

October 2008: the return of the State?

Political perspectives on the financial crisis

Bruno BERNARDI

The unfolding of the financial crisis and our attempts to keep it in check have spawned a new theme of debate: are we witnessing - to the joy of some and the horror of others - the return of the State? Bruno Bernardi wonders whether this is, in fact, an illusion preventing us from identifying the real issues emerging from these current shifts. Is this a further step towards society's absorption by the market, or a global reconfiguration of our historical and political horizons?

Within the space of less than a year the so-called “subprime crisis” – deriving from the proliferation, in the past few years, of high-risk mortgages issued by US lenders – has, through securitisation (i.e. the process of repackaging and selling these mortgages on), contaminated the entire global financial system. The ensuing crisis in confidence has threatened numerous blue-chip banking institutions, wreaked havoc within the credit market and dried up all liquidity, caused the collapse of equity markets and is now leading to predictions of recession on a planetary scale. Outlines of a global economic crisis appear to be emerging from the financial crisis. The markets, in mid-storm and total disarray, have turned to political institutions as their last resort against catastrophe. Various states, by directly

supplying liquid assets, loans to banks and guarantees to depositors, and – even more directly – by injecting capital into large financial groups, are now calling the shots. Will these measures be effective, at least in terms of curbing the effects of the current crisis? Will they steer us clear of a depression? These questions are open, in practice, and fall, on a theoretical level, essentially within the scope of economics.

We can, however, approach these events from a more directly political perspective. Are we not witnessing a spectacular inversion, in terms of its dominant characteristics, of what the social structure should, as a whole, comprise of? During the last few decades, the idea of the market, with its own dynamics and levelling effects, constituting – by definition – the mainstay of society's entire material structure has been gaining ground, together with the concept of a State which, like its associated political function, is given the role of a restrained, merely secondary player, with no legitimacy as an economic agent. This groundswell, described as the *conservative revolution* or the *neo-liberal wave*, was initially associated with Margaret Thatcher and Ronald Reagan. The following excerpt from the latter's inaugural address on 20th January 1981 is well known: "government is not the solution to our problem; government is the problem."¹ Three decades later, it is with a certain perplexed irony that one views Reagan and Thatcher's heirs, these eulogists of a total reliance on the market and of a redefinition (shrinking) of the boundaries of public policy, mutating within days – or even hours – into trumpeters of public policymaking and defenders of state enterprise, and resorting on a massive scale to measures euphemistically described as nationalization, when it would be more accurate to describe them as enforced state intervention. On a more fundamental level, many consider that we have reached a turning point in our perception of how both politics and the economy, and the State and the market, interact. To the joy of some and the horror of others it appears that we are witnessing, after a long period in the wilderness, the return of the State. But before we can establish or refute this reversal, before welcoming or condemning it, should we not take a step back and examine the very idea of a return of the State?

¹ Fuller version reads: « The economic ills we suffer have come upon us over several decades. [...] They will go away because we as Americans have the capacity now, as we've had in the past, to do whatever needs to be done to preserve this last and greatest bastion of freedom. In this present crisis, government is not the solution to our problem; government is the problem. »

Could this turning point be the thin end of the wedge? The State as a national power and the State-as-institution

We should firstly note that the preceding diagnosis singles out the relationship between political institutions and the economic structure of society and makes this the basis of our concept of the State. This ignores the fact the State is defined not only as the grouping of a society's political institutions, but also by relationships that various states maintain between themselves as national powers. One could indeed argue that the modern form of the State was historically shaped by its initial definition as a sovereign power, submitting to no alternative power and, consequently, to whom all other powers, in the area over which it held ascendancy, were subservient. The concepts of sovereign power and sovereign political authority (the two aspects of the concept of sovereignty) were, in any case, formed in close correlation over the course of a long period stretching roughly from the fourteenth to the eighteenth century. Far from sending us back into the mists of time however, this observation directs us towards a different dimension of our current-day situation.

The last decades of the twentieth century were, as it happens, characterised by another contemporary intellectual upset, which was related, but not reducible to, the neo-liberal wave; namely the establishment of the idea that we were witnessing the end of nation-states. Following on from that, the concept of international relationships as the various powers in balance could be replaced by the difficult but irresistible development of a legal order and governance on a global scale. The European integration process and the end of the Cold War due to the collapse of the Soviet Union prompted these two representations respectively. These ideas – and particularly the latter – have doubtless never been as fervently espoused as has our faith in the market, but the belief that globalisation would render the model of the State obsolete has become deeply rooted.

However, we have to admit that the last decade has seen these representations suffer a constant series of body blows: the rebirth of nationalism – particularly in the Balkan states –, the United States' toppling into power politics in the shocked aftermath of September 11, the increasingly blatant displays of Russia's imperial ambitions, to name a few striking examples. We would be justified in thinking that, way in advance of the State's being hauled back by the current crisis as some sort of a corporate institution, we have, in recent times, been witnessing – sometimes unwittingly – a return of the State as a national power. Making the connection

between these two phenomena should cause us to regard each of them in a new light. In the same way, the role played by so-called *sovereign wealth funds* from the very initial phases of this current crisis should immediately have oriented us in that direction. The manifest temptation on the part of certain states to profit from the global crisis also points this way.

Whilst not addressing this point in depth here – as we doubtless lack the necessary hindsight – we may nevertheless make an initial observation: the return of the State as a national power should not be understood purely and simply as a return of the nation-state. There are, of course, elements of this in certain areas of the world, particularly in places where national entities had been absorbed by the Soviet Union or its spin-off states (such as the ex-Yugoslavia). But neither the United States' power politics nor those of the currently-reforming Russian empire, neither the politics of religion espoused by states such as Iran nor the rise of China; none of these may seriously be reduced to the classic model of the nation-states, upon which modern Europe was formed and which went on to serve as a framework for the twentieth century's two World Wars. This comment should suffice to convey the inadequacy of representing what we are observing as a *return* of the State. What we now see is not the same thing rebounding upon us, but something different – and our first task should be to find out what it is.

Between a rock and a hard place: towards an obliteration of civil society?

There is another reason for us to take a step back from the convenient – if slightly simplistic – idea of the return of the State. By focusing on the dual relationship between the State and the market, are we not choosing to overlook the third – albeit not yet fully-formed and often fuzzily depicted – element of today's socio-political landscape, namely: civil society? The emergence of civil society as an issue is the third striking fact of the last forty years and may be attributed to two initially separate causes, which swiftly became closely interlinked. The movements which ended up causing the dissolution of the Soviet Union were themselves represented (particularly in Poland and former East Germany) as expressions of civil society (independent unions, direct citizen action with no institutional politicisation etc.), escaping the rigid confines of the state structure. Civil society, in this sense, saw itself as a form of politics bearing no association with the State. Almost at the same time, in the Western sphere or its periphery (notably Latin America), the concept of civil society served to designate a group of initiatives with the common goal of preventing the market from swallowing up all social relationships. Terms such as *fair trade*, *social economy*, *citizen*

associations and trials of alternative financial systems (such as *microcredits*) are all expressions of the idea that exchanges can be based on something other than merchandise and can have a goal other than profit. Civil society in this second sense saw itself as a non-commercial form of social interaction.

A point where these two strands intertwined turned out to be the environment. It is remarkable, in this regard, that the industrial giants were forced to begin taking account of environmental needs through the actions of self-defined “civil” movements, and that those same groups also nudged states into taking political action on the environment, whether it be unilateral (the 2007 series of French round table debates known as “Grenelle Environment”, for example) or on a more concerted level (the Kyoto Protocol). Another link up occurred through various civil society groups’ opposition to national state policies on immigration. In any case one can scarcely be unaware that, in our representation of society, the interlocking of the third wheel of civil society with those of the State and the market is one of the striking facts of our age.

We can clarify this point a little more by looking back at the history of civil society as a concept. During the early modern period, this notion, firmly rooted in the relationship of association (a myriad resolving into one) developed in tandem with the concept of the State, structured as the latter was upon the idea of sovereignty (the single instituting itself over the multitude). Marking the end of this initial period and the beginning of the next, Hegel’s *Philosophy of Right* was an important version of this polarity between civil society and the State. Immediately after Hegel and over the course of what one might call the second stage of the modern era (from the seventeenth to the twentieth century), the dual relationship between the State and the market took over, with the concept of civil society being virtually cast into the wilderness for a century and a half. Undeniably apparent within this conceptual shift is the consequent economic transformation, characterised by a spectacular extension in market relationships: a movement which could be described as the absorption of civil society by the market, with exchange becoming the model for all social relationships and commercial exchange being the general paradigm for all forms of exchange. Friedrich Hayek set these displacements within a systematic theoretical framework.

But this change in the model, this substitution of the market for civil society as the State’s opposite number, would necessarily leave its mark on how the latter was conceived. We should note here what it is that brought together the twentieth century’s two great

opposing currents: one extolling state intervention in the economy as a rational and controlled method of managing it; the other reducing the State's role to that of a caretaker, overseeing conditions for developing and securing the market (which is credited with an innate, spontaneous rationality). Although utterly opposed, these two currents both served to erase the associative dimension of politics, and bring its management function to the fore (maximised on the one hand, minimised on the other). The nationalisation of the workers' councils on the one hand, the ossification of forms of political engagement in representative democracies on the other respectively signalled the decline of politics as a space for auto-institution. Intermediary models such as the post-1929 crisis *New Deal* and the welfare state after the Second World War represented adjustments in the relationship between the State and the market rather than a questioning of their structural duality. Taking the long historical view, what might have appeared to be a return of civil society could rather be interpreted as the outlines of a third phase in the history of this concept, a third currency, one might be tempted to say, which, on a theoretical level, highlights the impossibility of fully accounting for the sum total of social relationships solely through the State/market coupling and on a practical level, expresses society's resistance to its absorption by the market economy. This could also lead us to recognise in this new notion of civil society an attempt to revitalise the associative dimension of politics, and to counter its reduction to the level of the state.

Re-placed within this context: if the return of the State were to express itself as the return to a one-on-one between the State-as-institution and the market, this could mean the closing down of a barely-sketched out space for the idea of civil society, a sort of inhibition of a shift that was underway. Even the idea itself of a return would be deceptive as we would actually be dealing, not with a return to the sovereign state or even to the welfare state, but rather, with the appearance of an equally novel and bizarre manifestation of the State as market institution: an extremely paradoxical form of liberal state intervention in the economy. Incidentally, this last hypothesis tallies quite well with the measures decided upon, principally by the United States and Europe, in the autumn of 2008.

An open or closed circle: how will politics reconfigure itself?

The observations above do not lead to an understatement of the crisis, which we are currently living through, or to predictions as to how it will go on to transform both the social structure and our subsequent representations of it. They serve, however, to make us more aware of the real issues in this current period. This is what I will attempt to do, even if it

means risking that contradictory exercise of trying to give considered thought to something whilst “in the thick of the action”.

Even supposing that state intervention succeeds in preventing this crisis from spiralling even further out of control and in re-launching the market, by restoring confidence in the banking and financial systems and re-establishing the principles of credit upon which our market economy rests, we are witnessing a major turning point in the modern history of the relationship between economics and politics. But this shift is not perhaps what we think it is. If parallels drawn from the crisis of the 30s are in any way illuminating here, it is because of the differences they throw up. Between the great crash of 1929 and the launch of the *New Deal* in 1933, there was the economic and social crisis known as the great depression. The measures adopted by various states in the autumn of 2008 can doubtless be understood as an attempt to head off a recurrence of this scenario. But this precautionary step has another side to it. The crux of these measures is directly concerned neither with the populations’ economic and social situation, the organisation of productive activity, nor employment. If effects are expected within all these domains, it is due to the mediation of the financial system. This being the case, far from calling into question what might be called the “financialization” of the economy, the action taken by these states has treated it as a given, and can only serve to reinforce it. The partial or total, covert or overt nationalisations, which we are currently witnessing, all revolve around financial institutions. They therefore represent, in the current state of affairs, the return neither to a state-led economy, nor to state enterprise, but to something profoundly novel: the establishment of the State as manager of the financial markets, that is, depending on the point of view, the transformation of the market into a state institution, or of the State into a market institution.

In this respect, a purely formal comment may be of use. French translations of the famous quip by Ronald Reagan quoted near the beginning of this piece have used the word “État” (State) for his “government”. Whilst this might be standard parlance and defensible, this translation masks an importance nuance: Reagan was denouncing politics’ claim to *govern* the economy – i.e. to submit it to *political* orientations and decisions. We are not dealing with this, but with a much more technical operation: resorting to the State-as-institution so as to perpetuate the market and enable it to return to the flow of its own, innate principles. From this point of view, what is presented to us as a return of the State can only in fact represent – under the auspices of voluntarism and decisionism – one more stage in the

shrinking back of politics. This trend is not guaranteed and decidedly not irreversible, but it is compatible with the facts. The idea of a return of the State is, in any case, not only unsatisfactory, but also only serves to mask a major shift in how it is conceived; a shift just as important, for the sake of comparison, as the emergence of the principle of sovereignty at the beginning of the Early Modern Period, or the process of the *constitutionalisation* of the State which took place throughout the whole of the 19th Century. We must look beyond the urgent economic issues and the decisions which are currently being taken so as also to perceive their specifically political ramifications.

Making the connection, as outlined above, between the shift currently taking place and that which is already affecting the dimension of the State as a national power, should enable us to broaden our perspective: we are dealing not only with the political consequences of a major financial crisis. This is not to understate this aspect but to note that the State is subject to powerful constraints in all directions and that these will affect even its very definition, one way or another. Of course, one should then consider whether the economy in general and the financial markets in particular represent one of the areas where the relationships between those states considered to be world powers are in the process of re-shaping themselves. Everything in fact indicates that this is the case: the relationships between the United States, China, Russia and even Europe (as a proto-state entity) will be profoundly altered by the current financial crisis. But it seems to me that viewing things from this perspective brings an even greater consequence to the fore: if we wish to consider as a collective whole the phenomena, which affect the globalised world in which we now live (and this is truly the first global, rather than international, crisis which we are dealing with), we will necessarily be driven to think in historic terms, to wonder which new phase in the history of society is so noisily trumpeting its arrival. Are we going to be forced, once more, to argue in historical terms and to jettison presentism, which has so characterised the last few decades? This would be one collateral effect of the crisis to be welcomed.

Finally, the aforementioned suggestions regarding the problem of civil society could enable us to express what could be the most substantial issue in the period now beginning: if the return of the State proves to be an illusion concealing a new phase in the absorption of society by market economics, this could – as the issue of the society's objectives and how its development is controlled has now been put under a bright new spotlight – turn out in a novel

twist to be the (falsely-named) harbinger and the instance of another return: that of politics.
This is not necessarily the same thing.

These are open questions. Let's hope the future is also open.

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