Hating the state – and exploiting the shock

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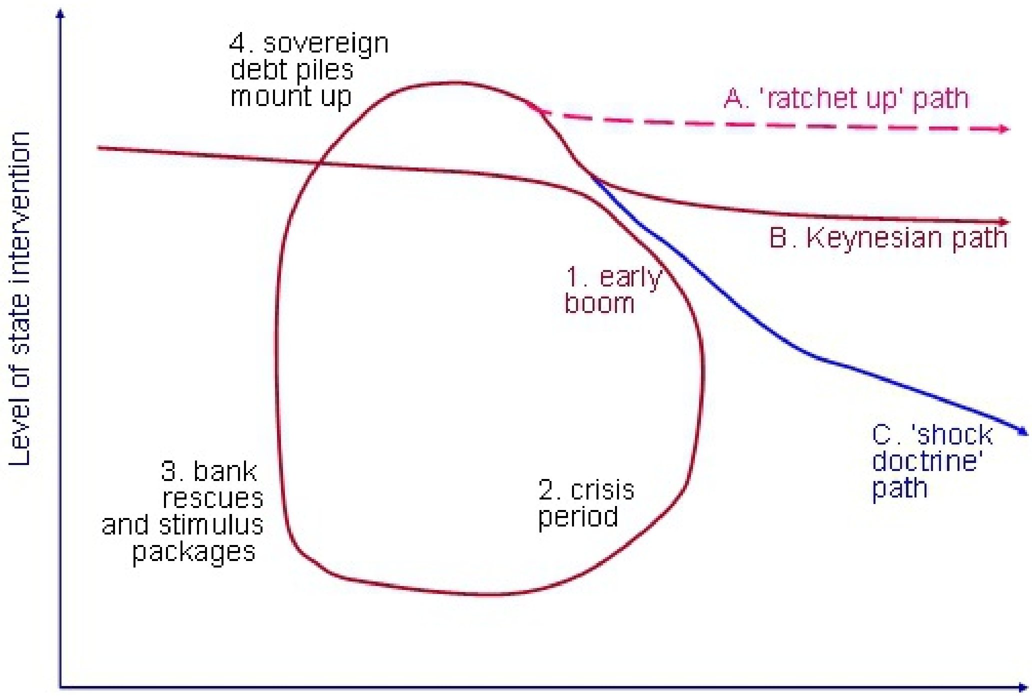
The 2008-11 economic crisis has dramatically increased the role of the (nation) state, which re-emerged as the inescapable mainstay of liberal capitalism and the rescuer of last resort for the weak global policy system, which crumbled into ineffectuality when the chips were down. But equally rapidly a strong aversive reaction to state dependency has emerged on both sides of the Atlantic. **Patrick Dunleavy** *continues his exploration of how the pushback to 'hating the state' will affect future scenarios. The political and ideological right on both sides of the Atlantic is already opportunistically exploiting the increase in state borrowing and deficits to push through 'shock doctrine' privatizations and long-run reductions in the role of government.*

In a previous blog, I explored how the (nation) state rode to the rescue of liberal capitalism when the noughties economic boom collapsed in the autumn of 2008. And yet I also noted how quickly and dramatically the political right was galvanized into frantic denials of state dependency and the emergence of strongly aversive reactions, such as the Tea Party movement in the USA.

To explain such switchbacks, such violent swings of history, it is useful to rehabilitate a concept now rather out of fashion, the 'dialectic' of Hegel and Marx. Famously this is a sequence of three stages – thesis (an initial proposition or movement), antithesis (a directly contradictory proposition or movement), and synthesis (the transcendence of the previous strong contradiction in a new outcome).

Perhaps this leaves you still none the wiser, and so here my chart below may help. The thesis element here is the original push to faster economic growth and a steep decline in the level of state dependency that the mid noughties boom seemed to herald. The antithesis is the financial crisis and the huge bail outs of banks and stimulus packages needed to prevent financial collapse spreading across the whole of 'real' economy. The 'synthesis', which is still emergent, concerns how we can break out of the overall great circle of crisis, how Europe and the USA can get back to a trend level or re-stabilized level of state dependency and some form of sustainable trajectory for economic growth.

The dialectic of the 2008-11 financial and economic crisis, and three post-crisis scenarios



Three longer-tern scenarios can be sketched:

- *Scenario A – state intervention ratchets up permanently*. Here the state's current raised share of GDP becomes more permanent than even social democrats and liberals intend. Just as in the two twentieth century world wars and their aftermaths, the libertarian right fears that political resistance to cutbacks combined with evident need to re-regulate financial markets will cause new higher state shares of GDP to stick. In their perspective, it only needs political deadlocks to slow the intended pace of the Keynesian 'return to trend' path below, and so accomplish this unintended effect. The unwinding of previous extreme asset price bubbles also creates the threat of deflation and Japanese-style economic malaise, as house price stagnation in the UK, Ireland and USA threaten further falls in consumer spending. Averting new crises and sub-crises may well suck governments into more permanent increases in spending and regulation than they ever anticipated.

- *Scenario B* – a *Keynesian 'return to trend'*. Here the plans of social democratic and moderate liberal-conservative governments to achieve a managed return to normality come good. They succeed in pushing down the extraordinary dependence levels of state spending as a share of GDP, back towards the pre-boom or 'sustainable' level. Financial markets are reassured that government borrowing is under control, but that the spending cutbacks and interest payment increases needed will not endure so long or cut so deeply that a recovery to economic prosperity will be jeopardized.

The trend level that each country returns to will be different levels across countries – perhaps government 41 per cent of GDP in the UK, say 33-4 per cent in the USA (allowing for some increase in socialized healthcare costs), maybe lower in Sweden than in past, perhaps showing a convergence amongst OECD countries over time.

-*Scenario C – the 'shock doctrine' path*. In her recent book, Naomi Klein discussed the extraordinary capacity of the American and international corporate right to seize on catastrophes (like natural disasters) as opportunities for remodelling government roles – in ways that transfer massive capabilities away from the state and to the private sector. The financial crisis and economic slump has involved such radical changes documented above that it has become in effect a macro-disaster, and opportunity. In the USA the growth of the Tea Party and its folk-based neo-religious revival of a philosophy of complete individual autonomy has provided a convenient cover already for shock doctrine cutbacks in many state and local governments. The opportunistic use of crisis to force change, combined with the latent populist racism inherent in the opposition to Obama as the USA's first African-American president, could well mean the austerity push is overdone by the Republican and 'Tea Party' backlash.

In the UK, the most extreme case of shock doctrine tactics has been the decision of the Conservative-Liberal Democrat government to use the economic crisis as the thinnest of covers for raising university fees to the highest levels in the western world, removing all state subsidy from most university teaching. Deliberately picking a massive fight with young people whom they see as the weakest of the state-dependent 'vested interests', and choosing to implement changes in a classic 'shock doctrine' pattern, Cameron, Clegg and Cable clearly appreciate that privatizing university finances will have long-run implications. If the move sticks, it will inevitably create a future electorate where the same high debt-burdens as in the USA creates a public opinion believing in 'self-reliance' and calling for the state's share of GDP to be pushed down below its long-run (equilibrium) share of GDP.

The first casualty of the UK changes will be unregulated graduate course fees, which will soar to match the undergraduate £9,000 level, as surely as eggs are eggs – opening up new pathways by which the upper middle class further close down already falling levels of social mobility. But if ministers can sit out the street demonstrations on student fees, the UK can expect to see 'shock' changes in many other areas too – forcing the unemployed to work in demeaning conditions, wresting social housing tenancies from anyone with a job (which will also tip the remaining public housing estates into catastrophic further declines in social cohesion), and forcibly 'cleansing' most of south east Britain of any state dependent populations (except, perhaps, the 'deserving' elderly).

The political right's current strong push for premature or overdone austerity, and its willingness to risk social unrest and long-run economic malaise is also founded in a strong fear of Scenario A coming true. How else should one explain why Britain's Conservatives have agreed to defence cuts that will see the UK build two aircraft carriers, without any fixed wing planes to fly off them for a decade, and mothballing one as soon as the second is finished, while sharing the remaining one with the French? Truly it must be a great fear that drives so many stakes into so many Tory sensibilities, or even endorses a 'solution' that seems so half-baked.

Yet the problem for these new far-right pushes on both sides of the Atlantic has been dramatically illustrated by Ireland's slump into prolonged depression and the collapse of its housing market, both despite and because of its state spending cutbacks. The Irish example will not be followed in the USA or UK where economic resilience is inherently stronger. But the opportunistic exploitation of austerity pushes to achieve below-trend levels in state intervention is also likely to tee up at least one follow-on consequence:

- Long-run economic malaise and under-performance on the Japanese pattern, with maybe a decade of sluggish to minimal growth (my forecast for the UK). In Europe, a sapping of political will and economic convergence may yet induce another acute monetary crisis, and will certainly lower economic growth in many regions outside the Germany-Benelux core.
- New social tensions – such as the re-emergence of class conflicts (Marx's 'old mole') and other

struggles, including inter-ethnic tensions already disturbingly manifest in many diverse forms across Europe and in the USA.

- Alternatively a shortish boomlet might well culminate in another system crisis, if effective re-regulation of financial markets continues to be obstructed, with corporate and market resistance boosted by the ideological right's accession to a Congressional blocking position in the USA.