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State Expenditure in Advanced Capitalism

The current stage of 'neo-capitalism' or 'state monopoly capitalism' is characterized by a qualitatively expanded role of the state in capitalist social formations.¹ One expression of this huge politico-economic weight of the modern state is the prolonged expansion in state expenditures, such that they now exceed one half of gross domestic product in contemporary Britain.² Yet despite this, there have been only isolated studies by Marxists which systematically examine the causes and consequences of this unprecedented growth. In the following sections we propose to outline the patterns and trends in state expenditure in the major capitalist economies; briefly to analyse the nature of the modern capitalist state and its socio-economic setting; in the light of this to attempt an explanation of the growth and composition of state expenditures; and finally to consider briefly some of the major economic and political consequences of this phenomenon. Beforehand, however, it is incumbent on us to consider current theories and state why we regard them as unsatisfactory or incomplete. To this end, the recent studies of O'Connor, Yaffe and Barratt Brown will be singled out for attention.

I. Introduction: Critique of Existing Theories

The Fiscal Crisis of the State by James O'Connor³ is an important book representing the first systematic attempt by a Marxist to come to grips with the explosion of state expenditure since the Second World War. Its complexity means that any brief discussion will necessarily do it an injustice, and the reader is referred elsewhere to an extended review of it.⁴ Briefly, the growth of the state is, for O'Connor, both a cause and consequence of the expansion of monopoly capital. The growing socialization of production necessitates greater state intervention to ensure private accumulation and profitability; hence *social capital* expenditures on roads, education, research and development, etc. This stimulates the development of productive capacity, notably in the monopoly sector of the economy, but demand for its products rises less fast bringing about tendencies to surplus capacity and surplus population. This in turn generates a further round of *social expenses* designed to generate demand but not add to capacity: surplus capital necessitates military expenditure and the surplus population requires an expansion of state functions in welfare relief, etc.⁵ The result is a two-fold growth of state expenditure: on indirectly productive social capital and on unproductive warfare-welfare expenses. This growth tends to a structural gap between state revenue and expenditure, or a fiscal crisis of the state. The outcome of this can take a variety of forms, the major one of which is inflation, the solutions to each creating further problems.

Whilst the first part of the argument (concerning the growth of social capital) is sound and whilst the whole is embellished with many powerful insights, the second part rests on two false 'laws' of Marxist political economy: the tendencies to immiseration of the working class and to underconsumption.⁶ The first is nowhere seriously entertained today, but the second continues to flourish, most notably in the USA where the influence of Baran and Sweezy's *Monopoly Capital* continues strong.⁷ It thus represents in this respect a sophisticated version of their argument,

* My thanks are due to Robin Blackburn, Norman Geras, John Harrison, Geoff Hodgson and Bob Rowthorn for comments on an earlier draft.

¹ The term 'state monopoly capitalism' is more precise than 'neo-capitalism' but suffers from the emphasis sometimes given to the 'fusion' of big monopolies and the state (see N. Poulantzas, *Political Power and Social Classes*, London 1973, p. 273) and from the connotations of the 'anti-monopoly' alliance.

² There are many other areas of intervention which do not entail direct state expenditure. For an attempted classification see R. Murray, 'Internationalization of capital and the nation state', *NLR* 67, 1971; and for an excellent survey Bill Warren, 'The state and capitalist planning', *NLR* 72, 1972.

³ J. O'Connor, *The Fiscal Crisis of the State*, New York, 1973.

⁴ I. Gough, 'The fiscal crisis of the state', *Bulletin of the Conference of Socialist Economists*, 11, Summer 1975.

⁵ The result of this tendency is the Marcusian warfare-welfare state. Cf. 'The welfare-warfare state is one single phenomenon, and military and civilian expenditure cannot be reduced significantly at the expense of one another' (O'Connor, *op. cit.*, p. 236; also p. 151)—a prognostication long since falsified even in the USA (see Section II below).

⁶ On underconsumption: O'Connor, *op. cit.*, pp. 24–5, 29; on immiseration: pp. 162, 236–7.

⁷ At least on the evidence of O'Connor's book. P. Baran and P. Sweezy, *Monopoly Capital*, Harmondsworth 1968.

and indeed of associated theories of the permanent arms economy.⁸ For Baran and Sweezy it was not the economic nature of arms spending which made it ideal for offsetting tendencies to underconsumption, but its political nature. Given the power structure of US monopoly capitalism there were powerful forces opposing the growth of Federal spending on civilian items,⁹ but there were no established private interests opposed to the expansion of the military establishment, which moreover had other functional consequences for monopoly capital. O'Connor on the other hand correctly recognizes the productive contributions of many other state activities today. But for him, precisely because they augment productivity in the monopoly sector, they exacerbate the gap between this and the demand for its products, thus furthering the need for state *expenses* (welfare relief, etc.) to cope with the resulting surplus population. A dynamic interplay thus occurs as a result of the two contradictory functions of the state—to aid private capital accumulation and to legitimize its social relations—but this is premised on the existence of tendencies to overproduction in the monopoly sector.

Functional Theories of the State

The errors of Marxist underconsumption and associated breakdown theories have been exposed elsewhere.¹⁰ These errors undermine all attempts to explain the growth of modern state expenditure as an offset to lack of demand elsewhere in the economy. The theory of the permanent arms economy—the most popular variant of underconsumptionism—is not even in tune with the facts, since military spending has continually declined as a share of the total in all western countries since the early 1950s.¹¹ Kidron's attempt to resurrect it by demonstrating that military spending acts instead as an offset to the falling tendency of the rate of profit has been refuted.¹² More generally, all such theories suffer from two related weaknesses: the lack of a historical approach and a mechanistic distinction between the economic base and the superstructure, between objective and subjective factors. Purdy argues well against the first (in connection with the arms economy theory): 'Attention is focused on the *function* of arms spending within an ongoing capitalist economy. The historical genesis of the arms economy is ignored The arms race is a historically specific feature of a particular stage of capitalist development. To confine analysis to an account of its functional role in modern capitalism is to fall into one of the basic methodological faults of bourgeois social science: the complete failure to understand the present as history.'¹³

⁸ e.g. T. Cliff, 'Perspectives of the permanent war economy', *A Socialist Review*, London 1965.

⁹ Specifically: private and professional interests threatened by state intervention (e.g. real estate, the medical profession), the need to protect the existing benefits of the oligarchy (e.g. in education), and the danger of undermining the work ethic with social security schemes. Baran and Sweezy, op. cit., pp. 163–75, and P. Baran, *The Political Economy of Growth*, Harmondsworth 1973, pp. 231–3.

¹⁰ Lenin long ago attacked the underconsumptionism of the Narodniks in *The Development of Capitalism in Russia*, 1964, ch. 1. For a recent critique see G. Hodgson, 'The permanent arms economy', *International*, vol. 1, no. 8, 1973, pp. 56–8.

¹¹ See section II below.

¹² M. Kidron, *Western Capitalism since the War*, Harmondsworth 1970, p. 56. The best critique is D. Purdy, 'The theory of permanent arms economy—a critique and an alternative', CSEB Spring 1973.

¹³ Purdy, p. 23.

The same argument applies to all theories of the state premised on 'breakdown' theories of the economy. The associated error is a false polarization of the economy and the superstructure. The former is seen as an autonomous 'factor' leading, if unchecked, to some form of economic breakdown, whereas the latter is interpreted as a passive instrument in the hands of the bourgeoisie whose functions are determined by the offsetting action required in order to avoid or check the tendencies to breakdown. We shall argue below that the capitalist state is characterized by a relative autonomy from the economic structure and is responsive to the ongoing struggle between and within the dominant and dominated classes. All this is in fact recognized by O'Connor,¹⁴ and this is the real merit of his book, but it coexists uneasily with a functionalist view of the state stemming from his underlying analysis of the economy.

The same fundamental criticisms can be made of those analyses of state expenditures recently put forward by David Yaffe.¹⁵ For him, the growth of state expenditure represents part of the attempt to solve the crisis of profitability, brought about by the falling tendency of the rate of profit under late capitalism. 'It is precisely the crisis of profitability that makes a growing state expenditure necessary.'¹⁶ More specifically, state expenditure has been functional in maintaining social and political stability since the war, in supplementing private investment and in maintaining full employment. But this state intervention has a contradictory impact for it subsequently (a) reduces private accumulation and (b) fuels inflation. The first results because all or most state expenditure (including that on the purchase of goods and services from the capitalist sector) is 'unproductive'. It constitutes a deduction from the surplus value produced by 'productive' workers and reduces the amount available for private capital accumulation. The second follows from both the 'unproductiveness' of the expenditure and the way it is financed: 'government expenditure requires, indeed necessitates, deficit financing and increased borrowing which leads to inflation.'¹⁷

There are many errors in this argument. First, it gives insufficient weight to the role of class struggle in shaping state- especially social-expenditures, and erroneously regards them all as 'unproductive'. Many can better be regarded as a part of the value of labour power collectively provided rather than a 'cost that capital must pay for social stability etc.'¹⁸ which is deducted from surplus value already produced. If this is so these services are not luxuries, but part of Marx's department II (producing the material elements of variable capital) as O'Connor correctly emphasizes, and are indirectly productive of sur-

¹⁴ See O'Connor, op. cit., p. 2 and ch. 9 on the role of class struggle, and ch. 3 for a profound analysis of the state and budgetary control.

¹⁵ D. Yaffe, 'The Marxian theory of crisis, capital and the state', CSEB Winter 1972, and 'The crisis of profitability', NLR 80, 1973.

¹⁶ Yaffe, NLR 80, p. 51ff.

¹⁷ Ibid., p. 52. Which of these two factors crucially determines the inflationary impact of state expenditure is not clear. Mandel, with whom on many points Yaffe's analysis shares a lot in common, recognizes that if the expenditure were entirely financed by taxation it would not be inflationary. Unfortunately he concludes: 'Such a case is practically unknown in the epoch of the decline of capitalism,' E. Mandel, *Marxist Economic Theory*, London 1968, p. 527.

¹⁸ Yaffe, NLR 80, p. 57, fn. 42.

plus value.¹⁹ Second, as we show in the next section, it is not the case that the great expansion of state spending since the Second World War has been financed by government borrowing; instead taxation has grown in parallel. This does not reduce its inflationary impact but it does mean that inflation cannot be explained solely by the intervention of the capitalist state as a *deus ex machina* isolated from the class struggle. Third, and most fundamentally, the 'law' of the falling tendency of the rate of profit has been subject to definitive criticism following advances in Marxist political economy in recent years.²⁰ It follows that the role of the modern capitalist state can no longer be explained as a functional response to the profitability crisis of late capitalism.²¹

Class Struggle and the State

Once again we find here the false polarity between objective economic laws and the subjective political response to them, the 'divorce of materialism and history' in Colletti's words,²² and a conception of the modern state as determined by these functions. A Marxist theory of crisis must situate the class struggle at its heart. This is not to argue that there are no general laws of capitalist development (the laws of the concentration of capital or combined and uneven development are examples), but that all laws which mechanically posit a tendency to 'breakdown' of whatever nature must no longer be given credence. Nor is it to deny that the actions of the modern state are not shaped by these material forces; merely that they are not determined by them without remainder.

Against this functional approach may be set those who emphasize the role of class struggle in the development particularly of social services since the Second World War. This was stressed by Wedderburn writing in 1965, though it must be recognized that the view of the welfare state as a repressive agency continues to flourish especially in much American writing.²³ The most recent British attempt to analyse objectively the developments in state expenditure is by Barratt Brown,²⁴ who provides an excellent summary of the major trends. However part of his explanation is weakened by a quite un-Marxist over-emphasis on the autonomy of the state from the dominant class(es) in the context of growing working class power. Quoting Engels, that 'when the warring classes so nearly attain equilibrium that the state, ostensibly appearing as a mediator, assumes for the moment a certain independence in relation to

¹⁹ For a demonstration of this see section V below.

²⁰ G. Hodgson, 'The theory of the falling rate of profit', NLR 84, 1974, and I. Steedman, 'Value, price and profit', NLR 90, 1975.

²¹ This is not to deny the inevitability of crises under capitalism, nor that profitability is the basic determinant of the current crisis. See section V below.

²² L. Colletti, *From Rousseau to Lenin*, London 1972, p. 66. Pp. 62–72 present an excellent critique of breakdown theories.

²³ D. Wedderburn, 'Facts and theories of the welfare state' in *The Socialist Register* 1965, ed. R. Miliband and J. Saville. Even Piven and Cloward in their informative study write: 'The key to an understanding of relief-giving is in the functions it serves for the larger economic and political order Expansive relief policies are designed to mute civil disorder, and restrictive ones to reinforce work norms,' F. Piven and R. Cloward, *Regulating the Poor*, London 1972, p. xiii.

²⁴ M. Barratt Brown, *From Labourism to Socialism*, Nottingham 1972, especially ch. 3.

both,²⁵ he suggests that British working-class organizations in the 1970s could be moving in this direction. In other words, anxious to reject the crude Marxist view of the state as a passive representative of the interests of the bourgeoisie, he goes too far and effectively denies the structural link between the state and the dominant class.²⁶

In section III we shall attempt a synthesis of these two views based on the recent works of Poulantzas and Miliband and in the light of that will propose a general theory to explain the growth and composition of state expenditures. But beforehand, we must consider those trends in some detail, since part of the confusion in this area rests on simple factual errors as to what has actually happened.

II. The Growth of the Capitalist State

Tables 1 and 2 summarize the structure and trends of total state expenditure in the UK and the five other major OECD countries.²⁷ In 1972 it amounted to 37–40 per cent of GDP in the major European economies, 34 per cent in the USA and perhaps 20 per cent in Japan. Since the war, state spending has grown faster than GDP in every OECD country. From 1955 to 1969 it rose 23 per cent faster in all countries taken together, with only France and Japan among the major economies exhibiting a slower relative growth (see bottom half of Table 1). This trend has continued up to 1972. Of course the divergent rates of growth of these economies has meant that the *absolute* growth of state spending has varied enormously. On this count it has grown most rapidly in Japan: 50 per cent faster than the EEC and twice as fast as the UK.²⁸ Taking the growth of public expenditure in the UK over a longer time period, it can be seen there have been three major periods of expansion. The first occurred during the First World War when its share of GNP (at factor cost) doubled to between 25 per cent and 30 per cent in the inter-war period. During the Second World War, the economic role of the state rose to record levels (three quarters of GNP in 1943), but at the end of

²⁵ F. Engels, *The Origin of the Family, the State and Private Property*. Moscow 1940, p. 194.

²⁶ Barratt Brown quotes in this context a remark by Miliband concerning a 'secondary view' of the state in Marx and Engels as 'independent from and superior to all social classes, as being the dominant force in society rather than the instrument of a dominant class', despite Miliband's clear critique of the passage by Engels quoted above: 'For Marx, the Bonapartist state, however independent it may have been *politically* from any given class, remains, and cannot in a class society but remain, the protector of an economically and socially dominant class', R. Miliband, 'Marx and the state', *The Socialist Register* 1965, pp. 283, 285.

²⁷ The two tables are not comparable. Table 1 excludes capital expenditure of state productive enterprises, i.e. it measures total government rather than public expenditure. It also excludes capital transfers. In Table 1 the items are expressed as a percentage of GDP at purchasers' values, in Table 2 of GNP at factor cost. The purchasers' values/factor cost distinction is crucial since the latter excludes the artificial inflation of national output brought about by the imposition of indirect taxes, notably on consumer items, which raises their market price. Since the burden of indirect taxes on government expenditure is small, the procedure in Table 2 gives a more accurate impression of the relative weight of state expenditure. Gross National Product differs from Gross Domestic Product by including net property income paid or received from abroad; but the difference is slight.

²⁸ OECD, 'Public expenditure trends' (by M. Garin-Painter) in *Occasional Studies*, July 1970, Table 1, p. 45.

TABLE 1

State Expenditure¹ in Major OECD Countries

	UK	FRANCE	WEST GERMANY	ITALY	USA	JAPAN
<i>Per cent of GDP² in 1972:</i>						
Military	4.9	3.5	3.0	2.4	6.7	
+ Health and education	7.7	}	8.8	{	5.7	7.1
+ Other civilian	6.1				6.7	7.0
= Current real expenditure	18.7	12.3	17.7	14.8	20.8	9.1
+ Capital expenditure	4.7	3.1	3.7	2.6	3.2	
= Total real expenditure	23.4	15.4	21.4	17.4	24.0	
+ Social security	8.9	17.2	13.0	14.6	8.0	4.7
+ Debt interest	3.8	0.8	1.0	2.9	1.9	0.8
+ Other transfers and subsidies	3.7	3.3	2.6	5.1	0.4	
= TOTAL EXPENDITURE ³	39.8	36.7	38.0	40.0	34.3	
TOTAL REVENUE ⁴	37.9	38.0	39.0	34.7	31.4	22.6
State borrowing ⁵	1.8	-0.5	0.1	6.5	0.3	
<i>Ratio of growth rates to growth of GNP, 1955-1969:⁶</i>						
Military	0.62	0.44	0.84	1.22	0.80	
All civilian	1.36	1.20	1.34	1.13	1.65	
Current real expenditure	1.09	0.92	1.22	1.15	1.23	0.92
Capital expenditure	1.41	1.51	1.22	0.71	1.15	
Social security	1.59	1.32	1.19	1.37	1.47	1.10
TOTAL EXPENDITURE	1.24	1.14	1.24	1.20	1.23	
Current expenditure at <i>constant</i> prices:	1.62	0.58	0.85	0.74	1.06	0.55

¹ Excluding state productive enterprises.

² At market prices.

³ Excluding capital transfers.

⁴ All taxation, including social security contributions and local taxes, government trading income and current transfers.

⁵ Equals expenditure - revenue ± capital transfers.

⁶ France 1959-69, West Germany 1960-69.

SOURCES: OECD, *National Accounts 1961-1972*, 1974; OECD, *Expenditure Trends in OECD Countries, 1960-1980*, 1972.

TABLE 2

State Expenditure¹ in the UK, 1910-1973

	1910	1937	1951	1961	1971	1973
<i>Per cent of GNP² in each year:</i>						
Social security		5.2	5.3	6.7	8.9	8.7
Health and welfare		1.8	4.5	4.4	5.8	5.9
Education		2.6	3.2	4.2	6.5	6.8
Housing		1.4	3.1	2.3	2.6	3.5
Total social services	4.2	10.9	16.1	17.6	23.8	24.9
Environment ³	} 0.7	1.0	{ 1.5	1.6	2.4	2.5
Transport and communications						
Commerce and industry ⁴	1.8	2.8	6.9	4.9	6.5	5.6
Justice and laws	0.6	0.7	0.6	0.8	1.3	1.4
Military and external	3.5	5.0	10.8	7.6	6.6	6.4
Debt interest and other	1.9	5.2	6.9	6.3	5.9	5.8
TOTAL PUBLIC EXPENDITURE	12.7	25.7	44.9	42.1	50.3	50.5
Total taxation	11.0	22.5	37.5	32.8	41.8	37.7
Trading surpluses, rent, interest		1.3	5.2	5.7	6.8	6.9
TOTAL REVENUE	11.0	23.8	42.7	38.5	48.6	44.6
Borrowing requirement ⁶	1.7	1.9	2.2	3.6	1.7	5.9

¹ Including capital expenditure of public corporations.² At factor cost.³ Water, sewerage and refuse disposal; public health, clean air, parks, town and country planning etc.⁴ Employment services, research and development, investment grants, agricultural support, and certain public corporations' investment.⁵ Police, prisons, law courts and Parliament.⁶ Plus other financial transactions (a residual item).

SOURCES: A. Peacock and D. Wiseman, *The Growth of Public Expenditure in the UK*, London 1961; London and Cambridge Economic Service, *The British Economy: Key Statistics 1900-1970*; CSO, *National Income and Expenditure and Social Trends*.

hostilities it settled down to a much higher plateau than before, accounting for about two-fifths of GNP. The third period of expansion did not begin in the UK until the early 1960s (during the 1950s its share fell somewhat), but since then it has proceeded without interruption to take the share of total public expenditure over 50 per cent of GNP in the late 1960s.

This rapid expansion since the Second World War has *not* been financed by a secular increase in state borrowing, with the crucial exception of the USA. From the mid 1950s to the late 1960s taxation in all OECD countries combined rose by 4.7 per cent of GNP—faster than the rise in all *current* expenditure if the USA is excluded, and not much below the rise in *total* expenditure including capital investment.²⁹ In this context it should be remembered that some state capital expenditure provides assets which yield a trading income, for which therefore loan finance is not necessarily inflationary: hence, it is reasonable to expect taxation to cover only part of capital spending. Data for the UK in Table 2 shows that up to 1971 taxation plus trading surpluses rose roughly in line with expenditure. Since 1971 deficits have mushroomed in the UK, Italy and several other countries but this in no way disturbs our conclusions on the long run trend in state finance: there are specific conjunctural explanations of this new 'fiscal crisis of the state'.³⁰ Alongside this long-run growth in tax revenues there has been a marked shift in their burden away from corporations and onto households in all countries:³¹ an important point to which we return later.

Trends

Turning to the composition of state expenditure, certain trends are clearly discernible in all advanced capitalist countries. These are: the growth in expenditure on the social services, certain infra-structure items and aid to private industry, and the decline in the share absorbed by armaments. Of these 'the most striking feature is the extent to which education, health and social security were responsible for the rising share of government expenditure over this period' according to an OECD report.³² In the UK the social services (including housing) have expanded continuously since the beginning of the century, with the exception of the 1930s, and today account for one half of public expenditure. In the US they increased from 9 per cent of GNP in 1955 to 15 per cent in 1969. In the EEC social expenditure rose as a percentage of private consumption from 1962–70; in the Netherlands a huge increase from 22 per cent to 35 per cent.³³ Parallel with this expansion has been

²⁹ Current spending rose by 4.4 per cent of GNP (4.9 per cent including the USA) and total spending by 5.0 per cent (5.5 per cent including the USA). OECD, *Expenditure Trends in OECD Countries 1960–1980*, 1972, Tables 16, 19. In these and subsequent calculations, countries are weighted by their aggregate GNPs at current exchange rates. In 1967–9 this gave the USA a weight of 51 per cent and the other five major countries a weight of 34 per cent of the OECD total.

³⁰ And for the aberrant behaviour of the US. O'Connor (p. 43) attributes the growing government deficit in the 1960s to the unpopularity of the war in South East Asia which prevented the imposition of tax increases to finance it.

³¹ OECD, 1972, p. 56.

³² OECD, 1970, p. 48.

³³ OECD, 1972, pp. 72–81 for a detailed comparative analysis.

the ubiquitous decline in military spending relative to GNP. From the mid 1950s to the late 1960s its share fell from 7.1 per cent to 6.2 per cent of GNP in all OECD countries combined; from 4.1 per cent to 3.2 per cent if the US is excluded.³⁴ Since then this tendency has if anything intensified with a major drop in the US from 9 per cent to below 7 per cent in 1972 and in Italy, from 4 per cent to $2\frac{1}{2}$ per cent. Other major developments since the Second World War have been a growth in 'environmental' and infra-structure expenses, transport and roads, and a relative decline in agricultural support. Comparable data on these and other items is harder to come by but the trends in the UK revealed in Table 2 are probably common to all advanced capitalist economies.³⁵ Two further notable increases also occurred in the 1960s: a growth in state economic aid to the private sector and a growth in state expenditure on its legal and coercive apparatus. The decline in expenditure on 'commerce and industry' since 1971 does not represent a real decline in the former item. Instead direct investment grants have been replaced by tax allowances to corporations, a change which leaves unaltered the impact on total state finances, and which reveals the pitfalls in extrapolating figures on expenditure to reveal the total economic impact of the modern state.

By no means does all state spending pre-empt resources and reduce the total available for the private sector. This is only the case with real (current and capital) spending, such as on arms or education services. The remaining money transfers do just that: they merely transfer the ability to purchase resources to other groups, whether individual households (e.g. pensions or family allowances) or private firms (e.g. investment grants). They thus add to private purchasing power, just as the taxes to finance them subtract from it. Table I shows that for the major OECD countries real expenditure accounted for between 42 per cent of total spending in Italy and 70 per cent in the USA. In most OECD countries it was transfer expenditure which rose most rapidly between 1955 and 1969. For all OECD countries combined it grew 42 per cent faster than GNP, whereas real state expenditure rose only 16 per cent faster (8 per cent faster if the US is excluded) and total state spending 23 per cent faster.³⁶ Almost everywhere this has been due to the decline in arms spending, since real civilian expenditure continued to grow throughout this period. In the UK, total real expenditures actually fell as a share of GNP in the 1950s, and this trend has continued since then in France and Japan (see bottom half of Table 1). So the rapid growth of the state since the Second World War has not significantly reduced the share of growing resources available for private consumption, investment or exports. Rather it has been utilized to raise the share of the last two in particular—noticeably so in the last few years as profit rates have been squeezed.

Structures

Of course, despite the similarity in *trends*, the *structures* of state expenditure still differ substantially between the major OECD countries. In

³⁴ Ibid., table 16.

³⁵ See OECD, 1970, p. 53.

³⁶ OECD, 1972, table 17.

general one can distinguish three groups of countries: the US and UK, the EEC countries and Japan. The US and UK are characterized by higher military and lower social security spending than the EEC. Partly because of this the share of public expenditure which pre-empt's real resources is higher in the US and UK, accounting for almost one quarter of GDP (Table 1). Since interest on the National Debt is also more burdensome there, the total of 'war related expenditure' is also higher than in the EEC, and total social security spending is markedly lower (especially in the USA until recent years).³⁷ Japan is in a category of its own, the state spending less than any other OECD country with the exception of Spain and Portugal. These differences are matched by variations in the structure of state revenues. Not surprisingly the high social security benefits in the EEC are matched by higher social security contributions, though in France especially these are mostly paid by employers. In the UK and US personal income taxation is higher and in the US corporation tax is still significant; social security contributions are much lower. In Japan taxes of all kinds are very low: less than two-thirds of the OECD average.³⁸ These different patterns of expenditure and revenue reflect of course the very different historical antecedents and processes in each nation state (the high war-related expenditures of the UK even today reminding us of its past global role). On the other hand the similarity in *trends* mean that these differences are diminishing and the structures of expenditure are 'converging' in all advanced capitalist countries.

Two further points should be emphasized when interpreting data on state spending. First, part, even of real expenditure, consists of purchases of goods and services from the capitalist sector, for example arms, drugs, books, building construction etc. In the UK at the present time this amounts to one third of current real expenditure, the remaining two thirds representing the wages of state employees, whether soldiers, teachers or doctors. Ten per cent of the output of UK manufacturing industry (and a much higher proportion in certain sectors, e.g. aerospace) is purchased by the central government alone.³⁹ Not all state expenditure represents state *production*.

Secondly, trends in productivity in the state sector must also be considered, for it is well known that this rises less fast than in the capitalist sector, due to the predominance of low productivity, labour-intensive services in the former, particularly the social services. As a result the cost index of state services has risen faster than the average and a greater level of expenditure is required year by year in all countries just to maintain the level of services in real terms. Thus state consumption expenditure, which in *money* terms has risen faster than GNP in the OECD as a whole has in constant price terms risen more slowly (see Table I, last line). Excluding the USA (where it was boosted by military spending in the 1960s) state consumption rose by 3.9 per cent p.a. in real terms in all OECD countries from 1955-69, whilst GNP rose by

³⁷ T. Hill, 'Too much consumption', *National Westminster Bank Review*, November 1969.

³⁸ OECD, 1972, Table 19, and CSO, *Social Trends No. 5*, 1974, Table 210.

³⁹ T. Chester, 'Public money in the private sector', *National Westminster Bank Review*, May 1973, p. 24.

5.7 per cent.⁴⁰ In other words *real* state consumption expenditure has fallen as a share of GNP over the last two decades. Admittedly this is more than accounted for by the decline in military spending, and social transfers have continued to rise, but the point remains. For slow growing economies such as the British, it can mean that a rising proportion of GNP must be expended each year in order merely to protect the social services against the inflation in their costs.⁴¹ As we shall see, this phenomenon has contributed to the recent crisis of social expenditure in the UK and elsewhere.

III. The Capitalist State and Capitalist Economy

In this section we shall attempt to present the essential characteristics of the capitalist state and to situate it in the current stage of the capitalist world economy. For the first task we shall draw heavily on the recent major studies of Poulantzas and Miliband.⁴² Though there are very important differences indeed between their analyses,⁴³ it is the common area of agreement in their work which is of most significance for the purposes of this essay. The state, as institutionalized political power, consists of the interrelationship of the following six institutions: the executive, legislature, administration, military and police, judiciary and 'sub-central' government.⁴⁴ For both Poulantzas and Miliband the capitalist state is a relatively autonomous entity representing the political interests of the dominant classes and situated within the field of class struggle. Let us consider each of these characteristics in turn.

Autonomy of the State

First, the capitalist state is *relatively autonomous*, both from the economic structures of capitalist social formations and from the politically dominant classes in those social formations.⁴⁵ The latter point is crucial: not since the patriciates of Venice and Lübeck have businessmen governed directly as a class.⁴⁶ This has been so because of the structural position of the state within capitalist social formations. It is the incapacity of the capitalist classes to organize itself as a political force which requires the state to step in and realize its political hegemony, to act as a class conscious political directorate.⁴⁷ This incapacity

⁴⁰ OECD, 1972, Tables 2, 3. 'State consumption' refers to current real expenditure in Table 1.

⁴¹ For example, expenditure on the National Health Service in the UK which rose as a share of GNP at current prices (see Table 2) actually fell at constant prices from 3.9 per cent in 1951 to 3.4 per cent in 1971.

⁴² N. Poulantzas, *Political Power and Social Classes*, London 1973; R. Miliband, *The State in Capitalist Society*, London 1969.

⁴³ See the debate in NLR 58 (1969) and 59 (1970). In particular the criticisms by Miliband in 'Poulantzas and the capitalist state', NLR 82, 1973 are persuasive.

⁴⁴ Miliband, 1969, pp. 49–54.

⁴⁵ e.g. Poulantzas, p. 282; Miliband, 1973, p. 85.

⁴⁶ Miliband, 1969, p. 53.

⁴⁷ Poulantzas, pp. 284–5, 188–9. See also O'Connor, p. 67ff. Miliband (1973, pp. 88–9) has criticized Poulantzas for ignoring the effective role played by bourgeois political parties (themselves outside the state system proper) in organizing and articulating the interests of the dominant class and its supporting classes. This is correct, but does not preclude the various institutions of the state, in particular the civil service, aiding the parties in this role, as Miliband himself demonstrates (1969, ch. 5).

is due to two major factors. First, the existence of different factions within the dominant class, for example industrial and financial capital in the UK, and/or of different classes within the dominant bloc (landlords and capitalists), necessitates the existence of an 'external' institution representing the common, longer term, political interests of the dominant class(es) as a whole.⁴⁸ Without this they would degenerate into special-interest lobbying. Second, and more important, political unity is essential in the political conflict with the dominated classes particularly in the context of bourgeois democracy, the most pervasive form of class rule particularly since the Second World War. To this end, the state plays a crucial role in politically disabling the dominated classes by setting itself up as the representative of 'national unity', of the 'general interests' of 'the people' as a whole.⁴⁹ This of course is powerfully legitimized by the existence of universal suffrage and the attendant bourgeois 'freedoms' in all major advanced capitalist countries, particularly when social democratic governments are in office. These two factors, then, mean that the capitalist state simultaneously acts to organize the dominant classes as a political force and to politically disorganize the dominated classes. Both these functions however necessitate its autonomy from the dominant class itself: the first in order to realize its common interest, the second in order to effectively pose as the representative of national unity. The relative autonomy of the capitalist state is thus a structurally determined characteristic; it does not depend on an equilibrium of class forces, either within the dominant class(es), or between the dominant and dominated classes,⁵⁰ as much contemporary political analysis suggests.

Second, given this autonomy, the capitalist state does constitute itself as the 'unambiguous political power of the dominant class'. But it can only effectively represent its *political* interests by means of this relative autonomy, which requires it continually to challenge the short-term and even long-term *economic* interests of *particular* sections of capital. 'This relative autonomy allows the state to intervene not only in order to arrange compromises vis-a-vis the dominated classes, which, in the long run, are useful for the actual economic interests of the dominant classes or factions; but also (depending on the concrete conjuncture) to intervene against the long-term economic interests of *one or other* faction of the dominant class: for such compromises and sacrifices are sometimes necessary for the realization of their political class interests.'⁵¹

This 'unstable equilibrium of compromise' provides the basis for the whole series of social and economic reforms extracted by the working class in the post-war 'welfare states' of advanced capitalist societies, which yet leaves untouched the political power of capital and the repressive apparatus of the state on which it is ultimately based. This introduces at the centre of the analysis of the capitalist state the third

⁴⁸ Poulantzas, pp. 284, 287; Miliband, 1973, p. 85, fn. 4.

⁴⁹ Poulantzas, pp. 132–7, 277–9, 287, 288–9; Miliband, 1969, pp. 72–6; O'Connor, p. 69. For a lucid though brief exposition of the advantages and risks of bourgeois democracy for the capitalist class, see N. Geras, 'Rosa Luxemburg after 1905', *NLR* 89, 1975, pp. 13–16.

⁵⁰ Poulantzas, pp. 260, 274, 287.

⁵¹ Poulantzas, p. 285, also p. 193; Miliband, 1969, p. 102.

feature noted above: the political class struggle. This essentially determines the degree of autonomy which any particular state exhibits.⁵² The basic struggle at both the economic and political level today is of course that between capital and labour. In the political sphere the role of social democracy (and at particular conjunctures of communist parties) has been important especially since the Second World War. Social democracy is always involved in a tightrope act—balancing the concessions it can offer to its mass base on the one hand with the need to serve the political interests of capital on the other hand.⁵³ So long as the concessions are there to be given, 'it can walk quite a way along this tightrope without actually falling off';⁵⁴ when the economy is in a downturn however its political survival is considerably more precarious. But all governments of whatever political complexion depend for their survival under bourgeois democracy on their ability to offer *certain* reforms and concessions to the struggles of the dominated classes.⁵⁵

Concentration of Capital

These states are operating within a determinate socio-economic context: it would be quite antithetical to historical materialism to deny that there are objective laws of capitalist development which, within limits, operate independently of men's will. These laws of development also impose certain functions on the capitalist state, though the response to these will depend on the individual social formation and state. Two have had a major impact on the role of the modern state: the accumulation and centralization of capital, and the law of combined and uneven development which follows from it.

The inbuilt tendencies for capital to accumulate and to be concentrated in fewer and larger units are central aspects of Marx's analysis of capitalist society. Capitalist competition in the context of rapid technological development ensures the continued concentration into fewer and larger corporations and units of production.⁵⁶ The direct consequences of this include a growth in the ratio of means of production to direct labour, the 'deepening' of capital, an increasing span of time separating the original decision to produce and the final output, greater inflexibility of capital commitment, a massive infusion of technology into the productive process, and more and more complex corporate organization and planning.⁵⁷ These trends have numerous consequences for the modern capitalist state, ranging from research and development to guarantees of profitability, financial aid for investment and the attempt to provide a 'total favourable environment' for monopoly capital by means of capitalist planning.⁵⁸

⁵² Poulantzas, p. 289.

⁵³ For an excellent analysis of social democracy see Miliband, 1969, p. 96ff and his book *Parliamentary Socialism*, London 1972.

⁵⁴ J. Harrison, 'British capitalism in 1973 and 1974: the deepening crisis', CSEB Spring 1974, p. 55.

⁵⁵ Miliband, 1969, pp. 102, 187.

⁵⁶ For a good international survey see Mandel, *op. cit.*, ch. 12.

⁵⁷ This list is adapted from that in J. K. Galbraith, *The New Industrial State*, Harmondsworth 1974, ch. 2. For Galbraith they are all the results of the 'imperatives of technology' not of capitalist social relations of production.

⁵⁸ Warren, NLR 72, and Mandel, *op. cit.*, pp. 498–507.

But accumulation and concentration of capital has, ever since the Industrial Revolution, brought in its train other upheavals in the socio-economic structure of an epochal nature. Three are crucial for an understanding of the role of the state in advanced capitalist countries. First, the continuous proletarianization of the population as capital spreads its influence to all sectors of the economy is a feature of every capitalist society. As a result, the proportion of the self-employed, peasants and small farmers, independent professionals, etc., continues to fall in every capitalist economy whilst the share of employees continues to rise.⁵⁹ This trend towards a common proletarian status, whatever the income differentials and despite the high absolute living standards especially of certain salaried workers, has important consequences especially in the field of welfare provision. For the security provided by family production and the possession of a minimum quantum of means of production is no longer present. As a result collective provision often by the state is more and more necessary, especially since industrialization creates new 'diswelfares' (industrial diseases) and further sources of insecurity (redundancy and shake-out).⁶⁰ Second, the quality of labour power must necessarily be raised in all capitalist economies to match the increased sophistication of production and of its attendant social processes. Side by side with investment in instruments of production, investment in labour power has grown apace especially in the twentieth century,⁶¹ and this has again necessitated the intervention of the capitalist state. Lastly, the urbanization process is, in the capitalist epoch, a major consequence of the tendencies to capital accumulation and concentration. In all countries conurbations and other urban areas (including their suburbs) continue to grow, whilst regional and sub-regional areas expand and contract in an uneven way. This historic process has major implications for state intervention. It necessitates on the one hand state physical planning: land use, town and country planning, regional programmes, etc.; and on the other hand a rapid growth in infrastructural investment in housing, roads, transport, water, sewerage, gas, electricity, parks, city centres, clean air, etc., etc., most of which can again only be undertaken directly by the state or indirectly by its agencies.⁶²

Accumulation and concentration of capital, proletarianization and education of the labour force and the population generally, and urbanization: these then are the major ongoing trends in the socio-economic structures of capitalism. Together they are all aspects of the socialization of production—the inevitable corollary of the development of the capitalist mode of production. As we shall see, in all advanced capitalist countries, they have resulted in a growing socialization of the *costs* of production in the shape of growing state expenditures.

Combined and Uneven Development

The 'law' of combined and uneven development begins from the fact

⁵⁹ See A. Glyn and B. Sutcliffe, *British Capitalism, Workers and the Profits Squeeze*, Harmondsworth 1972, appendix G for post-war data.

⁶⁰ O'Connor, p. 124ff. Also R. M. Titmuss, *Commitment to Welfare*, London 1968, chs. 5, 10, 11.

⁶¹ J. Sheehan, *The Economics of Education*, London 1973, ch. 1.

⁶² O'Connor, chs. 4–6

that capitalism is a world system, based on international division of labour and world-wide development of productive forces. Nation states are not totally autonomous entities but elements of this system, and the destiny of any individual country cannot be considered in isolation from developments elsewhere. 'The historical dialectic knows neither naked backwardness nor chemically pure progressiveness. It is all a question of concrete correlations. The present day history of mankind is full of "paradoxes", not so colossal as the arising of a proletarian dictatorship in a backward country, but of similar historical type.'⁶³ One might restate the law by saying that nothing in history is a 'paradox': everything is explicable historically. How then has the operation of this law revealed itself since the Second World War, and what are the implications for the capitalist states of today?

On a world scale three developments have been crucial. First the expansion and strengthening of the Soviet bloc, followed in 1949 by the successful Chinese revolution. These developments have narrowed the global base for capitalist exploitation, and resulted very soon after the end of hostilities in the Cold War and the arms race. Second, the appearance of liberation struggles throughout the Third World which have further challenged imperialist domination. These have gained strength from the existence of the Soviet and Chinese states who have objectively been driven to support them even though their policies have often worked against them. The third factor is the total hegemony of the United States amongst the capitalist nations emerging from the aftermath of the Second World War.⁶⁴ But recently this is being challenged, on the economic and political if not the military plane, as inter-imperialist rivalries intensify. The rapid recovery and growth of Germany, the other EEC countries and Japan, is leading to a situation where there are three centres of imperialism in the contemporary world, not one.⁶⁵ The prolonged period of US hegemony was a contributory factor in the growth and stability of the post-war era, providing for example a stable international monetary framework within which progressively liberalized trade could take place. The economic challenge to the US has already disrupted this system and has contributed to the first synchronized boom and the deepest recession since the war.

It is the resonance of these global trends on the nature of advanced capitalist societies and in particular on the nature and role of their states with which we are chiefly concerned here. Here the major consequence has undoubtedly been the absence of massive unemployment (and of internecine trade warfare and zero or slow growth) since the Second World War. This is *primarily* due to the *political unacceptability* of a reversion to the capitalism of the thirties given the example of the Soviet economies and the unfavourable (for capitalism) shift in the balance of world forces. The experience of full employment and wide-

⁶³ L. Trotsky, *The History of the Russian Revolution*, London 1967, vol. 3, p. 350. For his statement of the 'law' see vol. 1, ch. 3 and vol. 3, appendix II.

⁶⁴ D. Horowitz provides a concise summary and perceptive analysis of the post-war world in *Imperialism and Revolution*, Harmondsworth 1971, chs. 9–12. However he fails to note the challenge to US hegemony posed by the growing strength of other capitalist powers: pp. 246–7.

⁶⁵ E. Mandel, *Europe versus America?*, London 1970, and B. Rowthorn, 'Imperialism: unity or rivalry?', *NLR* 69, 1971.

spread state planning during the Second World War contributed to these rising expectations among the western working class. In the same way the greater security enjoyed by many during wartime, despite the absolute fall in living standards, made demands for extended state intervention in the field of social welfare irresistible. To this the high peace-time level of arms expenditure brought about by the Cold War and wars of liberation added a further stimulus. But the primary cause was the political necessity for capitalist states to avoid a return to slumps of the interwar scale, and their ability to implement this by means of Keynesian policies.⁶⁶

Class Struggle since the War

This change in trajectory occurred despite the international defeat of working-class struggles after the Second World War. Unlike the turbulent years following 1918, this struggle took a bourgeois political form with the entry of social democratic or communist parties into government in several major countries, but because of this the movements were more open to, and soon weakened by, their reformist leadership. The ejection of communist ministers from the French and Italian post-war coalitions and the defeat of the British Labour Party in 1951 were paralleled by the defeat of the Japanese general strike of 1947, the West German defeats of 1947–52 and the victory of McCarthyism in the US (where an upsurge of strike activity took place in 1946). But despite these setbacks, the political constraints on the capitalist class in the west were, (if loosened somewhat) not removed: the underlying world balance of power had not ‘improved’, indeed in 1949 it ‘worsened’ considerably. A ‘post-war settlement’ between capital and labour was essential to lay the basis for (what later transpired to be) the unprecedented boom of the next two decades. In this the social democratic and communist parties in power played a crucial role. By defusing militant pressure from below, by laying the basis for economic growth with selective nationalization and economic aid to private industry and by granting certain important welfare reforms, they ensured the regeneration of capitalist social relations in the aftermath of war.⁶⁷ Of course these ‘concessions’ reflected the relative strengths of the labour movements in these countries (by contrast with West Germany, for example) and undoubtedly they sometimes went further than the dominant class would have wished. Each nation experienced a unique combination of circumstances. In Britain, the experience of collective mobilization and widespread sacrifices brought about by modern total war, combined with the absence of military occupation, subsequent victory but economic weakening resulted in a landslide majority for the Labour Party, and gave to the British ‘Welfare State’ its unique ideology, one which persists in the British Labour movement to the present day. But this is not to deny that the policies of the 1945 Labour government should be seen primarily as (a culturally specific) part of the world wide ‘post-war settlement’ between capital and labour brought about by the changed international balance of class forces, and not as concessions forced from the state by militant working-class struggle.⁶⁸

⁶⁶ Purdy, *op. cit.*, pp. 24–9.

⁶⁷ Miliband, 1972, ch. 9; A. Calder, *The People's War*, London 1971.

⁶⁸ Glyn and Sutcliffe, *op. cit.*, ch. 2.

The relative strength of the labour movements has increased *subsequently* over the years with experience of prolonged full employment. Not until the 1960s did the labour movements in the major European countries begin utilizing the bargaining power derived from full employment substantially to raise the share of wages in national income.⁶⁹ This in turn stimulated greater intervention by the state via incomes policies, planning, etc. 'High employment policy . . . was a product of the fear of the political repercussions of a repetition of the mass unemployment of the 1930s. Capitalist planning was, on the contrary, designed to deal with the economic, as much as the political, consequences of high employment policies after the Second World War.'⁷⁰ The changed balance of power on a world scale brought about a commitment to full employment and greater state intervention on the part of all capitalist states, (though, as noted above at different *tempos* in individual countries). This 'post-war settlement' has subsequently strengthened the bargaining power of labour vis-a-vis capital. The shift in the internal balance of power is therefore the *result* of the changed state policies, rather than their *cause*. The ultimate cause was the international outcome of the Second World War, product of the operation of the law of combined and uneven development. Some implications of this for a theory of crisis are investigated in section V.

IV. Categories of State Expenditure

We shall now seek to apply the analysis of the capitalist state and capitalist world economy outlined in section III to explain the trends in state expenditure noted in section II. In general they can be viewed as the response of the state to the long-term trends within advanced capitalism, in combination with the international and internal balance of class forces. But to explain national differences and changes in the composition of expenditures we must first attempt to classify them.

O'Connor has provided the only serious and comprehensive Marxist attempt to categorize state expenditures, by allocating them to Marx's departments of production.⁷¹ On this basis he discerns three categories:

1. '*Social investment* consists of projects and services that increase the productivity of a given amount of labour power and, other factors being equal, increase the rate of profit.' This is 'social constant capital'.
2. '*Social consumption* consists of projects and services that lower the reproduction costs of labour and, other factors being equal, increase the rate of profit.' This is 'social variable capital'.
3. '*Social expenses* consist of projects and services which are required to maintain social harmony'⁷² (including here, rather oddly, warfare expenses).

It is apparent that these correspond to Marx's three departments, producing respectively the material elements of constant capital (means of

⁶⁹ For a comparative survey, Glyn and Sutcliffe, ch. 4.

⁷⁰ Warren, *op. cit.*, pp. 3-4.

⁷¹ K. Marx, *Capital*, vol. II, 1967, pp. 406-15. O'Connor makes no direct reference to Marx's analysis, but it is apparent from his definitions.

⁷² O'Connor, p. 7. The language is extremely imprecise: 'labour power' should read 'labour' in category 1 and vice versa in category 2.

production), variable capital (wage goods) and luxuries. Hence social investment and social consumption expenditures are indirectly productive of surplus value whereas social expenses are not (this will be precisely demonstrated in section V below). O'Connor immediately notes the problems in actually classifying expenditures in this way, since 'nearly every state expenditure is part social investment, part social consumption, and part social expense'. However, he notes that in each case a 'preponderant set of social forces' determines the size and nature of that particular state intervention, and this enables us to classify the expenditure accordingly.⁷³ Certainly, only on rare occasions can one allocate any particular expenditure unambiguously to one department. Water or transport services, for example, are a means of production when utilized by industry, but consumption goods when utilized by households. Social security and health services are elements of variable capital when consumed by the productive workforce, but luxuries when consumed by the elderly or other unproductive groups (excepting children, who are the future workforce). Ultimately, there is no alternative to dividing each expenditure into the different categories on this basis, but this exercise is presently beyond us. The basis, however, will be not so much the forces instrumental in setting up the project etc., as a material input-output analysis of their predominant use-value.

In what follows we shall simply group expenditures very roughly into these three categories, according to what we estimate to be their predominant material characteristic, but no pretence at accuracy is made. In each we shall try to account for the trends and differences we have previously observed. No attempt will be made at an historical explanation for each country: that is something beyond the scope of this essay, yet ultimately nothing short of a concrete analysis of the development of each social formation will suffice. Instead we shall concentrate on the impact of the common elements discussed in section III on the state spending of the major OECD countries. We have already seen that certain trends are common to all; and this method also gives us some understanding of the national variations still observable. No more than that is claimed for it. We shall consider the three groups in reverse order, since this roughly corresponds to the historical sequence of their appearance.

I. Military and associated services

Included here are external services, the police and judiciary and interest on the National Debt. These are the classic functions of all states, not only capitalist but also, for example, feudal. Expenditure to meet them has risen (as a share of GNP) in the long term since the nineteenth century, reflecting the growing costs of expanding and later on protecting the interests of national capitals, and, since 1917, of capitalism as a world system. The major item here—military expenditure—is thus high by the standards of the past century, but as we have seen, has been falling in all countries since the war. This high 'peace-time' level reflects precisely the armed nature of this 'peace': the Cold War and the

⁷³ O'Connor, p. 105; also p. 7.

continual struggles for national liberation. The declining trend reflects the semi-successful détente with the Soviet bloc, the colonial withdrawal plus the move to other forms of imperialist domination, and other pressing claims on government expenditure. Another feature of this expenditure is the wide variation between countries. The dominant position of military spending in the US is to be expected given its world hegemony; the relatively high level in the UK, on the other hand, testifies to its past hegemony and the attempt until recently to pursue an 'international' policy beneficial to British finance capital. In both countries too the existence of large professional armies is expensive.

The high ratio of National Debt interest in the UK also derives from its past policy, both directly and indirectly via the higher domestic interest rates it entailed. Though these state interest payments are a financial transfer and not a claim on real resources, they do require additional taxation to finance them. Consequently, taxation equivalent to 10 per cent GNP is pre-empted in Britain (and the US) simply to finance military and debt, i.e. war-related, expenditures, thus considerably restricting these states' room for manoeuvre. This has led to calls for the other members of NATO to assume a more equal share of the burden, but so far this appears to have been unsuccessful (see Table 1, figures on growth rates in various countries). Expenditure on the police and judiciary is the only item in this category to have consistently increased since the war, at least in Britain (Table 2). This is a response both to the growing need for regulatory functions given the complexity of modern urban life (e.g. traffic control) and to the growing class and other antagonisms in these societies particularly since the mid-1960s. It is significant that in the UK, expenditure on police and prisons is planned to increase faster than average over the next five years.⁷⁴

These then are the major items of state expenditure which can be categorized as luxury production: services entering neither directly nor indirectly into the value of labour power, but required because of the antagonistic nature of capitalism and all other forms of class society. Even here, however, there are problems of delimitation: some such services (e.g. law and order) may well be indirectly productive for capital. But a distinction must be drawn for the purpose of analysis between those state goods and services which provide a favourable framework for the operation of the capitalist sector and those which directly constitute its *inputs*.

2. The social services

By this term is meant state expenditure on income maintenance, education, health and welfare and certain aspects of housing. It covers several economic categories: direct spending on current goods and services (education, health), capital expenditure (municipal housing, schools), transfers (pensions, family allowances, student grants) and subsidies (on food, housing). It is also difficult to separate out their material characteristics, since a substantial proportion benefit the 'unproductive' members of society, indeed the Welfare State can be seen primarily as a

⁷⁴ *Public Expenditure to 1977-78*, Cmnd. 5519, 1973. Table 1.

redistribution within the working class as a whole from workers to dependents. However, the bulk of such expenditure clearly benefits those of working age or their children, whose cost of subsistence must be regarded as part of the value of labour power.⁷⁵ We shall demonstrate below that housewives are also indirectly productive for capital, so that services benefiting them should also be included here.

For these reasons, we analyse all social services as inputs into the production of labour power. The question which then arises is, why does the state collectively provide an increasing proportion of wage goods in every capitalist society today? The answer to this question, essentially querying the origin of the 'Welfare State', is necessarily complex. Broadly it reflects the impacts of both sets of factors discussed in our previous analysis: the 'demands' of contemporary capitalism and the state of the class struggle. For the purposes of exposition, we shall analyse each in turn, before considering their interrelation.

Social Needs under Capitalism

First, the role of the capitalist state in ensuring the adequate reproduction and maintenance of labour power, the *sine qua non* of capitalist production, has been apparent since the earliest Factory and Public Health Acts in Britain. Since then, the trend towards more wage-labour, greater urbanization, the geographical movement of the population and the break-up of the extended family have all intensified the need for collective provision against insecurity.⁷⁶ Furthermore, capitalist industrialization increases the sources of insecurity and dependence (for example, unemployment, industrial injury and disease) and necessitates the state provision of certain services to compensate the casualties for their suffering.⁷⁷ Sanitary conditions which would be acceptable in rural areas are a danger to public health in the towns. Wars have often provided a stimulus to these services, throwing light on the condition of recruits and social conditions generally, and raising fears about 'national efficiency'. The poverty of the working class revealed in the Boer War and the campaign for 'national physical efficiency' was instrumental in introducing school meals and medical inspection of school children in 1906 and 1907.⁷⁸ Of decisive importance in the twentieth century, of course, has been the state's active role in improving the *quality* of labour power, not only by means of education, but also via health services, housing policy, family allowances and other social policies. This has followed, first, the growing complexity of the production process and its need for skilled labourers, scientists, technologists, planners, administrators and so forth. And second, often overlooked, the growing complexity of all aspects of social life: everything from travel to filling in tax forms demands a greater degree of knowledge and adaptability.

⁷⁵ The most recent data on the UK is to be found in D. Wedderburn, ed., *Poverty, Inequality and Class Structure*, London 1974, chs. 2, 3.

⁷⁶ O'Connor, pp. 124–5.

⁷⁷ Titmuss, op. cit., chs. 5, 10, 11

⁷⁸ B. Gilbert, *The Evolution of National Insurance in Great Britain*, London 1966, chs. 2, 3; J. Hay, *The Origins of the Liberal Welfare Reforms 1906–1914*, London 1975. On the role of the two world wars see R. Titmuss, *Problems of Social Policy*, 1950; A. Peacock and D. Wiseman, *The Growth of Public Expenditure in the UK*, London 1961, Introduction and ch. 2.

Furthermore, many of these needs are complementary, so that developments in education for example lead to demands for improved housing or health.

Since the Second World War, there has occurred a dislocation of many aspects of social relations in the advanced capitalist countries, which has thrown new burdens on the state. To take just one example, there are in Britain today over one million children living with only one parent as a result of increasing marriage breakdown.⁷⁹ These new social needs reflect the great change in values and life-styles occasioned by the post-war boom.⁸⁰ Ultimately they are determined by the central contradiction within capitalist societies between the forces and relations of production. Within the framework of capitalism they can only be ameliorated by the wider penetration of the state into domains previously the exclusive preserve of the family.⁸¹

The reasons for greater *state* intervention are several. Partly it is essential in the nature of the service: some are collective or semi-collective goods which it pays no individual capitalist to supply since the benefits will be derived by his competitors (e.g. industrial training). Even then one must distinguish state *provision* and state *finance* of private providers. The latter maintains the capitalist sector, indeed by providing secure finance and an assured demand, often enhances its profitability. But this often leads to escalating costs, due both to fraud and private profit-taking and to the inefficiency and wastefulness of unregulated production. For this reason the state, representing the interests of capital as a class, may step in against the interests of that specific capital and provide the service directly at a lower cost (see section V below). An example of these alternatives is provided by a comparison of health services in the US and UK. In the US a part-private service is increasingly funded by the Federal government: it provides a poorer service at much greater cost than the centralized National Health Service in the UK. The extent to which this will result in a growing state intervention and expenditure will depend on the relation of class forces and the nature of the state: in particular the extent to which the parties, the executive and the administration can act in the interest of the class as a whole, and how far the state (in particular the legislature) is susceptible to pressure groups representing the interests of specific sections of capital.⁸² We would expect it to be greater in centralized states, such as Britain or France, than in Federal states like the US. Even in the former, however, powerful interests, such as the pensions lobby in the UK, can prevent any serious inroads by the state. These account for some of the international differences we observe, but everywhere the process of the socialization of production results in a growth of social expenditure.

Role of Labour Movements

The second factor in this trend has been the effect of the 'post-war

⁷⁹ *Report of the Committee on One-Parent Families*, 1974.

⁸⁰ E. Hobsbawm speculates on the effects of the post-war boom on consumption patterns and popular culture in *Industry and Empire*, Harmondsworth 1969, pp. 164, 281-4.

⁸¹ See E. Wilson, *Women and the Welfare State*, London 1974, p. 27.

⁸² O'Connor, *op. cit.*, ch. 3.

settlement' between capital and labour in the wake of the Second World War and the balance of class forces since then. Since the last century the threat of popular discontent and mass struggle has led to important social concessions being made—for example unemployment insurance in the UK in 1911.⁸³ At other times, social policies have been introduced by forward looking representatives of the dominant class to head off anticipated revolutionary demands. Many in Edwardian Britain were impressed by the success of the Bismarck model, among them Churchill, Chamberlain, Lloyd George and Balfour.⁸⁴ This was particularly important in the reform of the 1940s: it must be remembered that the Beveridge Report, the White Paper on Full Employment and the Butler Education Act were all drawn up during war-time by a Coalition government. They were consciously seen as a necessary part of the war effort by integrating all classes and alleviating discontent.⁸⁵ The need to secure working-class co-operation in rebuilding capitalism in the war-devastated countries of Europe led to the introduction of similar policies.

This however is not to deny the role of particular labour movements in extracting significant concessions from the state, over and above what it would wish to have granted. The relationship of class forces in Britain and the war-time radicalization must account for certain of the post-war social legislation: in particular the National Health Service and the comprehensive coverage of the National Insurance scheme.⁸⁶ Since then the social services have increasingly been viewed by labour movements as an integral part of wages, to be defended and increased in the same way as money wages. They are a *social wage* provided collectively by the state or some other body. There is an important difference here between countries relying on state vis-a-vis occupational provision. Many of the social security benefits in the EEC are provided by industry-wide semi-autonomous bodies with whom trade unions can directly negotiate, whereas in the UK, despite the growing importance of occupational pension schemes, it is via its political relation with the state that the TUC and the labour movement exerts pressure.⁸⁷ But whatever the administration of the scheme, the strength of working-class pressure can roughly be gauged by the *comprehensiveness* and the *level* of the social benefits. The partial, haphazard and extremely unequal system of benefits in the US reveals the *relative* lack of power of its labour movement (and the absence of a party based on the trade unions) as much as the Federal nature of its state. On the other hand, the marked improvement in recent years reveals that both factors are changing.

Having established the role of these two major determinants of social policy, it is essential to point out that their interrelation in any particular policy decision is complex. For example, the original pressure for free secondary education for all in Britain undoubtedly originated in

⁸³ Gilbert, op. cit., chs. 1, 5; Hay, op. cit., pp. 47–54.

⁸⁴ In 1895 Balfour declared: 'Social legislation is not merely to be distinguished from Socialist legislation, but it is its most direct opposite and its most effective antidote.' Quoted in V. George and P. Wilding, 'Social values, social class and social policy', *Social and Economic Administration*, vol. 6, no. 3, 1972.

⁸⁵ Calder, op. cit., pp. 607–29.

⁸⁶ Wedderburn, op. cit., pp. 142–3.

⁸⁷ See for example T. Lynes, *French Pensions*, London 1967.

the labour movement and among progressive educationalists. But what Maynard and Miliband call the 'bias of the system' ensured that these pressures were modified and deflected to suit the interests of the capitalist class. The tripartite system was consolidated and the raising of the school-leaving age repeatedly postponed until 1973.⁸⁸ This bias operates in many ways even after legislation has been passed: its administration always offers great scope for discretion, benefits can fail to be adjusted for inflation, above all, the state determines what finance is available. At certain conjunctures the interests of the dominant and dominated classes appear to converge, as for example with the expansion of higher education throughout the capitalist world in the 1960s. But even then the 'class alliance' is a temporary one based on quite different goals and quickly dissipates. Another development is for the state to use certain social policies as a *quid pro quo* for wage restraint—the most open expression of this strategy being the present Labour government's 'Social Contract'.

So the interaction of long-term socio-economic trends, the political strategy of the capitalist state and the ongoing class struggle rule out any simple, single-factor explanation of social policies. Above all, it is essential to distinguish their concrete historical *origins* from the ongoing *function* they play within that particular social formation. Social policies originally the product of class struggle will, in the absence of further struggle, be absorbed and adapted to benefit the interests of the dominant classes. On the other hand, whatever their particular function for capital at any time, the fact that social services are also an integral part of the real wage level of the working class means that they are fought for in much the same way as money wages, in economic and political class struggle.

Escalating Costs

Once established, two important forces at work increase the *costs* of providing a given level of service or set of benefits over time. The first is the 'relative price effect': the tendency already noted for the costs of state services to rise faster than average. Though this is in part due to the 'technical' problems in raising productivity in the service sector, it is undoubtedly exacerbated in the case of state services by the absence of competitive pressure to reduce costs. The second has been the tendency for the dependent population to expand as a proportion of the total, raising the demand for many social services—from maternity allowances to geriatric services. In every OECD country without exception, for instance, the share of the elderly rose from 1955–69. This has given a powerful impetus to expenditure on social security benefits and education in particular.⁸⁹ Population structure is not determined by socio-economic structure,⁹⁰ but these trends have constituted an im-

⁸⁸ D. Rubinstein and B. Simon, *The Evolution of the Comprehensive School 1926–1972*, London 1973.

⁸⁹ OECD, 1972, Tables A11, A12.

⁹⁰ But neither are they entirely unrelated: the low inter-war birth rate which stemmed from the depressed economic conditions is an important factor accounting for the low proportion of adults of working age since the war. J. Thompson, 'The growth of population to the end of the century', *Social Trends no. 1*, 1970. G. Hawthorn ('Pop-

portant parameter for the last two decades and they will continue for at least another decade. These two factors account for much of the increase in social expenditure—but not all. The OECD concluded: ‘These factors explain only part of the changes and inter-country differences observed. In most of the Common Market countries social security provisions in the fields of minimum old age pensions, survivor allowances, finance or direct provision of medical services, medical provisions and income maintenance of the disabled have been improved considerably in substance and coverage.’⁹¹ The growth of social expenditure is due to growing needs and costs *and* to real improvements in services.

3. Infrastructure services and economic aid

Collected together in this category are those expenditures which either (a) finance state provided means of production, or (b) directly assist private profitability and accumulation. The first group can be further divided into infrastructure expenditures and public corporation investment.

State expenditure on social infrastructure — posts, roads, water and sewerage, industrial estates, environmental and pollution control services, urban renewal etc.—is increasing in all countries. This is predominantly a response to the increasing scale and concentration of economic activity, to the accompanying urbanization and to the effect of the ‘cumulative causation’ mechanism on the growth and decline of regions.⁹² Many of these services are collective or quasi-collective, that is they cannot be sold in discrete units to individual purchasers, and so must be provided by the state or a semi-autonomous state body. Furthermore many such expenditures are large-scale and indivisible, requiring large sums of risk capital (e.g. the development of water supplies)—another reason for state provision or state aid to private providers. Lastly, the ‘highway lobby’ has clearly been important, at least in the US, in securing ever-growing road-development plans. In all, much of this is ‘complementary’ investment: whenever private development takes place a whole range of public infrastructure services must be provided in order for it to function. But here too the initiative of the state manifests itself, for increasingly governments are using this social investment as part of physical planning or regional policy to help determine the location of economic activity rather than passively react to it.⁹³ Of course, all these services are also utilized directly by households, which relates them to the social services as elements of variable capital, and some, such as pollution control, may be regarded as an unavoidable expense of private production and thus akin to luxury expenditures. But the absolute dependence of private production on transport, water supplies, waste disposal etc., is testified by

ulation policy: a modern delusion’, *Fabian Tract* 418, 1973) discusses the effects of economic conditions on the birth rate.

⁹¹ OECD, 1972, p. 77. It is far more difficult to assess whether they kept pace with the growing needs per head of the population.

⁹² For the analysis of the latter, see G. Myrdal, *Economic Theory and Underdeveloped Regions*, London 1963, chs. 2, 3.

⁹³ J. Cullingworth, *Problems of an Urban Society*, vol. 1, London 1972.

their use of it; for example industry and agriculture consume over three quarters of the US water supply, and private consumers less than a quarter. In Japan, two thirds of public investment is in 'industry support services'.⁹⁴ It is for this reason that these expenditures are best analysed as the costs of social constant capital.

The nationalized industry sector differs from social infrastructure in that it produces commodities for sale: non-collective goods and services, which *could* be produced by capitalist enterprise. The degree of public ownership varies between the major capitalist nations, from the US at one extreme to perhaps Italy (with the IRI and ENI) at the other, but in many countries rail and air transport, communication, coal, gas and electricity are now part of the public sector.⁹⁵ These commodities are distinguished materially from many others by their character as *basic inputs*, that is goods and services which enter into the production of every other commodity. The role of many nationalized industries is to provide these basic inputs as cheaply as possible, thus aiding each national capital in its competition with other capitals. If the resulting deficits are financed from general taxation the cost is passed on to the working population whilst the benefits are reaped by the capitalist sector. But once again, we must distinguish the ongoing functions of any state activity from its origins. In the case of nationalization, several factors led to its extension in particular during the inter-war period and after the Second World War. Several basic industries such as railways and coal-mining were for various reasons unprofitable, yet their essential nature meant that state subsidy or control was necessary in the interests of the national capital as a whole. Generous compensation payments meant that the previous owners often benefited from nationalization. Last, and very important, social democratic governments were pressured from below to include some nationalization schemes in their legislation.⁹⁶ These factors explain the virtual absence of nationalization in the USA: its economy emerged from the war strong and physically undamaged, there was no party organizationally based on the labour movement and the Federal system precluded, except at times of crisis such as the New Deal, the state independently initiating policies opposed to the interests of powerful sections of capital.

Public corporations are in most capitalist countries semi-autonomous bodies, typically relying on trading income to finance their operations, with or without generating a surplus. But capital expenditure is normally under the control of and partially financed by central government, and it is this item which is included in our wider definition of state expenditure. The growth of this expenditure will clearly depend on investment policies in fuel, transport and other areas, and on any increase or contraction in the nationalized sector as a whole. For these reasons no clear trend is evident in this item. In the UK, public corporation investment has fluctuated little below one fifth of total investment since the war, but since 1968 it has declined year by year, partly as a

⁹⁴ O'Connor, p. 175; J. Fujiwara, 'Japan: the end of the miracle', *Inprecor*, 16-17, January 1975, p. 41.

⁹⁵ A. Shonfield, *Modern Capitalism*, London 1965; O'Connor, ch. 7.

⁹⁶ Miliband, 1969, pp. 107-9.

result of government financial and price-restraint policies.⁹⁷ Trends in other countries will depend on the scope of the public sector: in France, where one half of the car industry is under public control, it is more dynamic than in West Germany. The Italian state holding companies of IRI and ENI permit greater flexibility and expansion of productive state investment, but in many ways this is more akin to state subsidized private activity, the third area of expenditure to which we now turn.

State and Private Capital

State aid to private industry takes many forms and has grown apace particularly in the post-war period. Certain activities here are similar to infra-structure expenditures, for example state research and development work, employment services etc. These constitute direct inputs to firms and reflect partly the increased scale and technical advance of production, necessitating state financial aid even for some of the largest corporations in the world. But another form of state aid is perhaps of greater importance: these are a whole range of financial transfers to firms to raise profits and/or private investment. Examples include investment grants and other incentives, capital transfers, export incentives, subsidies to agriculture and declining industries, etc.,—the range of mechanisms by which the state acts as the ‘guarantor of monopoly profits.’⁹⁸ These benefits must not be separated from the effects of the tax system, which can also aid profits and investment in many ways: a corporation-tax allowance can have the same effect for the firm as an investment grant, but will not figure as an increase in state expenditure. In some countries, such as the UK and Japan, pension funds are an important source of investment capital for industry, but are increasingly subject to state control. Thus state requirements that all workers belong to an approved pension scheme in effect raises the rate of ‘forced savings’ from the working class in a way no different to a rise in social security contributions, but again they will not figure in statistics on state revenue and expenditure.⁹⁹ Lastly, the state’s role as purchaser of goods (notably armaments) produced in the capitalist sector gives it great scope to aid private profitability. It can offer guaranteed profit mark-ups to the supplying industries, give generous allowances for research and development costs (themselves often financed by the state), discriminate in favour of domestic concerns and in many other ways indirectly boost private profitability and capital accumulation.¹⁰⁰

For these and other reasons it is exceedingly difficult to quantify the amount of state financial aid to the capitalist sector. Different states rely on different methods. The immense government orders for the products of US industry, for example, permit the US state to channel public money to the private sector without the aid of special institutions such as the IRC (and now the NEB) in Britain. But in all countries such aid is undoubtedly large and increasing, particularly over the last

⁹⁷ B. Sutcliffe, ‘Britain: free fall’, *Inprecor* 16–17, p. 18.

⁹⁸ Mandel, *Marxist Economic Theory*, op. cit., pp. 501–7.

⁹⁹ This was the purpose of the Conservative government’s proposed State Reserve Pension scheme—see *The Economist*, 11 May 1974, p. 85. On Japan: Fujiwara, p. 41.

¹⁰⁰ Baran and Sweezy, ch. 7.

decade. This has predominantly been caused by the decline in the rate of profit in many capitalist countries over this period, resulting from the raised tempo of the class struggle and intensifying competition between the capitalist economies. As a result, France is now subsidizing the Citroën car firm, Japan is subsidizing its ship-building industry and the UK is setting up the National Enterprise Board.¹⁰¹ When capitalist enterprises are unable to retain sufficient of their earnings to permit further capital accumulation, they must look to the state to supply these funds. The result is the complex series of arrangements by which the capitalist state today taxes money from the working class and transfers it to profits. The battle over the burden of taxation and the composition of state expenditure is now as much a part of the class struggle as the ongoing battle over wages.

We have attempted above to categorize state expenditures according to their use-value in the productive process and to explain the variations in their size and the trends in their growth. The single most important conclusion which emerges is that an increasing proportion of the total (constituting therefore a fast-growing share of GNP) are *productive* expenditures, producing inputs for the capitalist sector. The share of social services, infrastructure and accumulation expenditure is growing whilst that of unproductive luxury expenditure is declining. *It is quite wrong therefore to regard the growth of the state as an unproductive 'burden' upon the capitalist sector: more and more it is a necessary precondition for private capital accumulation.* The implications and further contradictions of this growth will be considered in section V below.

Lastly, it should be noted that we have adopted a disaggregated approach in explaining this growth. But this does not mean that the state exerts no control over expenditure *in toto*. On the contrary, the very size of the state sector necessitates an overall policy on state expenditure and taxation. During the 1950s this chiefly took the form of anti-cyclical policies, using the budget to raise or lower total demand and economic activity. But in the 1960s attention shifted to longer-term forward planning of public expenditure by national governments.¹⁰² This was a response to the inefficiency of traditional stop-go methods of economic management and the shift towards greater state planning.¹⁰³ It signified a growing awareness of the long-run productive contribution of state expenditure and of the consequent inefficiency of using it in particular as a weapon of short-term demand management. As a result, most governments now frame plans for the major components of public expenditure three to five years ahead.

V. State Expenditure and the Current Crisis

The essential characteristic of the current world capitalist crisis is a combination of rampant inflation and a decline or absolute fall in the rate of accumulation and economic growth; a combination accurately labelled 'slumpflation'. This crisis is *not* caused by the growth of state

¹⁰¹ *Inprecor*, 16–17, pp. 37, 43.

¹⁰² On the US, O'Connor, ch. 3; on the UK, P. Clayton, 'Accountability in government expenditure', *National Westminster Bank Review*, November 1971.

¹⁰³ Warren, *op. cit.*, p. 4.

expenditure: it has far more fundamental roots. But the growing role of the state both reflects and exacerbates the present crisis. In order to elaborate on this interrelation, this section is divided into three parts: first, the view that this crisis is predominantly caused by the growth of state expenditure is criticized; second, the general nature and causes of the crisis are analysed; and third, the specific nature of the crisis of state expenditure in the UK is elaborated.

Unproductive labour and the State

The theory that 'the growth of state expenditure must be seen as one of the key factors in an explanation of inflation' rests upon the assertion that all or the greater part of state employees are 'unproductive'.¹⁰⁴ It is not intended to discuss Marx's concept of productive and unproductive labour in detail here,¹⁰⁵ but some comments are necessary to rebut this theory. For Marx, all labour which produces a use-value and surplus-value is productive. State workers (excepting today those in nationalized industries) do not produce a commodity for exchange, hence do not produce surplus value (even though they perform surplus labour) and are therefore 'unproductive'. They are supported out of the surplus value produced in the capitalist sector and transferred to them by taxation. Hence the greater are their numbers, the less surplus value remains to expand capital accumulation in the 'productive' sector. Recently, however, it has been appreciated that not all production workers in the capitalist sector contribute to the reproduction and accumulation of capital: those in Marx's department III produce luxuries which do not enter as inputs into further rounds of production. A massive increase in armaments workers, for example, would lead to a contraction of capital accumulation in the economy as the material basis for further production is whittled away.¹⁰⁶ Whilst one cannot agree that arms workers, etc., are for this reason unproductive from Marx's viewpoint¹⁰⁷ (they still labour to produce surplus value for their employer), this material distinction between workers producing elements of constant and variable capital on the one hand, and luxuries on the other, is crucial. It holds the key to discovering the productive contributions of state workers.

Rowthorn has recently demonstrated that state education workers may contribute to relative increases in surplus value in a way materially

¹⁰⁴ Yaffe, NLR 80, pp. 50–2.

¹⁰⁵ See I. Gough, 'Marx's theory of productive and unproductive labour', NLR 76, 1972; J. Harrison, 'Productive and unproductive labour in Marx's political economy', CSEB Autumn 1973; P. Bullock, 'Defining productive labour for capital', CSEB Autumn 1974; I. Gough and J. Harrison, 'Unproductive labour and housework again', CSEB February 1975.

¹⁰⁶ Gough, NLR 76, pp. 64–7 (following Blake); Bullock, op. cit. See Mandel, 1968, ch. 10 on contracted reproduction.

¹⁰⁷ The view of Bullock and Yaffe. Excluding circulation workers, with whom we are not here concerned, we are left with four groups of labourers, each of which plays a different role in the production process (see Gough and Harrison, op. cit. p. 7):

	<i>Departments I and II</i>	<i>Department III</i>
Capitalist sector	1	2
Other sectors	3	4

In our view it is preferable to specify each category separately rather than indulge in further debates on which group is 'really' productive.

identical to capitalist sector workers in departments I and II.¹⁰⁸ The mechanism is as follows. So long as the labour they perform exceeds the labour embodied in the wage goods they consume, state employees perform *surplus labour*.¹⁰⁹ However the taxes levied to pay teachers, etc., cover only their necessary, paid labour. In terms of embodied labour, there is a net flow from the state to the capitalist sector equivalent to their unpaid labour. 'Surplus labour performed in education may be transferred to the capitalist sector where it appears as surplus value, apparently originating there. In reality, however, this surplus value is merely the converted form of surplus labour performed outside of the capitalist sector.'¹¹⁰ As a result, all state workers producing either components of the real wage, for example social services, or elements of constant capital, for example research and development work, are indirectly productive for capital. Thus increases in their productivity benefit the capitalist sector: taxes on capital can be reduced, or taxes on the working class, and hence their pre-tax wages, can be reduced. Either way post-tax profits rise. The labour-time to (directly or indirectly) maintain and reproduce labour power will have been lowered, and hence capital can appropriate more surplus labour.¹¹¹

We arrive at an important conclusion: the growth of state employment and expenditure, much of which has been in social or 'economic' services, has undoubtedly contributed to the production of surplus value and profits in the capitalist sector. In this sense their growth is not antagonistic to private capital accumulation; on the contrary, it is increasingly a necessary prerequisite.¹¹² Nor is it *per se* inflationary. We have already criticized the view that state expenditures cannot be entirely financed from taxation and must necessarily involve inflationary borrowing. The recent growth of public sector deficits is a conjunctural phenomenon *following from* the present slumpflation, not precipitating it (see below).

Growth of State Employment

On the other hand, Rowthorn does point out that growing public employment may inhibit capital accumulation in another way, by reducing the supply of labour available to the capitalist sector at times

¹⁰⁸ B. Rowthorn, 'Skilled labour in the Marxist system', CSEB Spring 1974. Also Gough and Harrison, op. cit.

¹⁰⁹ This is likely given the national determination of wage levels for a particular skill and norms on average intensity of labour.

¹¹⁰ Rowthorn, CSEB 1974, p. 31.

¹¹¹ Capital as a whole will also benefit from state provision of department III services (e.g. police): it will pay only their necessary labour costs compared with full labour time cost if the service were provided by private capital. The crucial difference is that the labour expended in this department will not augment surplus value in further rounds of production.

¹¹² We have already mentioned the role of the Welfare State in buttressing the family. Since it has also been demonstrated that surplus labour performed by housewives can augment surplus value and profits in the capitalist sector, it would appear that state social services also aid capital accumulation in this way. (See J. Harrison, 'The political economy of housework', CSEB Winter 1973.) However the same competition over scarce labour applies—see below and Gough and Harrison, p. 5.

of full employment.¹¹³ The continual expansion of such a low productivity, labour-intensive sector will in any case steadily reduce the remaining supply of labour, unless new sources, e.g., married women, continually replenish it. The alternative—of raising productivity in the state sector by means of speed-ups, performance targets, dilution of skills, etc.—is increasingly tried but is unlikely to reduce its demand for labour appreciably. Does not this growing state service sector create an objective barrier to profitable accumulation of private capital? To answer this question it is necessary to divide state expenditure into transfer payments, purchases of goods and services from the capitalist sector, and the wages of state workers. We have already seen in section II that growing state transfers do not directly pre-empt resources available to the capitalist sector. State purchases of private output may well boost profits by providing secure, risk-free, high-profit markets for domestic firms. Only the last category of expenditure—wage payments for state employees—directly reduces the sphere of capitalist operations, though, in the case of indirectly productive workers, at the same time ‘subsidizing’ the capitalist sector. In the UK and probably elsewhere the share of the state sector in total ‘value added’ has risen since the war: over one quarter of the labour force is employed in the public sector. Now such a trend will clearly reduce the *share* of profits in national income *ceteris paribus*: if the profit share in the capitalist sector remains constant, but the relative size of this sector declines, this is inevitable. However this does not mean that the *rate* of profit will be reduced by this fact alone—it may even rise. If the rate of growth is substantial, then the absolute size of the capitalist sector and, *ceteris paribus*, of the mass of profits will also increase. A threat to capital accumulation will only materialize when either the rate of growth in the economy as a whole is low or the ‘relative price effect’ (the relative rate of cost inflation in the state sector) is high. In this situation a growing share of state GNP may be necessary simply to maintain standards of service, and an absolute decline in private production may be needed for them to improve.¹¹⁴ The growth of the state sector will contribute, it is true, to a secular slowdown in the rate of growth, but this effect is attributable to the growing share of services in all advanced economies, and is not a problem specific to the state sector.

To conclude then, state transfers and purchases from the capitalist sector may well have a net beneficial effect on its demand and profit levels, whilst State services in departments I and II will indirectly augment surplus value and private profit. At the same time during an economic upswing state employment may exacerbate labour shortages which inhibit private production. The slower growth of productivity in the state sector will necessitate a steady transfer of labour from the capitalist sector, but while this will tend, *ceteris paribus*, to a declining share of profits in national income, the rate of profit need not be affected. Only where the national rate of productivity growth is so low and/or the rate of growth of state employment is high will taxes on the private sector reduce absolutely wages and profit levels and thus threaten accumulation and exacerbate inflation. But in this case, as we shall

¹¹³ Rowthorn, CSEB 1974, pp. 35–6.

¹¹⁴ See I. Gough, ‘Inflation and social policy’, in *The Yearbook of Social Policy*, ed. K. Jones, 1975.

argue below, these pressures reflect rather than cause the phenomenon of slumpflation.

Political Consequences

This is not to argue of course that the interests of specific capitals are not threatened by a growth of state employment, or that there are no political consequences of the growth in state expenditure. The range of services performed by governments in advanced capitalist countries promises rich pickings to capitalist enterprises, whether health insurance companies, private schools or Securicor guards. We have already argued that the balance struck between direct state *provision* of a service, state finance of private provision or untrammelled private operation will depend on the balance of class forces and the political structure of each individual state. The above analysis demonstrates why the state, acting in the political interests of national capital as a whole, may decide to overrule the economic interests of specific capitals and directly provide certain services itself. The competitive position of that capitalist class may benefit in two ways: from the unpaid labour of state employees (whereas purchases from other capitalists would necessarily include a profit element), and from the greater rationalization of production which state provision often entails. For these reasons there is as yet no concerted campaign to dismantle the NHS in Britain. Nevertheless, at certain conjunctures there will be some who would argue in favour of greater private provision, especially in the social services. The development of such a 'social-industrial' complex, with wide government subsidies for private provision, may yet develop outside the USA.¹¹⁵

The growth of state expenditure *has* led to a marked political centralization within the modern capitalist state, as O'Connor has observed in the US. Trends such as the removal of functions from local government and its reorganization into large areas, greater control over its current expenditure, centralization of public sector debt management, the setting up of new unelected *ad hoc* bodies, the growth of regional planning institutions and the centralization of control over public expenditure within the executive: all these trends are observable within the UK as much as the US.¹¹⁶ Many of these are responses to a profound crisis afflicting local government, squeezed between expanding services and fast growing costs on the one hand, and a static local revenue on the other. At both local and national level growing state expenditures have thus led to important shifts in the institutions and processes of bourgeois democracy.¹¹⁷ But here, as in the economic sphere, they are reflections of more profound changes.

The Current Crisis

It is not possible here to present a comprehensive account and analysis of the current crisis: instead we shall concentrate solely on what we

¹¹⁵ O'Connor, pp. 51–8.

¹¹⁶ See for example H. Page, 'Local government in decline', *Three Banks Review*, 90, 1971.

¹¹⁷ Warren, NLR 72, p. 29; O'Connor, ch. 3.

believe to be its key determinants. The inflationary crisis of the world capitalist economy is the cumulative result (a) of the changed balance of class forces on a world scale since the Second World War, and (b) of the uneven development of the capitalist nations since then. We shall deal with each of these in turn, since the fundamental cause is the heightened bargaining power (economically and politically) of the Western labour movements following a prolonged period of near full employment. The generation of inflation under these circumstances has been well analysed by Devine.¹¹⁸ In brief, capitalists cannot prevent workers from obtaining money wage increases in excess of the rate of productivity growth and workers cannot prevent capitalists from raising prices. The result is chronic inflation. The growth of state expenditure superimposes on this fundamental conflict between capital and labour a further conflict which gives an added impetus to inflation. 'The competing claims of private consumption, investment, public provision, military expenditure, the foreign balance, have exceeded the availability of resources. Efforts to commandeer resources for one use, if not acquiesced in by those from whom the resources are to be taken, call forth responses designed to frustrate them which for the most part manifest themselves in higher prices. Thus, if the state increases direct taxation on personal incomes or indirect taxation, in order to increase social provision or to stimulate private investment via reductions in corporate taxation or to make room for a shift of resources into the balance of payments, workers will seek to offset the effect of this on their private consumption through higher money wages; if capitalists raise prices in order to raise profits to finance increased investment or if the terms of trade deteriorate and prices rise, workers will again seek to offset this through higher money wages; if workers obtain higher money wages, in order to offset increased taxes or increased prices or simply to assert their claim to a higher standard of living and a larger share of what is produced, they will commandeer a larger proportion of resources for private consumption than would otherwise be the case and the state or capitalists will seek to offset this through higher taxes or higher prices. Chronic inflation is the result of a situation in which available resources are insufficient to meet claims on them and claimants cannot be prevented from bidding—workers via higher money wages, capitalists via higher prices, the state via higher taxes or borrowing from the banking system.'¹¹⁹

This model of contemporary capitalism does not of course imply that the state is independent of capital; rather it is premised upon that relative autonomy that we emphasized in section III. Finally, against arguments that this theory puts the 'blame' for inflation on the working class, we may agree with Devine: 'It is unscientific to attempt to attribute "blame" or "responsibility" to different classes Inflation is a product of the capitalist *system* in its present stage of state monopoly capitalism.'¹²⁰

Thus structural conflict within advanced capitalism explains the chronic inflation experienced since the Second World War. Together

¹¹⁸ P. Devine, 'Inflation and Marxist theory', *Marxism Today*, March 1974.

¹¹⁹ *Ibid.*, pp. 85–6. Mandel and Warren suggest the same analysis in their recent debate, *NLR* 87–8, 1974.

¹²⁰ Devine, *op. cit.*, p. 92.

with the growth of the power of labour movements and of state expenditure, it explains the acceleration of inflation in the late 1960s. But we have yet to discover the link between this and the current world recession. This has followed the steady decline in investment expenditure over each cycle since the early 1960s, so that in the 1970–73 cycle investment for the first time ever rose less rapidly than output in the OECD countries.¹²¹ This followed the fundamental decline in profitability which occurred in several countries in the 1970s, itself a reflection of growing labour strength at a time of heightened international competition.¹²² The fundamental factor determining whether capitalists will advance money capital and expand output is their view of the expected rate of profit. If the past rate of profit has been falling and if they hold a pessimistic assessment of the balance of class forces, then the rate of private investment will fall. This is precisely what has happened since 1973 in several major capitalist countries, and this defines the current inflationary recession as a qualitative crisis of capitalist production.

Of course, the separate nation states can intervene in this situation to boost the rate of investment. If the rate of exploitation is being reduced the state can indirectly raise it by reducing post-tax wages and funneling the money back to the capitalist sector. The share of taxes paid by corporations was reduced in the OECD area between 1955 and 1969, and the burden of rising state expenditure shifted onto the working class by means of direct and indirect taxes. Direct state aid to private industry has also risen over the long term, but in 1974 it rose precipitately in many countries.¹²³ However this state aid will in turn fuel the rate of inflation. Given the balance of class forces a rise in taxes on wages or on goods and services will lead to higher, pre-emptive wage claims, whilst attempts to reduce the 'social wage', by means of cuts in state social spending, will also be resisted. As a result, in all major countries state borrowing and public sector deficits have mushroomed in 1974 and 1975.¹²⁴ (However the rising unemployment in all countries suggests this has not been sufficient to offset falling private investment and consumption.) The twin characters of the current crisis—rampant inflation and worldwide slump—thus both reflect the balance of class forces and the attempts of the state to help rectify the resulting contradictions.

Uneven Development

But if this is the most general explanation of the current crisis, its particular national manifestations are circumscribed by the second factor: the operation of the 'law' of uneven development. The extent to which the class conflict results in inflation and/or pressure on profits will depend on the underlying strength of each economy. In the post-

¹²¹ By less than 4 per cent and $4\frac{1}{2}$ per cent respectively: J. Harrison, 'Capitalist crisis and economic recession', unpublished.

¹²² See the analyses in *Inprecor*, 16–17, January 1975; by Wolf on Germany, p. 30, Valentin and Leucate on France, p. 36. For a comparative survey Glyn and Sutcliffe, *op. cit.*, chs. 2, 3 and appendix G.

¹²³ *Inprecor*, 16–17, pp. 37, 43.

¹²⁴ *The Economist*, 15 March 1975, p. 77; 29 March 1975, p. 81; 5 April 1975, p. 65.

war epoch this uneven development has predominantly taken the form of differences in productivity growth and in the balance of payments. Capitalist states with high rates of growth and a strong payments position (such as Japan and West Germany) have been in the strongest position to reconcile conflicting claims on resources without incurring high rates of inflation. Weak countries, notably the UK, have much less room for manoeuvre. But these differences are in part determined once again by the relative strengths of the national labour movements: for example, their ability to resist redundancies, changes in work practices etc. The uneven strength of different economies is indicated by national data on profitability. Only in the US, Benelux and Italy did the rising share of wages in the 1950s and 1960s have the same adverse effect on profits as in the UK—elsewhere it did not even match the movement of the self-employed into wage employment.¹²⁵ The delay in recovery of the labour movements in Germany and Japan postponed any decline in profitability there till the 1970s.¹²⁶ The relative weakness of labour movements in several countries may permit the rate of exploitation to be raised in 1975 under the threat of high unemployment: in the US real wages have fallen for over two years in succession, current wage increases in Germany are down to 7 per cent, in France and Japan important public sector strikes have been defeated.¹²⁷ In all these countries the rate of inflation is being reduced, profitability restored and the basis laid for further expansion. Only in Italy and the UK among the major OECD countries is this not the case. The strength of the labour movement and the weakness of the economy are intimately related in both cases, though in Italy it is the moderation of the trade unions and the Communist Party on which the state mainly relies.¹²⁸ For this reason, one should strictly-speaking refer to a generalized *recession* of the international capitalist economy, but not of a generalized *crisis*. This term should be reserved for Britain, Italy and any other country where the balance of class forces prevents the rate of exploitation being raised and the dynamic of capitalist accumulation re-established, unless their labour movements are first seriously weakened.

However if there is not yet a generalized world economic crisis, the consequences of uneven development may already be laying the basis for one. One manifestation of this has been the decline of US hegemony (in the economic and political, if not the military, sphere), the growth of regional economic groupings, and the growing challenge of the EEC and Japan. Already these trends have severely dislocated the Bretton Woods international monetary system, and have hindered decisive leadership of the world capitalist economy.¹²⁹ A further consequence has been the synchronization of the world trade-cycle following the large US trade deficits and the wages explosions of the late 1960s. Instead of a boom in some countries offsetting a recession in others, all major OECD countries are now moving together and the

¹²⁵ Glyn and Sutcliffe, op. cit. appendix G.

¹²⁶ Ibid., pp. 98–9. For Germany see E. Altvater et al, 'On the analysis of imperialism in the metropolitan countries: the West German example', CSEB Spring 1974, pp. 6ff.

¹²⁷ *The Economist*, 29 March 1975, p. 81; 5 April 1975, pp. 64, 69, 80–2.

¹²⁸ *The Economist*, 29 March 1975, pp. 69–75

¹²⁹ E. Mandel, 'The generalized recession of the international capitalist economy', *Inprecor*, 16–17, pp. 13–14.

trade cycle is becoming dangerously destabilized.¹³⁰ This accounted for the commodity and oil price explosions during the 1971–73 boom, and this is now accounting for the severity of the 1974–75 slump. The consequent under-utilization of capital has been a further factor depressing profits and inhibiting investment. So the operation of the law of uneven development within the post-war context is creating fresh contradictions which will tax (but not necessarily defeat) the bourgeois political order in the coming years. But the underlying factor, and one which has thrown up an open economic and political crisis today in at least Britain and Italy, is the economic strength of the working class in the post-war epoch.

State Expenditure and the British Crisis

The share of profits in Britain fell from 21 per cent in 1964 to 12 per cent in 1970 to 4 per cent in the second quarter of 1974, whilst the rate of pre-tax profit fell from 14 per cent to 10 per cent to 5 per cent.¹³¹ The urgent necessity to raise the rate of exploitation has been clear to capital for several years. This is not the place to go into the alternative strategies adopted.¹³² The victory of the 1974 Miners' strike and the election of a Labour government in this context represented a strategic defeat for the British state and the capitalist class. The attempt to restrain wages via the Social Contract is now in ruins. Britain has entered its most critical post-war crisis with the organizational and political strength of the working class at a new height and the bourgeois political order in a state of unprecedented disarray: indeed this combination defines the contemporary crisis in Britain. With this framework in mind let us now consider the economic and political role of state expenditure.

State expenditure continued to grow during the years of the 1970–74 Conservative government, but due to a recognition of the origins of the 1969–70 wages explosion and a need to reduce the rate of inflation, this was accompanied by a reduction in taxation. The fast growth in public expenditure projected in 1971 and 1972 was predominantly to reduce unemployment and raise investment and to restrain price rises by letting nationalized industry deficits grow.¹³³ But at the same time, as part of its general offensive against labour (the Industrial Relations Act, the 1972 pay freeze and stage 2), the government attempted to cut back the growth of social expenditure, notably via the Housing Finance Act and the cuts of £500 million and £1180 million in May and December 1973. Nevertheless the growth of social spending up to then was considerable and contributed to the unprecedented rise in real incomes from 1971–73. This attempt to stimulate the economy by means of public investment resulted in a rapid growth of the public sector borrowing requirement to over £4 billion in 1973. It is likely

¹³⁰ *The Economist*, 12 April 1975, pp. 79–80.

¹³¹ The most recent survey is by A. Glyn, 'Notes on the profit squeeze', CSEB, February 1975.

¹³² See A. Jones, 'The economic impasse of British imperialism', *Inter-Continental Press*, 5 August 1974; and J. Harrison, 'British capitalism in 1973 and 1974: the deepening crisis', CSEB Spring 1974.

¹³³ *White Papers on Public Expenditure: Cmnd. 5178* (1972), p. 9; *Cmnd. 5519* (1973), p. 7.

then that the government's attempts to combat inflation only led to its regeneration by another route. In the absence of any wholly successful reduction in real wages (via money wages and/or the 'social wage') this was inevitable.

But even this partial success was destroyed by the 1974 Miners' strike. The incoming Labour government extended social benefits as its part of the Social Contract with the trade union movement. The major elements here were food subsidies, the freeze on rents and pension increases,¹³⁴ although the cuts in health and education spending were not restored. Grants to local authorities were raised to offset rate increases. Militant action among public sector workers, traditionally low paid and less under the control of union bureaucracies, gained large wage rises and further raised public expenditure.¹³⁵ With the sudden onset of the international recession the government intervened to channel aid towards the capitalist sector by reducing payments of corporation tax, relaxing price controls, setting up the National Enterprise Board, etc. All this has resulted, in a massive growth in public expenditure to £54 billion in 1975–76 equivalent to 60 per cent of GNP. Despite the operation of 'fiscal drag' this has opened up an enormous public sector borrowing requirement equal to 10 per cent of GNP.¹³⁶

Budget deficits of this size are not of themselves inflationary in a deep recession. Measured in terms of its effect on aggregate demand the public sector deficit has risen from 9 per cent of GNP in 1971 to 12 per cent following the November 1974 Budget. 'In real terms the budget is not increasing the pressure on real resources in the economy—a fact which is in any case obvious from the unemployment figures.'¹³⁷ On the contrary, the first Labour Budget in March 1974 was savagely deflationary. In any case large public sector deficits are inevitable at the present time given the large oil deficit in the balance of payments of most OECD countries. The inability of the corporate sector to run a financial deficit for any length of time (the November 1974 Budget in the UK was designed to correct this) means that balance of payments deficits must be offset by government deficits if the economy is not to move into a cumulative recession.¹³⁸ This is further revealed by the low rate of increase of the money supply at the present time: in the UK at a rate less than half that of price increases. As the National Institute remarked, the budget deficits 'do however *reflect* the serious problems of inflation and the balance of payments situation—but we think these problems have other causes.'¹³⁹ The basic cause is the underlying balance of class forces in Britain and the inability of the Labour government so far decisively to challenge the trade union movement. Given the need to channel aid to the capitalist sector to prevent a total

¹³⁴ See Gough, *Inflation and social policy*, op. cit., for a detailed study.

¹³⁵ The *National Institute Economic Review* (February 1975, p. 16) calculates that this added £400–700m to public expenditure in 1974–75.

¹³⁶ £7½ billion in 1974–75 and £9 billion in 1975–76. *The Economist*, 19 April 1975, p. 80 ff.

¹³⁷ NIER February 1975, pp. 14–15. This was before the big upward revision revealed in the April Budget.

¹³⁸ NIER February 1975, p. 15. For a good general analysis see D. Kern, 'Public sector deficits', *National Westminster Bank Review*, May 1974.

¹³⁹ NIER, *ibid.*, p. 15.

collapse of investment, to maintain public investment, to raise certain social benefits as part of the Social Contract, and to avoid any further increases in taxation for fear of their repercussions on inflation and profitability, the result is inevitably a growing gap between state expenditure and revenue. The present Budget deficit passively reflects the alignment of class forces which have generated the current inflationary crisis: it is not itself an active cause of that crisis.

The Struggle over Social Expenditure

The only solution for the capitalist class and for the state representing its political interests, is a decisive rise in the rate of exploitation. This would permit a reduction in the rate of inflation, a rise in profit expectations and would release resources for investment and exports. To achieve this two separate strategies are identifiable, though in practice both are normally used in combination. The first is some form of wages freeze, which would directly achieve the three objectives above. The second is to deliberately allow unemployment to rise in order to indirectly bring down the rate of wage increases, though the unemployment level necessary would probably need to be extremely high by post-war standards. To achieve this without fuelling inflation, large cuts in public expenditure would be essential. Within the total of public spending, aid to private capital would need to be maintained and cuts in military spending, though they cannot be ruled out, would not suffice. The burden would necessarily be borne by the social services, and this for two reasons. First, they constitute the most dynamic area of state expenditure. Second, they comprise the 'social wage' of the working class, and a cut in this would be interpreted by capitalists at home and abroad as a deliberate government decision to reduce living standards and raise the rate of exploitation. An integral component of this second strategy would therefore be an attack on social expenditure. In fact, this has already begun with a sharp cutback in planned local authority expenditure announced in early 1975.¹⁴⁰ But this 'crisis of social expenditure' has no autonomous dynamic: it is an element of the general crisis analysed above.

There are then powerful pressures on the British state to raise the rate of exploitation and thus permit the extended reproduction of capital. But of course precisely what *defines* the crisis is the powerful opposition of contradictory pressures: the ability and determination of the working class to resist such a rise.¹⁴¹ This is not the place to analyse the strengths and weaknesses of the British labour movement: its tremendous economic power is intimately related to its reformism and economism. What is clear is that any attempt to impose a wage freeze or substantial unemployment will be vigorously resisted. However the specific strength of opposition to any cuts in social expenditure should be noted, for the growth in the numbers of state employees has itself created a new force within the working class of all advanced capitalist countries. The organization of public sector workers has proceeded apace in recent

¹⁴⁰ *Public Expenditure to 1978-79*, Cmnd. 5879, 1975, p. 9 and the Chancellor's April Budget statement, *The Economist*, 19 April 1975, p. 11.

¹⁴¹ J. Harrison, 1975, unpublished.

years; and it is likely that the rate of pay rises they have obtained have exceeded those in the private sector. Perhaps more important, state employees by the very nature of their employment tend to inject qualitative, political issues into their struggle to protect and improve their terms and conditions of service.¹⁴² Thus in the UK the public sector union NUPE has been to the forefront in the attempt to end private pay beds within the NHS. This is related to the traditional autonomy enjoyed by certain professions, for example doctors, lecturers and social workers. Questions of the content of education, the aims of social work, the structure of medical practice are increasingly fused with day-to-day trade-union struggle within the State sector. Other factors at work here include the growing relation with organizations of state clients (claimants unions, education pressure groups), the direct political control periodically exercised by governments over public sector pay levels, and the weaker control of the trade union bureaucracy over some of these newly organized groups. These forces mean that public sector workers will form an increasingly important and effective bloc opposing cuts in social expenditure as a solution to the contemporary crisis in the UK. At the same time, the increasing recognition of the importance of the social services within the real wage has prompted other sections of workers to take action in their defence. In 1974 miners in the Yorkshire coalfields struck in support of an increase in nurses' pay, in order to protect the NHS. These actions have been echoed at the base of the Labour Party, the most notable struggle being the long-standing refusal of the councillors at Clay Cross to implement the Housing Finance Act. To summarize then, the forces opposed to cutbacks in social expenditure as a solution to the British crisis would appear to be gaining strength over time.

If our analysis of the current crisis in Britain is correct, we cannot at the time of writing predict its outcome. Though at some stage there will be a decisive test of strength, it is possible that beforehand state policies will contain simultaneously concessions to the labour movement plus attempts to weaken it. The political reflection of these conflicts will have a semi-autonomous impact on their outcome. The crisis will impose tremendous strains on the Labour government, caught as it is between the contradictory need to raise living standards in order to maintain credibility with its political base, and the need to lower them in order to work towards solving the crisis. The crisis of social expenditure will exacerbate this fundamental contradiction, for a distinguishing feature of social democratic reformism since the war has been the Welfare State itself: the offer of social reforms and services in exchange for a certain measure of trade union co-operation with the state. At the present time this *quid pro quo* is institutionally enshrined in the Social Contract. The depth of the British crisis probably requires the simultaneous adoption of wage controls, deflation and cuts in social expenditure: all of which will precipitate an internal crisis within British social democracy. The outcome will thus depend not only on the reaction of the working class in mass struggle, but also on the political reflection of these conflicts. The outcome of the current crisis, no less than its origins, turns on the total class struggle: a fusion of economic, political and ideological struggle.

¹⁴² For a fruitful discussion see O'Connor, *op. cit.*, ch. 9.