# Capitalism and the Useful Nation State

https://www.e-ir.info/2010/03/09/capitalism-and-the-useful-nation-state/

RICK WOLFF, MAR 9 2010

Not so long ago, it was fashionable among apologists and many other commentators on contemporary capitalism to refer to the nation state as passé. Globalization of large corporations was enshrined as a mechanism enhancing efficiency far beyond what could be achieved within national boundaries. Nation states were viewed as anachronistic obstacles to the explosion of production and prosperity that globalization would achieve. Therefore all should applaud the demise of the nation state.

Not surprisingly these rosy assessments of capitalism's prospects glossed over the problem of its inherent instability. They avoided paying attention to the regularity of capitalism's cycles punctuated by occasional severe and extended downturns. As happened in the 1930s, now again such a downturn demonstrates the very useful roles that nation states can play for the needs of capitalism's actual (as opposed to glossed) functioning and especially during crises.

In the US economy from around 1980 to 2007, real wages stopped their previous century's historic upward climb. Meanwhile, labor productivity continued that climb. The result, of course, was an explosion of employers' net revenues. Simply put, what employees produced for the employers to sell kept rising, while what the employers paid their workers did not. Out of this situation emerged two interdependent causes of today's capitalist crisis. First, a consumerist US working class stopped saving and accumulated debt to sustain rising consumption in the face of stagnant wages. Second, employers and their associates (share-holders, top managers, etc.) accumulated immense, highly concentrated wealth. The financial industries (banks, hedge funds, insurers, mortgage brokers, etc.) facilitated both groups particularly by intermediation: that is, they funneled the latter's wealth into loans to workers, to states strapped for cash because stagnant wages undermined their budgets, and to the new wealthy by means of new, unregulated financial instruments. The consequently huge financial profits on top of the general employers' stagnant-wage-based bonanza spun off into the successive speculative frenzies (stock market and real estate bubbles and busts of the 1990s and first decade of the twenty-first century, respectively). Speculative excess followed by collapse is also a regular, recurring feature at the crest of capitalist cycles.

The working classes' capacities to consume more were exhausted by 2007. The lethal combination of flat real wages plus unsustainable debt levels yielded that. The speculative fevers of the corporate and upper income elite were abetted by systemic underassessment of risk. After all, economists, politicians, and media pundits alike had been falling over one another to extol the benefits of capitalist globalization (greater efficiency, lower (better distributed) risks, etc.). Very few among them wanted to recall, let alone seriously estimate and integrate into analysis, the intrinsic, recurring instabilities of capitalism and their social costs.

With the global collapse of credit, trade, production, employment and public finances unfolding since 2007, the typical scramble commenced over who would finally have to bear the burden of the immense social costs flowing from that collapse. Enter the usefulness of the nation state. That institution proved its value for capitalists and capitalism. In the US, the nation state undertook to move toxic debts off private balance sheets and onto the national balance sheet. Across much of the world, there have been similar nationalizations of unsustainable debt and of private losses from financial speculations and other corporate failures.

Undertaking state debt to pay for nationalizing private debt and undertaking still more state debt to bailout failed capitalists in other ways has demonstrated again the usefulness of the nation state. More than that, by drastically deepening nation states' budget deficits, it becomes clear who is being positioned to bear most of the costs of today's capitalist meltdown. The masses of tax-payers and the same masses as beneficiaries of state-provided services and payments are everywhere being told to "tighten their belts."

Iceland's people thus just voted down – by an overwhelming 90 percent – the latest proposals for them to cover one set of costs (incurred by Icelandic banks in their dealings with European and other banks) flowing from the global credit collapse. All those banks profited greatly from the boom before the collapse. Then, state action by The Netherlands and the UK to cope with credit collapses there were followed by demanding compensation from the state in Iceland. The states' costs in coping with credit collapse were thus to be shifted costing $65,000 for each average Icelandic household plus interest. Iceland's people said no. In Greece, unions and left political movements are struggling against similarly-based increases in value added taxes, wage freezes and pay cuts, and social service reductions. In California, tens of thousands of public service employees are losing their jobs. And much the same is happening elsewhere across the globe.

The nation state has become a useful vehicle indeed to shift the costs of capitalist instability as far as politically possible onto the mass of people. What other modern institution could perform this task half so well? In Europe, this process is widely seen and fought – often in the name or spirit of socialism – as an intolerable subordination of the state to capitalist imperatives. In the US, the same process is formulated instead as another state oppression which is there defined as "socialism." The ideological frameworks differ, but the underlying realities do not. In both cases, the immediate focal point of contestation – the center stage – is the nation state. The capitalist system remains offstage, some steps behind the curtain. The latter escapes criticisms and oppositions at least for a while, perhaps long enough to hit and bounce back from a cyclical bottom. The notion of system change is moved out of crisis conversations nearly altogether.

Keynesian economics returned to respectability because of the capitalist collapse and leading capitalists' enthusiastic endorsement of states' economic rescue-missions (interventions into and controls over private enterprises and markets). The "importance" of the nation state will likewise win a new lease on life and renewed affirmation to the extent that it transfers the costs of capitalist collapse onto national populations.

*Richard D. Wolff is Professor of Economics Emeritus at the University of Massachusetts. He is currently a Visiting Professor in the Graduate Program in International Affairs at theNew School University in New York. He produced a documentary film on the economic crisis in 2009 entitled Capitalism Hits the Fan. In 2010 he published a book of essays on the crisis, Capitalism Hits the Fan: The Global Economic Meltdown and What to Do About It. His many writings on economic analysis, the crisis, and related topics, as well as audio and video files are freely accessible on his website: www.rdwolff.com Details on his film and books are also available there.*