING THE MIXED ECONOMY:
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Abstract

It is argued that welfare policy is a necessary component of the state's activities in contemporary mixed economies. This tends to be lost sight of in the accounts not only of welfare economics and the 'new political economy', but also that of Marxist state theory. The necessity of welfare policy (and its interconnection with economic policy) emerges from the conflict-ridden interaction between a state based on (endogenously defined) right and the imperatives of the capitalist economy. The mutual interdependence of the state and the economy is analyzed in terms of the contradictory requirements of separation and intervention.

Keywords: Welfare Policy, Mixed Economy, Welfare Economics, Political Economy

Introduction

What are the systematic social, economic and political determinants of policy orientated to 'welfare' in modern capitalist society?¹ What kind of entity is the state as the agent of welfare policy? What are its 'modes of shaping social existence', the 'beliefs systematically embodied in ... [its] actions and transactions' (MacIntyre 1988: 214)? With the stubborn persistence of high levels of welfare expenditure, even in societies with neo-liberal governments, and the rush to liberalisation of many 'actually existing socialist regimes' these questions have a peculiar relevance in the 1990s. They are pertinent to such broad policy issues as both the growth and the crises of the welfare state (Esping-Andersen 1987a), and the social problems which may be expected to emerge as Eastern Europe and the USSR liberalise. As will be seen, these questions turn upon even more fundamental issues of free will and necessity: the state turns out to be concerned with the conditions of the social existence of the contradictions of economic agents endowed with free will.

Before the theoretical basis of welfare policy is set out, §1 locates our approach within existing theories. These are shown to suffer from a number of problems of content as well as method. Our own approach, then, requires a systematic conceptual development (in outline) of the problem at hand. This starts at the abstract level (society, free will and right), before gradually moving to the more concrete determinations of economic policy, and of welfare policy in particular.

§1. Problems with prevailing theories of welfare policy

For the 'old' welfare economics (exemplified in texts such as Baumol 1952, briefly characterised in Feldman 1987, criticised in Sen 1979 and defended from a liberal perspective by Barr 1987) welfare policy is accounted for in a *functionalist* manner by market failures, such as altruistic and other externalities, public goods, transitional costs of re-structuring, and social distributional value-judgements. The 'new political economy' builds on social choice theory (the economics of politics and of bureaucracy) to conclude that the crux of 'market failures' is the unaided market's inability to bring about desirable cooperative outcomes. However the welfare policy which results is seen as being subject to equivalent 'state failures' involving myopic voter-consumers, vote-maximising politicians and budget maximising bureaucrats, which enable welfare policy to become, the *instrument* of various interest groups.² Indeed it is shown that the conditions under which democratic voting could

¹ Welfare as a form can be taken to mean concern with justice, in the Aristotelian sense of what is fair, equal. 'What the equality of justice consists in is in like cases being treated alike and in proportional differences in merit being treated according to that proportion.' (MacIntyre 1988: 119; cf the standard economic distinction between horizontal and vertical equity.) The content of this form - what counts as meritorious, what are the goods over which equity is to be maintained, on what criteria are cases to be considered alike etc. - is socio-culturally specific. A brief account of the current usage of the term 'welfare state' is given in Gough 1987. It is unpacked below in terms of the norms necessarily embedded in bourgeois society.

² See, for example, the papers collected in Le Grand & Robinson 1984. For a recent survey see Inman 1987. For similar insights from within political sociology see, for example, Wilensky 1975. For an overview of the application of social choice theory to welfare policy, see Mishra (continued...)

consistently aggregate individual preferences into social choices are the same as those under which the market will work: convex preference sets and non-convex budget constraints (Inman 1987: 210-12).

Thus contemporary economic theories of politics start with 'Arrow's paradox' of the apparent impossibility of combining rationality and democracy in social choices based only on individual preferences (Arrow 1950). Most of the literature is then concerned to investigate the results of relaxing some of Arrow's assumptions, especially on individual choices. Crucially, these relaxations point up that Arrow's paradox can only be evaded by assuming a very high degree of convergence between individual preferences.³ This is plainly unsatisfactory, as it amounts to positing near-identity of individual preference orderings in the relevant domains. It is true that various aspects of public choice institutions complementary to direct majority rule can be conceived as attempts to *manage* the consequent emergence of cyclical voting (Inman 1987: 712ff), but no less restrictive assumption has yet emerged: there appears to be a contradiction between individualistically conceived preferences and rational social choice.

Our approach, then, avoids this highly restrictive assumption, and examines the roots of Arrow's paradox in the *conflict* between individual and social choices in bourgeois society. It is our purpose to elucidate as rigorously as possible the general nature of this duality between state and economy.

According to MacIntyre (1988), the problem with the liberal view of the individual's relationship to society is twofold. First, since the Scottish Enlightenment (of which, of course, Adam Smith was a famous son), individuals have been 'held to possess their identity and their essential human capacities apart from and prior to their membership in any particular social and political order' (p.210). Secondly, the market coordination of given individual preferences with each other and with technological production possibilities is taken to be an essentially amoral process - yet some individuals (those with less 'market power') will find themselves omitted, to a greater or lesser extent, from its reciprocity of benefit (pp. 215-6). It is then perhaps unsurprising that the key issue of political philosophy becomes that of legitimacy: why such pre-existing asocial individuals should subject themselves to any social order (and to the state as its agent) (Hume 1739/40: III; MacIntyre 1988: 306).⁴

If one accepts MacIntyre's view that 'Wants, satisfactions, and preferences never appear in human life as merely psychological, premoral items that are neutral between moral

2(...continued)

1984; and for a trenchant critique of welfare policy from this perspective, see Barry 1990. Goodin & Le Grand 1987 (Parts Three to Five) details the empirical evidence that it is the 'middle classes' for whose interests the welfare states of the USA, Britain and Australia have been instrumental.

"New" and "old" are in quotes because, of course, what has changed is the profile and systematic influence of different perspectives within welfare economics. A collection of germinal papers in welfare economics published in 1969 (ed. Arrow and Scitovsky) has a section on 'Political Aspects of Welfare Economics' containing papers dating back 10, 15, 20 and even 25 years, whilst the introduction to this section contains reference to Condorcet's essay of 1785.

³ Kramer (1973) has shown that, if the policy alternatives have more than one dimension, only when preferences are essentially identical will majority rule consistently generate transitive choice (a Condorcet winner) (cf Inman 1987: 708-712).

⁴ Cf Habermas 1973: 96: 'Because the reproduction of class societies is based on the privileged appropriation of socially produced wealth, all such societies must resolve the problem of distributing the surplus social product inequitably yet legitimately.'

claims' (1988: 76), then the task is to seek to identify the systemic basis of the particular norms embedded in bourgeois society. When principles are perceived to be subordinate to preferences in the liberal manner, some social method of satisfying preferences on the basis of mutuality of benefit is required. Though markets aggregate individual preferences in a way agnostic to any particular notion of the 'public good', it has already been noted that they only work when there is considerable convergence in the preference orderings of the individuals - they do not reconcile fundamental conflict. As democratic political aggregation of preferences requires convergence of preference orderings to generate coherent social choice, it is not the market *per se*, but the refusal to countenance principles other than those aggregated from pre-existing individual preferences - the attempt to base cooperative decision-making only on the aggregation of radically individualistic preferences, by economic *or* political mechanisms - that generates the problem. Is this, then, a manifestation of some contradiction in the social structure of the bourgeois epoch?

What is more, market mechanisms do in fact embody moral principles: the liberal one that principles are no more than individual preferences and their aggregation; and the bourgeois one that the prime distinction between individuals is between property owner and propertyless. Consequently the sole basis for justice is the interests of individual property owners, and the best the propertyless can expect is to be the objects of charity (MacIntyre 1988: 216-7).⁵ The possibility of fundamental social system contradiction can be already glimpsed: according to Arrow rationality of social choice and democracy are incompatible; according to MacIntyre, liberalism necessarily embodies certain principles; and according to Habermas (e.g. 1973: 43-44) such principles must be potentially rationally legitimatable.

One important characteristic of Marxist explanation of policy is its location within the wider context of a theory of the state, and its relationship to the economy.⁶ In the 1960s Marxist state theory was dominated by an instrumentalist (and stage-theoretic) approach focused on the concept of 'state-monopoly-capitalism' (see e.g. Miliband 1969). Whereas functionalist neoclassical welfare economics has been pushed aside in favour of the instrumentalism of the 'new political economy', within the current main Marxist tradition accounts of welfare policy have come to rely increasingly on some variety of economic functionalism. Often welfare policy is considered only as an aspect of macroeconomic demand stabilisation (countering underconsumption or maintaining a certain phase in the development of accumulation), or as concerned with the operations of labour markets.⁷ At best it is linked to the 'consent' of the

⁵ For an argument that this kind of 'possessive individualism' (Macpherson 1972) is breaking down with the (allegedly secular) transition from liberal to organised capitalism, see Habermas 1973: 82-4. For the its continued particular ideological purchase in the USA, see O'Connor 1984: ch. 1. It is not uninteresting that a key plank of the radical liberal manifesto for reform of welfare (an attempt to 'turn the clock back' to liberal capitalism?) is the move towards a voluntary, private charity-based system. (See, for example, Sugden 1984; Goodman and Nicholas 1990)

⁶ For surveys of the modern Marxist debates on the relationship between state and economy see Clarke 1977; Gerstenberger 1977; Holloway & Picciotto 1978; Jessop 1977, 1982, 1990b. For a well documented history of the state-society relationship see Gerstenberger 1990. (Cf. Macpherson 1977.)

⁷ See e.g. Aumeerud et al 1978, Gough 1979, Ginsberg 1979 and Mishra 1981. Cf O'Connor 1973; Kerr et al 1960. Even the modern (and sophisticated) phase-theory of the Regulation school stemming from Aglietta 1976 is functionalist - see Clarke 1988 and Jessop 1990a, and, for their relation to the German 'capital logic school', Bonefeld 1987, Jessop 1988 and Holloway 1988.

subjects of policy to a hegemonic structure.⁸ Many authors have recently criticised this functionalism (e.g. Elster 1982, 1986, Resnick & Wolff 1987: ch. 5) without providing any constructive alternative. Functionalist explanations are difficult to falsify (see, e.g., Habermas 1973: 52), and are sometimes argued to preclude any causal role for working-class struggle (e.g. O'Connor 1984: 194). However this does not necessarily imply that they are wrong. We are concerned more with functionalism's concomitant thesis of functional dependency of the state and policy on the economy (see especially §5 below). The wider domain of Marxist theory is useful, but to date the state and policy are still in effect functionally derived from the capitalist economy and its 'needs'.

All these different factors undoubtedly constitute elements of an explanation for welfare policy. However, the question is on what basis are they interconnected with one another, and how are they interconnected with other factors? What are the universal characteristics, the particularisation of which in space and time enables the grasp of particular concrete welfare states? To provide the basis for answering these kinds of question we propose to reconsider the abstract basis of the state-economy relationship: welfare policy is to be derived as a necessary moment of the interactions between economy and polity in capitalist mixed economies.⁹ Missing so far has been any adequate conceptualisation of 'society' interpolated between the economy and the polity. We address this lacuna with our concept of 'competitive society' (§4 below).

Methodologically, we work from the unfashionable presumption that it is worthwhile to investigate the abstract determinations of any complex problem, such as welfare policy. The imagined concrete of immediate - or unsystematically mediated - empirical investigation is manifold: how can it be disentangled? We eschew the individualistic approach of analysis, disaggregation to the 'basic', smallest unit, and then the aggregation of individual to establish social behaviour. In our view, this is not fruitful (and the mainstream results - in particular the voluminous literature orientated around Arrow's paradox - seem to confirm this). Even if we may assume that states seek to maximise social welfare, Arrow's paradox has demonstrated that there is no democratic means whereby their objectives may be determined by the aggregation of individual preferences. There appears to be rather a set of systemic incompatibilities between individual and social choice.¹⁰ Relatedly, the new welfare economics has both indicated that maximisation of social welfare is unlikely to be the outcome of individualistic optimisation by the political and administrative agents staffing the state; and failed to account for the apparent 'public interest' aspects of state behaviour.

8 See Williams 1982, O'Connor 1973 & 1984 (ch. 7), Gintis & Bowles 1982. The related strand in political science, in which the welfare state emerges as the result of working class gains in democratic class struggle is surveyed in Wilensky 1985. The germinal post-Marxist work on legitimation and consent is Habermas 1973.

9 Precursors to our approach within the mainstream political sociology canon include those modernization theories for which the welfare state is a natural concomitant of democratization (Marshall 1950, Bendix 1964, and Rokkan 1971; cf Esping-Andersen 1987b).

10 The explanation of the crises of welfare states in terms of such tensions is represented in the mainstream political science literature, by, for example, Bell 1978, Crozier, Huntington and Watanuki 1975 and King 1975. The classic discussion in economics of the 'trade-off' between economic efficiency and the equity goals of the welfare state are Lindbeck 1981 and Okun 1975. And radical/Marxist accounts of similar phenomena are contained in Offe 1975 & 1984 and Bowles and Gintis 1982.

Our work attempts to move beyond the sterile debate as to whether the efficiency of the capitalist economy necessitates welfare expenditure, is indifferent to it, or abhors it. By analyzing the contradictory imperatives of welfare expenditure within the bourgeois mixed economy, we provide the basis for an account which can embrace both the 'citizenship-rights form and the national variations of contemporary welfare policies' (Gough 1987).

It should also be noted that the force of our arguments derives from the identification of moments of the bourgeois epoch necessary to its continued reproduction as a social system, not from any historical narrative of the genesis of those moments. Not only is this justified in general (see Reuten & Williams 1989: Part I), but seems particularly apposite for an account of the liberal capitalist order, since 'the overriding good of liberalism is no more and no less than the continued sustenance of the liberal social and political order' (MacIntyre 1988: 345).

What is needed, then, is a dialectical investigation from the empirical to the abstract, from which the empirical is re-conceptualised as the concrete - that is, comprehended in its interconnectedness. (Cf. Hegel 1833 and Marx 1903; see also Smith 1990: 3-8 and 33-35.) In this paper we present but a few stages of this latter process of 'concretisation' (confined to the role of the state). We start with a most abstract - and also trans-historical - notion: sociation (§2). In §3-4 the capitalist economy and competitive society are introduced. §5 indicates how the state is grounded in the upholding of right and in its own legitimation. This is the crucial part of the argument, and it is elaborated in §6-8. Only towards the end of the paper (§9) is welfare policy explicitly introduced.

§2. Sociation (a trans-historical concept)

Human Being is determined by both the communal material prerequisites, and the natural necessities of existence, as well as by free will and by reflection upon, and the active becoming conscious of, that Being. These are necessarily social processes, the abstract unity of which is termed 'sociation' (Reuten & Williams 1989: 39, 56).

Whilst it could be argued that there is a theory of 'human nature' underlying this starting point, the crucial point is that it is not one which preempts the possibility of social determination. Of course, it does make an assertion about human nature: that it has an irreducible social component.¹¹ In this it differs from liberal political philosophy which typically starts with a pre-social 'state of nature' (Hobbes 1651; Locke 1690; Hume 1739/40; Rousseau 1762) - although the more competitive versions of these bear an uncanny resemblance to 'competitive society' (§4 below).¹²

11 This not the place to justify the assumption of the intrinsic sociality of human being. Berger 1967: 22ff provides a definitive statement of the anthropological arguments for the assumption - non-social existence poses the terror of contingency, meaninglessness and anomie (cf Habermas 1973: 117ff); and O'Connor (1984: ch. 1) is making a similar point with his use of the distinction between 'individualism' and 'social individuality'.

12 For proof that the classical political 'state-of-nature' theories underpin contemporary radical neo-liberalism one need look no further than Nozick 1974: Part I.

§3. The capitalist economy

In the bourgeois epoch this potential (*'an sich'*) unity falls apart. In particular, because of the 'dissociation' of units of production from units of consumption, and from each other, the social determination of material existence is negated. This negation is transcended (the separation between units of production and those of consumption, as well as between units of production, and between units of consumption, is 'bridged') through the value-form: products as well as the activity of their creation (labour) take the form of value (the concrete expression of which is money). This transcendence by the value-form of necessity gives rise to a number of further contradictions and their transcendence, as well as tendencies developing from them (for example, the double character of commodities, of labour, and of the labour process; tendencies of valorisation, and of accumulation interconnected with the credit system - Reuten & Williams 1989: chs 1-5). Production becomes production for money, production for money becomes accumulation of money, and of capital; and concomitantly consumption becomes consumption of commodities. Value-form determined relations develop into an anonymous, apparently immutable (and however dynamic) *structure* ruled by nature-like forces. This then is, very briefly, the configuration of the capitalist economy. In terms of this structure in abstraction, individuals are the mere bearers of abstract economic relations.

The important point to be stressed for the purpose of this paper is that through the negation of *its* moment of material existence, sociation falls apart. The capitalist economy then transcends the negation of that one moment (through the value-form and its further determinations), but in doing so 'gains momentum' in opposition to free will - the other abstract moment of Being and thence of sociation. To this extent, the 'free individual maximisers' of neo-classical economics are here conceived as determined by the economic structure of society, and so revealed as a one-sided concept.

This falling apart is also the basis of alienation. It inhibits social self-determination, as well as the potential consciousness of freedom as necessarily the unity of freedom and necessity. In the mainstream economics story there is no such 'alienation' because somehow individuals - the starting point and basic unit of individualistic social science more generally - seem to be endowed with *positive* freedom. Any non-natural constraints on individuals appear to be the result of their free will, which of course sits uneasily with the old metaphor of the 'invisible hand' or with the notion of 'market forces': 'The irony of the "free market" is that its functioning assumes that its actors cannot escape; as Lindblom notes, it assumes complete imprisonment.' (Esping-Andersen 1987b: 86; cf Lindblom 1977). For the same reason the contrast with the radical liberal conception of rights as a predicate of some kind of pre-existent free 'individual', which are threatened only by other individuals, groups or by the state - but not by the coercion of market forces - could not be more stark (cf Nozick 1974).¹³

¹³ For an outline of Hegel's powerful insights on alienation, as well as those of Marx, see Walton 1984 and Arthur 1988. See also, Petrović 1983: 9-15.

§4. Competitive society

The structural determination of the economy through the value-form (abstract economic forces and their expressions) contradicts free will as well as the notion of any concrete right. The economic structure may not be indifferent to the *abstract* rights to property and existence, it is however indifferent to concrete rights. Thus in the case of existence-right, capital 'needs' labour to valorise, but it is indifferent to the existence of the particular individual labourer. Similarly in the case of property-right the economic structure is not affected by any infringement of particular property, as long as it is in accordance with the abstract right to hold and alienate property. Bourgeois competitive society transcends this contradiction. It is the (abstract) unity of structural economic determination and free will. (Thus it is the transcendence - at a more concrete level - of sociation (§2) and its falling apart through the negation of its moment of material existence). Within competitive society individuals exist as the fragmented unity of bearers of economic relations and of free will.

They may well have further determinations as private individuals, bearing relations of kith, kin and personal affection - restricted communality - not dealt with further in this paper. The social counterpart of the fragmented individual in this respect is what may be called the 'private sphere'. The hypothesis of gender determination of bourgeois society, and of bourgeois restricted communality would fit in here. Incorporation of an adequate account of the private individual and sphere would, of course, be important for concrete developments of the grounding of welfare policy in those many particular policies which are orientated towards 'the family'. In particular neo-liberal 'recommodification' (§10) often seems to be accompanied by neo-conservative 're-privatisation' of aspects of social policy - viz the return of aspects of reproduction such as care of the old, young and disabled to the 'family' and the 'community' (O'Connor 1984: ch. 8).¹⁴

Competitive society addresses particular individual existence through the value-forms of income: profits, interest, rent and wages. The first three entail private property (over firms, money and land, respectively) in order that they can function as income sources. The last is derived from the universal human capacity to labour, and so acts as the income 'of last resort' (as well as the prime variable cost of production and the basis of consumer demand, thus providing the fulcrum for interdependence between welfare and macro- and microeconomic policy §9). As first articulated by Hume (1739/40: Book III, ii, 6), justice has been seen as serving the ends of property - typically 'unmodified by the necessities of human need' (MacIntyre 1988: 307). Nevertheless it is in the last resort through labour-power that the right to existence is grounded - however abstractly - in competitive society. It is therefore with the adequacy of that grounding that a discussion of welfare policy must be concerned. In competitive society, free will is as yet only abstract in that it is exercised in the deployment of income sources, only as determined by the economic structure (Reuten & Williams 1989: ch.6, section 2).

¹⁴ For a preliminary discussion of the private sphere and the fragmented bourgeois individual see Reuten & Williams 1989: ch.7, section 1. Further developments would also have to build on Habermas' comments on the role of the private sphere in the socio-cultural underpinning of motivation and thus legitimation (e.g. 1973: 74-82; cf O'Connor 1984: 197-200).

§5. The state and the economy: civil society

Thus in competitive society Right, in particular the rights to property and to existence, can exist only abstractly, not as concrete social rights. The value-form determined capitalist economy is indifferent to the existence of particular individuals, and is characterised by dynamic tendencies which periodically undermine the conditions of existence of such individuals. The distinction is expressed in that between pure capitalist equal opportunity for all to compete for all scarce use-values (including education, health care, housing etc), on the one hand, and equal rights to concrete material and social well-being, on the other (O'Connor 1984: 214-5) - formal equality of *process* confronts concrete equity of *outcome*. Competitive society can ensure the reproduction neither of particular individuals, nor of an adequate supply of labour power to the capitalist economy. Rights of property and existence are therefore in themselves contradictory. This contradiction is transcended in the doubling of competitive society into *civil* society and the *state*. The theoretical object is extended to encompass not only competitive society, but also the state. Civil society is then the economy vis-à-vis the state - the reappearance of the economy given the conceptual development from competitive society to the emergence of the state.¹⁵

The existence of the state is grounded first in its positing of right as *law* (it defines individual rights, arbitrates between conflicting claims to right, punishes wrong, and upholds right) and, secondly, in its *legitimation* by the will of subjects (in particular the will to submit to the state since it universally protects their rights). In this way the state becomes a (more) concrete expression of abstract free will.¹⁶

It is important to note that we do not 'justify' the (welfare) state by reference to, say distributive justice, or egalitarian (see Nozick 1974: Part II) or other specific moral precepts such as freedom or autonomy (see, e.g., Weale 1983: chs 1-6). Rather we develop its systemic necessity by reference to principles/moral norms necessarily embedded in bourgeois society (Habermas 1973: 103-30), based on abstract free will and its (bourgeois) concretisation in the rights to property and existence. This seems appropriate if it remains true that: 'The rulers of the modern [post-enlightenment] state claimed to be able to justify their assumption of authority and their exercise of power insofar as they supplied the ruled with what could be identified as benefits and protection from harms, no matter what specific conception of *the* human good, if any, were held by rulers or ruled.' (MacIntyre 1988: 211) In this the state merely reflects the liberal claims for the market: preferences embody no necessary overarching common denominator and may conflict. So the (liberal-democratic) state is

15 Note that conceptual development makes no presumption about particular historical developments. Habermas (1973) may well be right to conceive of the autonomy of the economy emerging historically from 'traditional' forms of society in which economic activity was steered politically. But this does not imply that the economy is a self-reproducing system, requiring only socially integrative functions from the state as a sub-system. Even for radical liberals, free markets alone give individuals neither what they deserve nor what they need, but only what is required to induce them to contribute to economic activities (Hayek 1976: 70-1). Again, though Weale (1983: ch 7), also discusses the importance of the concept of Right in grasping the welfare state, what he has in mind is some uncritical concept of trans-historical natural rights.

16 Abstract free will is an Hegelian concept (Hegel 1821: §§4 and 5). The will is abstract in being universal yet consisting of determinate aims (Hegel 1821: §34-5). For a modern account see Benhabib 1984.

concerned with principles for regulating the implementation of preferences, and for practically evaluating their relative priority (ibid: 342).

In this view the state is neither an instrument in the hands of a particular class, nor the functionalist expression of a particular interest, nor the remedy for some functional failing of the economy. Rather it is the expression of a contradiction that cannot be resolved at the level of competitive society. Nevertheless, as the expression of the contradiction between structural value-form determination, on the one hand, and free will and Right, on the other, the state is specifically a bourgeois, capitalist state.

The state thus does not 'derive' from the *economy*, but from the abstract existence of free will and Right in competitive *society*, which is negated in the capitalist economy, and hence has no concrete existence in civil society. The state and the economy, therefore, form a separation-in-unity, predicated upon the emergence of dissociation negating sociation (§3).

§6. Conflict of Right and the legitimation of the state

The bourgeois state in its evolution and implementation of policy cannot escape the three questions thrown up by its liberal basis: the nature of political authority, of practical reasoning and that of justice (cf MacIntyre 1988: 211-2). Tensions between the state's upholding of Right and the value-form determined economy are most acute where it has to arbitrate between conflicting rights. One such conflict is centred around the capital-labour relation - the site of the basic tension between the right to property and the right to existence. The apparent neutrality of the law, and thus the legitimacy of the state, is subverted to the extent that it is perceived as treating inadequately either the rights of labour (predicated on existence) or those of capital (predicated on property).

§7. Legitimation: inner and outer state

Subjects, in their abstract free will, will the state as the protector of their rights, in particular those to property and existence. This legitimates the state to intervene in the economy. The state's activities are nevertheless experienced as an externally imposed power, constraining their freedoms of person and property. It is a condition of the legitimation of the state (and of the dominant autonomy of the value-form reproduced via the universal forces of the market) that it stand outside the individual competitive struggles of civil society.

It is worth noting again that dialectical theory enables us to transcend the sterile confrontation between those who argue that the economy has a logic autonomous from its social context, and those who argue for the necessity of that social context (including welfare policy). Both the autonomy of the economy *and* its need for a social context are necessary in the bourgeois epoch. Radical liberals grasp one horn of this dilemma by trying to distinguish between those state activities compatible with capitalism, and those incompatible with its reproduction (see, e.g. Hayek 1966: 222-3; but cf ibid: 257-61). However, we conceive bourgeois society as necessarily the dialectical unity of state and civil society, characterised as 'separation-in-unity'. It is with this contradictory unity which advocates both

of a more socially adequate, and those of a minimal 'welfare state' have to cope (cf Block 1987). The efficiency of the social satisfaction of some notion of trans-historical human need (if such a concept could be made operational) may not suffer from welfare and other state intervention; and the capitalist economy undoubtedly needs a social context. Nevertheless, the existence, maintenance and actions of the state are at the same time a threat to the pure value-efficiency of the capitalist economy - the success of which is (for as long as the bourgeois epoch persists) the major source both of individual and social inputs to (at least material) existence. Thus, contrary to Block (1987), in a dialectical theory it does indeed make 'sense to speak of a contradiction between social policy and the logic of [capitalist] accumulation' just *because* 'The two are deeply intertwined' (p. 220).

The legitimation of the state requires that it be perceived, in all its institutions and activities, as the manifestation of the will of individuals. For consciousness of free will to be maintained subjects must feel themselves subject, ultimately, only to the dictates of their own will, however mediated. Whilst the egoism of civil society leads citizens to will the imposition of state regulation in the name of the general interest, at the same time their self-interest as competition subjects leads them to will that these impositions impact elsewhere than on themselves. The relationship between the state and civil society is thus one both of necessary *separation* and of necessary *unity*.

The contradiction of freely willed coercion is grounded in the doubling of the state into the *outer* state (the state as upholder of Right as law - which has been presented hitherto) and the *inner* state by which the consent of the people to legitimate interventions is to be reproduced without subverting the necessary form of separation.¹⁷ With this doubling the existence of the state itself also takes the form of separation-in-unity.

The specific concretisation of the inner state is contingent. Our aim is to develop a sounder philosophical foundation from which to present such concretisations. Writers in the Marxist tradition, from Engels (1884) to Jessop (1978) have argued whether bourgeois democracy is the 'best political shell' for capitalism (cf Habermas 1973: 58-9). We do not address this issue here. It is, however, our contention that the different particularisations of the inner state - from Bismark's Germany to Nazi Germany to contemporary Scandinavia - do indeed belong at a more concrete level, as particular transcendences of the contradictions of the mixed economy.¹⁸ Notwithstanding the 'middle class capture' thesis carefully evidenced in Goodin and Le Grand (1987), the single best empirically confirmed factor explaining national variations in the extent of the welfare state seems to be differences in labour-movement organisation and effectiveness (Stephens 1979; Therborn 1984). This is not incompatible with the attenuated nature of 'democracy' in its liberal guise (Habermas 1973:

¹⁷ Hegel 1821: §183, §230ff. Knox (1942: xi) summarises succinctly the necessary separateness of the outer state and the role of the inner state in constructing a consciousness of identity: 'In civil society, the law which defends the security of property and enforces contracts is regarded as an external force; in the state the law receives its content from parliament and so is the law of the citizens themselves.' Cf Habermas 1973: 69-71 and O'Connor 1984: 191-201, who both relate the need for separation of economy and polity - within or without the state - to legitimation. What Habermas (Part III, ch. 5) terms social integration exists only in a dialectical unity with (economic) system administration.

¹⁸ For more concrete accounts of variants of the 'inner state' with particular reference to different social policy regimes, see Skocpol (on the USA - see also O'Connor 1984), Rimlinger (on Fascist Germany), Esping-Andersen (on Sweden), and Szelenyi & Manchin (on Hungary) - collected in Rein et al (eds) (1987).

123-4) and indeed it is within this context that effects - and limitations - of class struggle in general have to be located (see p. 4, above). Bourgeois constitutional democracy, with its separation of powers, system of representation without mandation and professional, rule-bound, neutral civil service, is at least one widespread manifestation of the inner state.

The 'new political economy' account of liberal democracy and its bureaucracy here complements the 'old' welfare economics' 'market' failure, with its theorisation of state failures. Various principal-agent problems are characterised by their assumption of rational economic person transposed into the state sector. Citizens are reduced to voters who calculate the expected net marginal benefits from voting. Politicians optimise their chances of getting reelected by promising benefits of state expenditure and obscuring the costs. And bureaucrats maximise their utility, subject either to a (politically imposed) budget constraint, or to a demand constraint. At each nexus the principal (voter and politician respectively) has an information disadvantage vis-à-vis the agent (politician and bureaucrat respectively). On the one hand these models accurately reflect the individualism of civil society and the purely abstract nature of bourgeois political life (O'Connor 1984: 20, and ch. 7) - the tendential reduction of the individual to wage-labourer, commodity consumer and voter. On the other, whilst it is certainly the case that the economy dominates the bourgeois epoch, we have shown that it can only sustain itself as one moment of a unity with the state, which attempts to mediate the universal aspects of social human nature. Economics of politics and of bureaucracy models are one-sided (and fall, ultimately, into instrumentalism) in neglecting this necessary moment of the capitalist state - what orthodox political science refers to as the 'public interest', reproduced by a rational interest by politicians in attempting to secure legitimation for their government (Goldthorpe 1978: 210).

In keeping with the liberal ideology¹⁹ of capitalism, the individual's impact in this theory is only as rational economic person, determined crucially and solely as a preference ordering. Since this ordering is not systematically socially determined, state regulation can only be legitimated by an appropriate aggregation rule or constitution. Note how the account of the public sector given by the 'new political economy' embodies the liberal virtues: individuals as schedules of preferences, social choice as the aggregation of individual preferences, concern that state actions should enhance and not inhibit the ability of individuals to effectively express their preferences in action and so on. (It is less clear that it is concerned to not exclude the disadvantaged from due consideration - unlike a paradigmatic liberal philosopher such as Rawls.) Arrow's paradox has demonstrated that any aggregation rule will either be dictatorial (negating free will), or result in incoherent social choices. Thus practically rational social choices which appear to be made, cannot be made. It seems not inappropriate to manage this paradox as an expression of a dialectical contradiction. The liberal ideal of the state as the site of bargaining between individuals with autonomous preferences, is confronted with the necessity for an arena for debate as to what is to be the dominant conception of human good, and how its implications are to be implemented.

19 For an account of the liberal tradition, the unavoidable moral principles which it embodies, and its relation to the market and the diremption of society into apparently autonomous spheres, see MacIntyre 1988: 335ff.

The universal nature of the outer state, legitimated by the will of bourgeois subjects that it uphold their rights of property and existence, is manifested institutionally in the inner state by the separation of powers of the legislative, executive and judicial branches. The systemic necessity lies in the form of separation-in-unity, so that whilst separation is maintained, citizens must formally consent *in* some way to the state. The necessity for this consent does seem to have the most obvious effects on the state's activities and structures in the case of bourgeois democracy. It is also the case that the formal equality of competition subjects before the 'economic laws' reproducing the value-form, is most closely reflected in an inner state structure embodying both the formal equality of citizens before the law and their formal equality as enfranchised voters.²⁰

§8. The material existence of the state, and the economy's institutional framework

With the doubling of competitive society into state and civil society (and of the state into inner and outer state), the opposition between value-form and Right is not dissolved. Rather they are concretely separated as constitutive moments of the contradictory separation-in-unity of state and civil society (and again of inner and outer state). The state is separate from the economy, but must intervene in it to maintain its legitimation. In particular the state, even in the most minimalist conception of radical liberals, maintains an institutional framework of law, money, and social infrastructure within which economic forces can operate uninhibitedly. The point here - further explicated below - is that the state is dependent on the economy for its own legitimate existence. (It is also, of course, the case that the economy is dependent on the state - as has been demonstrated. Thus whilst radical-liberals may be guilty of a 'basic misconception of the autonomy and rationality of economic processes within capitalist society' (Block 1987), it is necessary to theorise the kernel of truth in this conception: that economy and state have to be both autonomous and united in contemporary capitalism.)

Through the framework of law, the state must - as already indicated - specify the content of Right. In the current context this concerns at first the *negative* rights to property and existence (not to have one's property or existence threatened or constrained by other agents). However, the legitimation of the state also requires a *positive* specification of these rights. No matter if and how a positive right to existence has been upheld *historically*, it is a major determinant of the legitimation of the state (Habermas 1973: 20ff). One example of a nation where this is explicitly codified is Holland, where a positive right of existence and the state's responsibility for its maintenance was formulated in the constitution of 1798 (art.47). Leftist writers in particular have been sceptical of the very notion that the bourgeois state might be predicated upon a right to existence. It is not clear why, since that so fundamental a predicate of Being requires to be enshrined in the form of an abstract right is surely potentially the basis of a most damning moral critique of the capitalist economy?

²⁰ There may be a *prima facie* case for investigating a trade-off between 'consent' and 'coercion', both in radical liberal regimes as they attempt to withdraw from welfare responsibility, and in various kinds of overtly authoritarian regimes. In this context, the dramatic collapse of the East European authoritarian regimes, apparently as the result of the widespread withdrawal of 'consent' also awaits careful examination.

From a critical point of view there may seem to be no rational basis for a dichotomy between negative and positive right. Cut-throat competition, bank-failures and inflation, for example, may all seem to threaten even negative property right. Similarly, the conditions of the labour-process, low paid work, and lay-offs, for example, may all seem to threaten even negative existence right. However, the liberal ideology embedded in bourgeois society needs to sustain the distinction.²¹ Although negative right is a prerequisite for the operation of market forces, the move to positive right invites significant state intervention, which will tend to attenuate property rights and concomitant incentives, thus undermining the operation of market forces. What the examples illustrate, then, is the concrete expression of conflict between rights of property and of existence.

The problem, then, with any positive specification of right is that it involves in some way the introduction of use-value criteria potentially in opposition to value criteria. This is of course most transparent in the case of the right to existence. What, for example, is an acceptable 'minimum' wage; where is the poverty line (cf. Barr 1987: 133); what are indispensable benefits; what are appropriate working conditions? The problem then is that the state's introduction of use-value criteria threatens the immutability and *self-evidence* of the economic criterium of value. It *bridges* the separation of state and economy, and therewith threatens both the state (legitimation) and the autonomy of the economy (its self-evidence).

Even for this most elementary concretisation of right the state has to have *material* existence. Since it is separated in principle from the processes of material reproduction located in the economy, the state must appropriate the necessary means from the economy, notably by taxation (cf. Offe 1975). It thus attenuates individual property right. Once more the state necessarily bridges the separation of state and economy. It becomes clear that the state is *dependent* on the economy and has an *interest* in the functioning of the economy, which is further concretised in the frameworks of money and monetary institutions and of social infrastructure.

Money is the central motif within capitalism, and yet cannot be reproduced within the economy alone.²² Money is not a commodity, because its essential characteristics cannot be reproduced by capitals regulated by market forces. Whatever physical characteristics may be built into a commodity to make it suitable to act as money, they cannot ensure its *social* reproduction as the universal equivalent form of value. Within the economy the socialising moment is money-regulated generalised commodity production and exchange, but the role of reproduction *per se* is taken up by the state. The state then enforces the framework of money as legal tender.

The framework of social infrastructure includes those elements that, whilst needed for efficient capitalist commodity production, cannot be (or contingently are not) reproduced (efficiently) in the value-form because they cannot be (or are not) sold at a price which will

21 Berlin (1958) is the classic liberal statement of the distinction between negative and positive liberty, which underlies the attempt to separate negative and positive Right. More recently (and more polemically) radical liberals (see Nozick 1974) have extended and deployed the notion in their arguments against the legitimacy of all but minimal state economic functions - because any state intervention on the grounds of 'positive liberty', especially that in pursuit of distributive justice, clashes with the (for liberals more fundamental) negative right of individuals only to such life and pursuit of happiness as successful deployment of their rightfully gained property affords them.

22 For a reluctant agreement to this proposition by a radical liberal, see Hayek 1960: 324-7; 334-9; 520-1

cover the costs of their reproduction together with the normal rate of profit. But because there are no abstract determinants of what are the elements 'needed' (nor of what profit is 'normal'), establishing this framework again puts use-value criteria on the social agenda, and so questions the self-evidence of their subordination to value criteria.

The point to be stressed here is that the state rather than performing one-sidedly in 'the' interest of the economy, acts inter-dependently vis-à-vis the economy. Within competitive society neither economy nor state can have independent existence; but neither can they coexist without conflict between them. The mixed economy is contradictory.

§9. Welfare policy and its interdependence with macro- and microeconomic policy

The state's defining and upholding of Right in the form of law, its material existence and the establishment of a monetary and infrastructural framework bridge the necessary separation of economy and state. Crucially, as we have indicated, this questions the self-evidence of value criteria, and so too that of the capitalist economy: the necessary interpolations of the state undermine its legitimation. This combination of tensions makes the activity of the state extremely vulnerable. On the one hand it has to gain - in the case of a democratically enfranchised voting system - the consent of the majority of the electorate (which, crucially, in economic terms includes those dependent on wage-labour) whilst on the other hand it has to gain the consent of the vested economic powers (the 'captains of industry', together with those who perceive themselves to have interests in existing economic relations).

Economic and social policy is the site of the management of the vulnerable bridge between economy and state. Any political party in power, whether ideologically progressive and/or labour-oriented or ideologically conservative and/or capital-oriented, has to cope with a situation in which '*Both* capitalistic systemic *and* societal needs *and* working class material *and* social needs infuse[d] *both* economic and social policy'.²³ There are no simple political panaceas. Neither political parties nor political action stand above society. Conscious social self-determination does not merely require consciousness of the mode of material reproduction - the value-form determination of the economy in capitalism - it also requires consciousness of politics, that is social self-understanding.

The crucial area requiring management concerns the positive right to existence. *Welfare* policy attempts the actualization of this right. Welfare policies may be concerned variously to improve the saleability of labour power, to regulate the conditions of its exchange and employment, and to provide income support or income replacement (in cash or in kind) for the unsuccessful labourer. The degree to which the state has to intervene, and the degree to which a claim will be made on welfare institutions (such as unemployment benefits) is contingent on the course of capital accumulation and its cyclical development. Thus, once

23 O'Connor 1984: 198. We differ from O'Connor primarily as to his optimistic notion that policies relevant to what we call concrete particular existence right can have anything but a shadowy existence in bourgeois society (p. 200). This, relatively abstract, argument is not *per se* undermined by the different kinds of conjunctural settlement which might ground it - for example the empirically supported thesis of Goodin and Le Grand (1987) that it is the middle 'classes' (income groups) who have both most benefited from and been most instrumental in legitimating the welfare state (in Britain, the USA and Australia).

again, the state has an interest in an 'adequate' process of capital accumulation. Obviously with a prosperous economy, relatively little state re-distribution of resources may be required to maintain the right to existence, and what is more any such resources can be obtained from the economy with relatively less friction. The greatest demand for resources for welfare policy arises in economic recession, when the economy is least able to deliver them; the least in prosperous times when the economic surplus is most buoyant.

Thus welfare policy is interconnected with *macroeconomic* policy, and its dilemmas (cf O'Connor 1984: 201-212, 220-7). Any 'unsuccessful' (in the event pro-cyclical) macroeconomic policy, of course, reinforces the problems the policy was to resolve. Whilst 'successful' macroeconomic policy may reduce the amplitude of cycles and prevent cyclical down-turns from degenerating into cumulative crises, reducing the demands for direct welfare support of incomes, it also undermines the stimulation of restructuring of capital and disciplining of labour which would otherwise be concomitant on economic stagnation.

Macroeconomic measures may have unequal and unintended impacts between and within sectors of the economy. In order to deal with this, as well as to facilitate the restructuring of capital and the disciplining of labour, the market incentives for which may have been attenuated, the state is drawn into *microeconomic* policy: competition and industrial policy which impacts at the level of sectors or even of particular enterprises. With it the separation between economy and state will be further compromised. The state's interpellation of use-value criteria at this level of disaggregation is potentially far more disruptive of the market reproduction of the value-form than a (more or less stable) framework of infrastructural, macroeconomic and welfare policy 'within' which economic transactions could be left to individual decision-makers coordinated by the market. The structurally determined bearer of decision-making responsibilities which grounds the capitalist processes of valorisation and accumulation is the property-owning, profit-seeking capitalist entrepreneur (whether concretely embodied in a corporation or in an individual person). Microeconomic policy threatens to erode the (legitimacy of) the entrepreneur's monopoly of resource allocation decisions.

§10. Economic Policy Conjunction

The logical interaction between welfare, macroeconomic and microeconomic policy may lead to growing *state* regulation of the economy, which increasingly comes into conflict with the capitalist mode of overcoming 'dissociation' (§3) - the value-form and the derived economic forces of valorisation and accumulation, grounded in de-centralized *market* regulation of the economy. Not only are these forces hampered, but also their self-evidence comes into question. This conflict may give rise to the reaction of *de-regulation* and 're-commodification'. But with any de-regulation the state's legitimation may be undermined. De-regulation then gives rise to a new wave of regulation, and so on (cf. Kalecki 1943; O'Connor 1984: ch. 8). This process is concretised in the irregular cycle of policy, punctuated by policy problems and possible threats to legitimation, in which states' policy stances swing from some form of radical liberal disengagement and minimisation of the state and its economic

functions, to some kind of corporatist/populist intervention in the economy and expansion of the size and functions of the state. It is this broad stylised fact which suggests that what the state is implicitly faced with in developing policy is the management of the contradictions of the mixed economy, which ground the conflicts between state and civil society, captured by the concept of separation-in-unity (§5-7).

Consent to this process hinges on the legitimation given by the will of citizens. Ultimately this depends on the (ever-changing) consciousness of the state-economy relationship, and of the legitimate range and scope of the value-form determined economy.

Summary and conclusion

'Welfare policy' seems difficult to explain within an instrumentalist or functionalist theorisation of the state, yet it is a substantial element of the state's existence. Welfare policy has been placed in the context of the state's upholding of the right to existence. The neglect of this link appears to have given rise to instrumentalist and functionalist theories of the state, on the one hand; and reductionist attempts by the 'new political economy' to theorise the state using individualist models developed to account for market behaviour, on the other.

Free will and Right can have no concrete existence within the structurally determined capitalist economy. Yet they are essential moments of human Being. Their negation in the capitalist economy, and so their only abstract existence in competitive society, is transcended in the doubling of competitive society into the state and civil society. The state defines and upholds concrete right as law, and so is legitimated by the will of citizens. The state is separate from, and yet forms a unity with, the economy (separation-in-unity). Thus the state, in principle, has no necessary *particular* (for example, instrumental or functional) links with the economy. Nevertheless because of the upholding of Right and the concomitant necessary material existence of the state, it has to mediate - and so bridge - the state-economy separation.

The concrete form of this bridging is vulnerable to charges of undermining the autonomy of the economy, and/or the legitimation of the state because of the conflicts of Right - especially that of existence right and property right. Both to apparently disadvantaged groups of citizens, and to instrumental and functionalist theories of the state, it appears that the state becomes partisan as between the different interest groups which concretely ground the different classes of competition subject. But the state does have to cope ultimately with its legitimation in the will of citizens, and with its impact upon the efficiency of the market reproduction of the capitalist. The point is that, in the bourgeois epoch, the state has *different* determinations, sometimes contradictory to those of the capitalist economy, and sometimes internally contradictory. There can be no concrete expression of a pure capitalist economy - the concrete forms of existence of capitalism are necessarily some variety of mixed-economy. Policy consists in attempts to manage the conflicts of such a social system.

It is worth noting that there is no reason to suppose that the newly-liberalising former 'actually existing socialist' societies can escape the contradictions of the mixed-economy - although we might expect to see the emergence of new institutional forms to manage them. Whether evolution or revolution will ever bring about a form of social organisation whose

organic unity transcends the contradictions of the mixed economy - of value and use-value in the commodity and of the coexistence of civil society and the state in separation-in-unity - is utopian speculation. What this paper has tried to present is an understanding of the nature of policy, developed from the logic of the capitalist mixed economy as an epochally specific mode of (as)sociation.

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