

# The dismantling of the State since the 1980s: Brexit is the wrong diagnosis of a real crisis

**Abby Innes** writes that the vote to leave the EU and the administrative chaos around it pull into focus the crisis we should have been talking about before: the failures of homegrown neoliberal policies and their dire implications. She argues that while Brexit has been heralded by supporters as a solution to a number of problems, what it will actually do is to accelerate to the point of 'completion' the already failed experiments to reform the state.



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The Leave campaign in 2016 had a lot in common with the 1979 Conservative election manifesto. Both evoked the threat of a bureaucratic super-state and something approaching a conspiracy of that state against the public. Both promised to rescue a Greater Britain from the conspiratorial political forces that were holding it back. Both campaigns were a misdiagnosis of the real crisis at hand. This time we face a crisis of ungovernability potentially far more severe than that of the 1970s; but its roots are less in Europe than in the failures of the homegrown neoliberal reforms of the British state.

## The 'supply-side revolution'

The last three decades of state reform in Western democracies have aggravated rather than resolved the social divisions that emerged with de-industrialisation. Over the last thirty years, liberal market economies in general and the UK in particular have transformed the character of their states through privatization and outsourcing, through the development of quasi markets in welfare, and the rejection of industrial policies. At the same time, permissive tax and regulatory regimes have encouraged large corporations to opt out of their former social obligations in the name of maximising shareholder value.

The 'supply-side revolution' of the last thirty years was driven by the dominant New Right diagnosis of the economic crises of the 1970s and based on the radical public choice economics aligned with the Chicago and Virginia schools. According to this diagnosis it was the state that was primarily responsible for the end of the post-war 'golden age of growth' because of its inhibition of the market. Thus, according to the New Right and later New Labour too, it wasn't technological change, or de-industrialisation in the face of emerging markets, it wasn't the Nixon shock, or the end of Bretton Woods, nor rising exchange rate instability, it wasn't stagflation or the oil crises that had confronted the country with a need to re-evaluate its production regime. It was the state. And so it was the state, above all else, that had to be transformed.

## The first problem with the supply-side logic: the state as a firm

The supply-side critique of the state is profoundly flawed. It is rooted in abstract deductive logic derived from the first-principles of neoclassical economics uncalibrated against empirical reality. The public choice school based its understanding of politics on the assumptions of neoclassical economics that until the late 1950s had been applied only to decision-making in markets. Carrying over this methodology drove a devastating conclusion that is actually just an artefact of the method itself. To answer their questions around why the state had grown in the post-war era, public choice theorists simply asserted that politicians, bureaucrats and their voters are self-interested economic actors like any others in a marketplace.

By declaring that all public officials should be understood as *homo economicus*, the New Right could reconceive of democratic politics as a process in which politicians are effectively entrepreneurs who compete to gain control over the resources of a monopoly: the state. To increase their fiefdoms, both self-interested politicians and bureaucrats will generate policies most likely to appease self-interested voters in the market for votes. By this logic, according to the New Right, democracy is doomed to crowd itself out: the demand for state privileges by individually self-seeking voters will never be satisfied until the growth of the state has reached an unstoppable momentum towards totalitarianism. Bureaucrats, as in any monopoly firm, will tend only towards exploitative price-making and general budgetary greed. A responsible politician will strip the state of its powers to intervene in a 'free' market: the only 'honest' mechanism in a rationally selfish world.

The micro-foundations behind this thesis make it philosophically extreme. They assume a society populated by individuals who, in all contexts, deploy a clear and cold calculation of the costs and benefits of their actions, and do so with perfect information about their options. The supply-side diagnosis assumes that individuals are super-humanly rational around their immediate interests but completely witless about social or constitutional considerations and unmoved by ethics as distinct from material gain: implicitly, theirs is a voting population that can't tell the difference between the NHS and communism. It is in this light that the European Union is viewed as no more and no better than a cartel of self-seeking monopoly enterprises. Clearly, if you conceive of the state in this way then the only rational solution is not to reform it but to break it.

## The second problem with the supply-side logic: the state as a standard economic agent

But what if this metaphor is just wrong? What if it was always a normative assertion by a faction of academic theoreticians on a roll rather than an argument based on the historical evolution of actual states. What if the theory was an irresistible platform for large corporations who preferred to return to the good old days of *laissez faire* over a wise or sustainable political economic strategy? What if a failed firm enforces a limited reallocation of labour and capital, and a [failing state collapses](#) the effective mechanisms for democratic representation, the stability of capitalism, social integration and public order *as such*?

Not only does the supply-side revolution reintroduce market failures where they had always, historically, failed, it introduces state failures where they hadn't previously existed.

As the economic theories of contract and property rights make clear, the higher the complexity of a good or product, the higher the risk of so-called 'asymmetrical' contracts in which the seller has more information than the buyer and hence can exploit that buyer. This is a fundamental problem when the state becomes that customer at the taxpayers' expense. [Transaction cost theory](#) shows that trying to manage such asymmetrical contracts leads to massively increased costs. And these costs [can never be rendered efficient](#) because of the intrinsically unbalanced nature of the original contract, because of the complexity of the good. After thirty years the evidence suggests that introducing businesses into the UK state and competition between states produces the worst of both public and private regimes.

In the case of welfare reforms, the UK norm has become one of profit-seeking firms engaged at the tax-payers expense but in thoroughly non-competitive conditions. The resulting failure to produce either high quality services or lower costs has forced the state into doomed games of ever more Kafkaesque remedial action because of its continuing statutory responsibility for outcomes. Thus, in the name of this continuing supply-side experiment our schools, health service, prisons, transport services and social care institutions have become text-book case studies for 'moral hazard', in which private providers have few incentives to avoid risky or perfunctory behaviour because of the *de facto* insurance of continued public payment.

## Private provision and its effect on government accountability

And this is before you consider the conflicts of interest that increasingly run through UK policymaking structures like a stick of rock. A relatively hidden dimension of today's crisis of state failure is the increasingly pervasive role for private businesses throughout the entire state administration. After a sabbatical in the Cabinet Office Matthew Flinders [reported](#) that UK central government had lost the capacity to operate 'meta-governance' over state authority. That was in 2005. Since then that authority has increasingly been gifted into private hands. This process of dis-integrating state capacity was intensified after 2010 under the renewed supply-side zeal of the coalition and Conservative governments.

In 2015 [Ruth Dixon and Christopher Hood](#) found that reported administration costs in the UK had risen by 40% in constant prices over the previous thirty years, despite a third of the civil service being cut over the same period, whilst total public spending doubled. Running costs [were driven up most in the outsourced areas](#). Deep failures of service, complaints, and judicial challenges had soared. This was in no respect the 'better government for less money' promised by governments of left and right. These reforms have also undermined the accountability of government because the more the state has become structurally dependent on private provision the harder it's become to reverse even openly failing policies: the state capacity that used to be there has frequently been destroyed. The administrative chaos around Brexit demonstrate to the wider public the dysfunction that those who depend on the state have suffered for years.

The democratic principle of fiscal consent is that people are willing to pay their taxes because the liabilities are fair and the revenues never confiscated. But that principle is severely stretched. The wealthiest firms have escaped their side of the fiscal contract through an international race to the bottom on tax rates, standards, and enforcement. In the meantime the burden of continuing taxation has been pushed onto less mobile factors such as labour, consumption, and small and medium-sized businesses.

And all of this might have been worth it had we gained the promised renaissance of investment, innovation, higher quality employment, and growth that was supposed to occur spontaneously when the state was got out of the way. But what we have seen instead is the transformation of post-war democratic capitalism from a system of wealth-creation to one of wealth extraction.

A process of financialisation has occurred on three levels: financial markets and institutions increasingly displace other economic sectors as the source of profitable activity. Non-financial corporations [are becoming financialized](#) through a regime of maximizing shareholder value, wherein profits are increasingly extracted for higher executive pay through share buy-backs and dispersed through higher share dividends rather than reinvested. Finally, finance has penetrated into every aspect of life as people are increasingly incorporated into financial activity, and to a degree that significantly [increases the systemic risk](#) inherent in the boom and bust cycles of poorly regulated financial markets.

## The existing structural divisions and the EU referendum

For a doctrine to require a super-human rationality to function as promised makes it totalitarian, whether that rationality is social, as in Marxism-Leninism, or utilitarian, as in neoliberalism: it requires a perfect consistency of human character. But it's also in the nature of such ideologies that in the face of often terrible social consequences their dogmatism encourages the doubling down on their projects in the belief that the validity of the programme will be finally proved at the point of completion. As a result, the energy of these doctrines only becomes fully unspooled once the disorder that they create has spread to every single part of the polity. Hard Brexit is an invitation from supply-side zealots to enter the full disorder of a 'liberated' market.

The Global Financial Crisis was also used as a pretext by George Osborne for an acceleration of the supply-side project but that same government was heedless enough of the social consequences to offer an opportunity for a public judgement on the current direction of travel: the 2016 Referendum. The [findings](#) on subjective attitudes are telling. Those most likely to vote Leave were:

- Those finding it difficult to manage financially (70%) or just about getting by (60%);
- Those who believed Britain has got a lot worse in the last ten years (73%);

- Those who think things have got worse for them rather than other people (76%);
- Those who perceive themselves as working class (59%). Those who see themselves as English rather than British (74%) or more English than British (62%).

These are constituencies built by the supply-side revolution. They were unlikely to be persuaded by a Remain campaign that spoke only of the economic joys of the *status quo*. The voting split for Remain versus Leave is between the centres of the new knowledge economy – rooted in ICT and services – and those of the rural, industrial and mid-range technology economies, abandoned by a state no longer understood by government as the historical midwife of development.

These trends support the worrying thesis that there are deepening structural divisions in advanced capitalist economies between those higher educated voters who prefer the labour market dynamism of highly liberalised economies, versus those with little hope of achieving a stake in any such system.<sup>[1]</sup> The rising emphasis on English national identity follows as a reaction to the unmanageable pace of globalisation: [the scale of displacement of manufacturing activities by imports](#) into a region drove perceptions around the risks of immigration more than the scale of immigration as such. This is hardly a trajectory compatible with democracy.

It was under these conditions that the referendum was heralded by Leave as the solution to the collective pain and frustration of an already divided society. Under the UK's constant leadership the EU had often become a champion of neoliberal policies. More often, however, it had acted as a brake on the more extreme preferences of UK supply-side governments. It was the Conservative, Labour and Liberal parties in government that made of the British state both an inefficient public regime and an increasingly extractive private regime dominated by large corporations. The historical irony is that the supply-side revolution has effectively built the state that haunted the fever dreams of the public choice theorists.

## Brexit as the last chance saloon

So why are we leaving the largest trading block in the world rather than having an empiricist public debate about the systemic crisis of the domestic political economy? One reason is that this crisis creates no neat division between party lines as it did in 1979: no party but the Greens gains from discussing their role in these developments. For Labour it is the deepest ideological division between its right and left. The expressive function of parties is further discouraged when the most powerful actors across the political economy are likewise implicated, from the City to the CBI. Even if supply-side reforms hadn't built so powerful a large business constituency for their extension, it would be awkward for mainstream elites to call for the renewal of central and local state capacity after so many years of insisting its relative incompetence.

The entire history of empiricist political economy tends to teach us that both states and markets have their virtues and their vices. The virtues are typically interactive. Cooperative solutions tend to be more efficient than markets at solving problems characterised by complexity and uncertainty: Germany's stakeholder production regime is exceptionally functional. Given the urgency of climate change the debate we ought to be having is about how to develop a political economic strategy with ecology at its very core. Even were we not dangerously behind on climate mitigation it is unclear how the trend towards increasing social polarisation driven by a doctrinally and practically corporate-captured state could be reversed without a radical shift in the political economic paradigm.

But in the face of these realities the strategy of the hard Brexiteers is uniquely unwise: it is to accelerate to the point of 'completion' the already failed supply-side experiments of the last thirty years and to deny climate change, all in pursuit of arrangements that exist nowhere but in the pages of the economic utopias of the 1960s. Brexit militants have offered no precise strategy for free-market greatness because it exists in no realisable place: the days of the British Empire are mercifully finished, a democratic free market is a fantasy. For its leadership, Brexit is the last opportunity to radically dismantle the state-as-economic-referee as the window on the popularity of neoliberalism starts to close. It is the hard right equivalent of rallying for Soviet Communism in 1989. As [Arthur Koestler wrote of his former ideological zeal](#), 'Gradually I learned to distrust my mechanistic preoccupation with facts and to regard the world around me in the light of dialectic interpretation. It was a satisfactory and indeed blissful state.' Koestler was talking about communism, but it sounds familiar for a reason.

When it comes to history repeating itself, it is both tragic and farcical that it is the most militant supply-siders of all who were crowned by the 2016 Referendum. It is this faction above all that gets the diagnosis of our current condition most exactly wrong. It is their idea of a cure that would be most lethal to the British body politic.

*This post represents the views of the author and not those of Democratic Audit. It was first published on the [LSE's British Politics and Policy blog](#).*

## References

[1] Schwartz, S. (2015) 'Size, scope and why the American welfare model remains exceptional', Workshop on Growth Models and Welfare States, Sciences Po. Paris, Dec 10-11, convened by Hassel, A. and Palier, B.

## About the Author



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