Globalization Does Not Entail the Weakening of the Liberal State

https://www.e-ir.info/2012/08/22/globalization-does-not-entail-the-weakening-of-the-liberal-state/

PHILIPP DREYER, AUG 22 2012

The role of the state and, in particular, the way it adapts to increasing global market integration has been subject to scholarly work for decades. A dominant view holds that under conditions of globalization the state's liberal character was emphasized in the sense that its prospects for economic and sociopolitical state intervention have been reduced (Bonefeld, 2010: 15). Following the crisis of Fordism and Keynesianism in the 1970s, many capitalist governments embarked on a neoliberal turn with regard to Hayekian and Friedmanite ideals due to increasing pressures imposed by the global market. Critics have consequently argued that globalization has left the state and its foundation for democratic self-determination paralyzed (Hirsch, 1997: 51). On the contrary, I will argue that globalization has not necessarily weakened the state but instead has required it to adapt to economic change through the development of effective state capacities. While this has entailed a neoliberal transformation of the capitalist state and an emphasis of its market-facilitating role, it has not restrained the liberal-democratic state from formulating, to a considerable extent, its own social and economic programme. A comparative analysis of the French and British welfare system during neoliberalism will demonstrate that the presupposition of a convergent development of the liberal state in the context of globalization is unjustified. Instead of ascribing to the global economy autonomy over the liberal state, it would be more fruitful to point to the multifaceted responses to globalization in terms of social and economic public policy transformations.

After World War II, the Anglo-American and Western European states were dominated by the Fordist and the Keynesian tradition for almost three decades. The essence of Keynesianism is to foster economic growth and full employment through extensive state intervention and by shielding the domestic economy from market forces (Cerny, 1997: 258). Evidently, such conditions allowed the Keynesian state to implement relatively self-contained national economic and social policies. However, with the collapse of the Bretton Woods system in 1973, caused by the abandonment of the gold exchange standard under Nixon in 1971, the state's capacity to isolate the national economy from the global economy diminished drastically due to the increased global deregulation of financial markets (Cerny, 1997: 260). Keynesianism culminated in a major economic recession during the 1970s due to surges in inflation rates, which led to a fiscal crisis and rising unemployment (Gamble, 2001: 130). Resultantly, most liberal-democratic states initiated a neoliberal turn in order to adapt to the pressures of increased global market integration, which was precipitated by the deregulation of financial capital.

Neoliberalism is commonly understood to ascribe to the state the role of maximizing market liberty by fostering competition and removing any restrictions thereto, such as excessive taxation and any state interventions which are not directly aimed at sustaining the legal and political foundations of the market (Gamble, 2001: 133). In other words, the neoliberal state has limited its function to be mainly market-facilitating and to enforce the rules of the global market in order to embed competition and entrepreneurship into society (Friedman, 2002: 15). Hayek has noted that the prevalence of the perfect liberty of the market in the context of globalization does not undermine or weaken the liberal state but, instead, emphasizes its role as a market-facilitator that is indispensable to the accumulation of wealth. According to Hayek (2003), policies of the liberal state function in order to enable the flourishing of the free market by ensuring that the rule of law operates effectively and impartially (p. 85). Since economic planning requires the government to choose arbitrarily and discriminate between 'conflicting or competing ends' (Hayek, 2003: 68), the liberal state becomes strengthened by refraining from utilizing economic and social forms of state interventions excessively. In no way does this entail, however, that the state becomes superfluous with regard to the economy, as Friedman (2002) notes that the free market is dependent 'on the state as the coercive force of that freedom' (p. 17). Hayekian liberalism rose to prominence among capitalist states during the 1970s, though to varying extents, because it manifested itself as an economically efficient mode of political and economic organization. Nevertheless, critics have pointed to the severe and dramatic drawbacks of neoliberalism and have contested that the liberal state has been weakened under conditions of globalization.

In contrast to Hayek, it is commonly held that the liberal state has been weakened because its neoliberal restructuring is seen to have reduced the state's prospects for formulating its own social and economic programmes. In this context, Hirsch (1997) claims that the deregulation of financial capital and the emergence of global markets has left the liberal state unable to 'respond to the social demands that were traditionally expressed within the formal processes of democracy' (p. 46). As a consequence of deliberately permitting the development of increased market integration and globalized financial capital, the liberal state has ultimately liquidated its prospects for democratic self-determination and has relinquished the state capacities required to act in the national interest and not necessarily according to the economic rationale (Strange, 1996: 5). The apparent weakness of the liberal state as a mere market-facilitator is supported with the claim that welfare provision is naturally subverted by the fact that national policies have been subjected to 'the dynamic of the world market and international corporate strategies' (Hirsch, 1997: 45) due to the intensification of international competition. This view entails that the liberal state's national self-determination is undermined by the apparent market autonomy vis-à-vis the state. If such a general critique were justified, one would have to presuppose the 'convergence of all capitalist models and all national economies towards neo-liberal institutions and policies, such as privatization, deregulation, shareholder value, flexible labour markets, and residual welfare' (Gamble, 2001: 133). Although the brevity of this essay does not allow me to explore all these areas, I will challenge, in what follows, this pessimistic and deterministic outlook on the liberal state by providing empirical evidence on the development of the welfare aspects in France and Britain.

There is no question that the immersion in the global market has placed the liberal state in a position of economic accountability and increased international competition for profitability. Such pressures to adapt to global economic conditions have, in particular, emphasized the state's feature of market facilitation. Nevertheless, stating that this need for state transformation can be equated, as Hirsch and Strange have argued, solely with the retreat of the state and its disempowerment is incorrect. According to them, the apparent weakness of the liberal state is manifested in the dismantlement of significant state institutions and polices, such as social welfare programmes, in an attempt to cope with the 'unrestrained power of the markets' (Kus, 2006: 493). As such, the state's ability to act in the national interest is systematically undermined. In contrast, empirical evidence suggests that 'many of the institutions, policies and powers in question have remained surprisingly resilient' (Kus, 2006: 494). For instance, the neoliberal turn in France in the 1970s and 80s was fundamentally different from the British one, despite similar crisis symptoms of surging inflation and decreasing productivity. With the election of Thatcher in 1979 and an electoral shift away from the Labour government, the economic crisis was interpreted primarily as one of Keynesianism (Schmidt, 2001: 257). Consequently, the British transition to neoliberalism led to a Hayekian redefinition of politics and an abandonment of excessive state intervention and welfare provision. Within a period of ten years, unemployment benefits were cut down by approximately 50 percent and social security became privatized in 1986 (Kus, 2006: 508). While France's government also recognized the limits of dirigisme in the 1980s due to a deterioration of international competition, its diagnosis of the economic crisis and direction to neoliberalism did not revolve around 'welfare policy and social expenditures but on the state's interventionist industrial policy' (Kus, 2006: 515). In order to keep exchange rates constant and to restore competition, the French government initiated an austerity programme that focused on lowering inflation as well as deregulation, privatization and cuts in subsidized credits. Despite these market-friendly reforms, social spending in France was still among the highest in Europe by 1995 (Levy, 2000: 309). Its domestic adjustment in terms of social protection can therefore be seen as a viable strategy to mitigate the severe effects of the open market on the citizens and to establish conditions under which entrepreneurship and competition can flourish in the long-run (Schulze-Cleven et al., 2007: 451). The strategies to emerge as a successful market competitor have been multifaceted and did not always lead to a fundamental retreat of the state.

I have demonstrated that the transition from welfare state to capitalist state is not systematically predetermined under globalizing conditions. Despite the increasing pressures to develop new state competencies to cope effectively with international competition the liberal state and its capacity for self-determination have not been crippled on all levels. The heterogeneous national responses to globalization emphasize that institutional capacities and public policy are indeed powerful tools of the capitalist liberal state. As part of a neoliberal political strategy, the state has limited its function mainly to securing the liberty and legality of the market and to promoting competition. It has thus become, according to Cerny (1997), a competition state that aims to foster 'enterprise, innovation and profitability in both private and public sector' (p. 260). Cerny points to the fact that in order to achieve its long-term goals the competition state gives up certain policy tools while at the same time it may expand economic and sociopolitical interventionist capacities in order to promote economic activities (Cerny, 1997: 251). For instance, most liberal states are now unable to exercise direct control over exchange rates and monetary or fiscal policy. Yet, social polices remain an integral part of government due to their potential to complement economic productive capacity (Weiss, 1998: 5). Social protection and education policies have beneficial effects on economic efficiency, because they promote labour market flexibility by decreasing the risks of career changes and by enhancing the value of human capital (Ferrera et al., 2001: 177). In addition, these measures foster social stability by making the consolidation of market forces politically acceptable to the working class (Polanyi, 1944: 163). Of course, the sustainability of social policies is subject to cost pressures and requires innovative marketization. Nonetheless, unrelenting high levels of social spending among European countries suggest that globalization cannot be equated solely with neoliberalism (Ferrera et al., 2001: 174). Although the increased internationalization of the economy has emphasized the liberal character of the capitalist state, the importance of utilizing effective sociopolitical policies has been just as pronounced. Accordingly, the strength of the modern state should not be understood in terms of its ability to hold autonomy vis-à-vis the market but should instead take into consideration the effectiveness with which it adapts to economic changes. In that sense, globalization entails the retreat of the liberal state on some levels while simultaneously bringing out its interventionist character as a competition state on other levels.

I began by demonstrating that the increased internationalization of the economy towards the 1970s led to the replacement of a Keynesian mode of political and economic organization with a more neoliberal one. I then argued that Hirsch's and Strange's critique of the 'powerless state' was unjustified due to an overstatement of the neoliberal turn of capitalist states. The persistence of welfare provision in France and the generally high levels of social spending in Europe suggests that the responses to globalization were manifold, despite immense international economic competition. Consequently, the predominance of the global market did not only entail a repositioning of the liberal state towards a mere market-facilitating role. Responding effectively to economic internationalization also required the development and implementation of state interventionist capacities, which foster social stability and entrepreneurial economic activity. The political restructuring of the liberal state can thus be understood as a hybrid phenomenon.

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Date written: 01/2012