THE JMC REVIEW

An Interdisciplinary Social Science Journal of Criticism, Practice and Theory

Volume 1

2017

THE POST-NEOLIBERAL CONJUNCTURE

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The question of an alternative to neoliberalism has now come on to the agenda, not just as a matter of speculation or as a mere abstract means of mobilising people against neoliberalism, but as an urgent practical issue. This is because, for reasons I shall discuss shortly, neoliberalism as we have known it till now has reached a dead end. Sections I and II of this article discuss these reasons. Section III examines the fall out of the crisis of neoliberalism. Section IV discusses critically the alternative to neoliberalism being attempted by Donald Trump in the US, and Section V suggests the outline of a very different alternative.

I

The world economic crisis which began in 2008 with the collapse of the housing bubble in the United States continues unabated. While nobody would dispute this fact in the context of Europe, some may feel that the US is on the road to recovery, since its official unemployment rate is down to 4.8 per cent for January 2017, which is relatively low by its own historical standards. But in periods of unemployment, many workers even stop looking for work (the so-called 'discouraged worker effect') because of which they cease to be counted within the workforce and hence the workforce–population ratio goes down, which underestimates the unemployment rate calculated as a proportion of the *workforce*. This has happened in the US; if we re-calculate the size of the workforce, and on that basis the unemployment rate, by taking the workforce–population ratio that prevailed in May 2008, i.e., on the eve of the crisis, then the present unemployment rate in that country exceeds 9 per cent, which is quite high by historical standards.[1]

The persistence of the world economic crisis which has now been spreading even to countries like India and China that initially appeared to have escaped it, can be attributed to the fact that it is rooted in certain structural changes in world capitalism that have occurred in the current period of globalisation.[2] Historically, while labour from the global south had not been allowed to migrate freely to the global north (it still is not), capital from the north, though formally free to move south, had in fact been reluctant to do so. The bulk of the capital exports from Europe in the pre-first world war period had been to the temperate regions of white settlement, such as the United States, Canada, Australia and New Zealand, rather than to the tropical and sub-tropical regions of the world that largely constitute the global south. And this was so despite the lower wages in the global south, which should have raised the rate of profit for capital, had it moved to the south to produce the same goods with the same technology that it was producing in the north. (These low wages in the south had themselves been caused, to start with, by the destruction of local craft production, 'deindustrialisation', as it was called in anti-colonial writings, which free imports of cheaper machine-made goods in the colonial period had inflicted upon these economies.)

The reasons for capital's reluctance to flow into the south from the north need not detain us here, but it was a fact; and what it meant was that the world economy got segmented, with real wages in the north rising as labour productivity increased there, while real wages in the south languished at a near-subsistence level because of the existence of massive labour reserves caused by 'deindustrialisation'. Real wages in the north and the south in short followed very different trajectories; and the very fact that real wages in the north rose with labour productivity also helped in preventing a demand deficiency for northern goods and hence, by implication, any global demand deficiency, because of growing workers' consumption. Rising wages in the north of course was not the only factor boosting aggregate demand for metropolitan capitalism, since the colonial markets too were available 'on tap', where metropolitan goods could be sold at the expense of pre-capitalist producers; but it was an important factor.

What current globalisation has done is to break this segmentation of the world economy. Coming after a period marked by strong protectionism and restraints on capital movements during the inter-war and early post-war years (the latter constituting interestingly the so-called 'Golden Age of Capitalism' because of its dynamism, its high levels of employment, and the redistributive measures that characterised it, a fact that advocates of free trade will be hard put to explain), it has for the first time in the history of capitalism led to a significant relocation of activities from the north to the south through the agency of metropolitan capital. Capital from the north has shown unprecedented willingness in this period to shift the location of several activities from the north to the south to take advantage of the latter's low wages; it produces at such low wages for meeting not *local* but *global* demand.

This however has meant that workers in the north now have to compete with workers in the south: if their real wages diverge from those of the workers from the south, then there will be even greater relocation of activities from the north to the south, leading to a rise in unemployment in the north. But while competing against the workers in the south, northern workers are also having to face the baneful consequences of the massive southern labour reserves.

What such competition has entailed of course is not a tendency for an *equalisation* of real wage rates between the northern and southern workers; it has caused a *freezing* of the difference, more or less, rather than any further divergence in real wage movements, and also a *freezing* of the levels of real wages. In short, in the current era of globalisation which, in contrast to the past, has seen for the first time a tendency towards the mobility of metropolitan capital to take advantage of lower wages, even while meeting the global market, the *vector of real wages* has ceased to increase because of the existence of large labour reserves in the south. Until these reserves are used up, the vector of real wages will remain more or less unchanged. In fact, economist Joseph Stiglitz (2013) has calculated that the average real wage-rate of a male American worker in 2011 was marginally *lower* in absolute terms than in 1968, which suggests even a *fall* in metropolitan real wage in recent years.

While the vector of real wage rates remains unchanged (we continue with this more moderate assumption despite Stiglitz's finding), labour productivity everywhere tends to rise, which means a rise in the share of surplus in world output, or, put differently, a shift in income distribution from the workers (or, more generally the working people) of the world, to the surplus earners. Now the propensity of working people to consume out of their incomes is higher at the margin than that of the surplus earners, which means that such redistribution has the effect of reducing aggregate demand, and hence producing a tendency towards over-production relative to aggregate demand. The global pursuit of neoliberal policies therefore creates a tendency towards ex-ante over-production in the world economy.

This would not be so if the world labour reserves were used up, since in such a case the vector of real wages would start rising as labour productivity rose, thereby restraining any shift in income distribution from the working people towards the surplus earners. But neoliberalism also entails a withdrawal of State support from the petty production sector, and opens up this sector, including especially peasant agriculture, to encroachment by big capital. This further entails two things: first, a squeeze on the petty producers, strengthening the already-noted tendency towards a reduction in demand, and hence, towards over-production relative to aggregate demand. Second, to the extent that petty producers are displaced from their traditional occupations because of this squeeze, a swelling of the reserve army of labour, seeking non-existent jobs in the capitalist sector. With fewer jobs being created, even relative to the natural rate of growth of the workforce, not to mention the displaced petty producers seeking employment, the labour reserves of the south do not get used up under neoliberal capitalism, and the ex-ante tendency towards over-production persists.

II

Such an ex-ante tendency need not actually materialise (which is why it is called 'ex-ante') if there were offsetting factors that operated to thwart it. There could be three such offsetting factors. The first, already noted, which played a powerful role during the history of capitalism (in addition to the rise in real wage rates in the north owing to the segmentation of the world economy, mentioned above) was snatching away the markets of pre-capitalist producers (that caused 'deindustrialisation' in the colonies); this, however, can no longer play such a powerful role today, having reached near-exhaustion as a stimulus. The second is State intervention that was so important in the post-second world war period of Keynesian 'demand management'. However, this too is no longer possible for an altogether different reason to which I now turn.[3]

Finance capital is always opposed to direct State intervention in demand management through larger public expenditure; it prefers instead that the State should promote capitalists' 'inducement to invest' in various ways, and also use low interest rates, to stimulate investment and thereby aggregate demand. Direct State spending to shore up demand undermines the social legitimacy of capitalism, since it makes clear to everyone that, contrary to its claims, it is a flawed system that needs the crutches of State intervention, a perception that may raise the question: if the system cannot do without State intervention, then why do we need such a system at all? On the other hand, if the State acts *through* providing incentives to private capitalists, including by lowering the interest rate, then the mystique of the system is preserved and its social legitimacy remains intact, with nobody thinking of a State sector as a possible substitute for the capitalist sector. Finance capital is particularly vulnerable to any undermining of the legitimacy of the system, since it consists of financial interests which have no role in any productive activity and constitute, in Keynes' (1949) words, mere 'functionless investors'. When the legitimacy of the system is undermined, they are the first target in the line of attack.

This opposition, which takes the form of an opposition to State-run fiscal deficits and to higher taxes on capitalists, the only two ways of financing larger public expenditure that can actually boost aggregate demand (taxing workers to finance larger public expenditure does not boost demand because of the workers' high propensity to consume out of their incomes), had manifested itself against Keynesian demand management even when it was first suggested (Robinson 1966). In the immediate post-second world war conjuncture, when capitalism had been greatly weakened, this opposition had been overcome by social democracy, and that too because of the looming Communist threat. But the period of globalisation that has arisen thereafter (the process through which it has arisen need not detain us here) has entailed that *while the State remains a nation-state, capital, including finance capital, has become globalised.* The State therefore willy-nilly follows the dictates of globalised finance, for otherwise there would be an exodus of finance from the economy, causing a severe financial crisis. The opposition of finance to active State intervention in boosting demand through fiscal means therefore has become decisive.

That still leaves indirect State intervention, including through monetary policy; but, as the US experience shows, driving the long-term interest rate even to zero has not succeeded in reviving the economy. The role of the State as an active agency for reviving the economy, and hence for countering the ex-ante tendency towards over-production caused by the phenomenon of globalisation that we had noted earlier, thus gets thwarted, also by the same phenomenon of globalisation which empowers finance capital to prevent State activism.

That leaves the third factor, namely, the formation of asset-price bubbles as a possible offsetting factor against the ex-ante tendency towards over-production. Such bubbles are formed entirely through the actions of speculators, but they do have the effect of boosting actual aggregate demand, because, even though it is known that asset prices will ultimately collapse when the bubble bursts, before that actually happens, those owning the asset feel wealthier and hence spend more. And of course bubbles in financial asset prices make it easier to raise finance and hence act to stimulate investment. Altogether, therefore, even speculative bubbles can and do stimulate real aggregate demand in the economy. In fact, it was first the ‘dotcom bubble’ in the 1990s and the ‘housing bubble’ thereafter in the United States which provided an offset to the ex-ante tendency towards over-production that globalisation had generated. With the collapse of the housing bubble, a crisis has engulfed the world economy, not only because of this collapse itself, but also because of the underlying ex-ante tendency towards over-production that has thereby become exposed.

Bubbles, however, quite apart from the fact that they provide only a transient offset against ex-ante over-production, which collapses when the bubble collapses, cannot be made to order. They arise only under certain circumstances. A bubble ensues if the price of an asset increases for some reason, and, even though everyone believes that the price will eventually collapse, different persons believe that it would collapse at different dates in the future, so that the temptation to make capital gains makes speculators bid the price higher and higher. For the formation of a bubble, therefore, what is required is euphoric expectations about asset prices climbing higher and higher. Such euphoric expectations cannot be made to order. Given the fact that a bubble has just collapsed in the US and capitalists' expectations are gloomy at present, there is no possibility of a new bubble in the foreseeable future. The current crisis of capitalism, in short, is going to last for quite some time (punctuated at best by occasional bubbles from time to time in the future). It is in this sense that neoliberal capitalism, at least in the form we have known it till now, has come to a dead end.

III

Neoliberal capitalism, even before the crisis, had entailed, as we have seen, a major shift in income distribution away from the workers towards the surplus earners in metropolitan economies. This increase in income inequality, and its implications for democracy, is what a number of economists like Thomas Piketty (2014) have of late been concerned with. Now, the rise in the share of surplus does not simply mean an enrichment of the capitalists alone who constitute the core of the category of 'surplus earners'. It also means an improvement in the living standards of several groups of people who live off the surplus, notably the higher corporate executives, and corporate lawyers, those engaged in the financial sphere, those engaged in the 'sales effort', segments of the intelligentsia, and so on. The social gulf between the workers and these groups widens in advanced countries under neoliberal capitalism.

An exactly similar situation develops in third world economies too, but with one important difference. Significant petty production, including, above all, peasant agriculture, still exists in these economies. (In India, for instance, almost half the total workforce is still engaged in agriculture, and more than 80 per cent in what is called the ‘informal sector’.) The squeeze on this sector, owing to the withdrawal of support from the State and its exposure to encroachment from big business, entails a reduction of incomes of producers within it, so that while the capitalists, the financiers, and the upper middle class do well out of globalisation, the working people, consisting of the workers, the peasants, the agricultural labourers, the fishermen, the craftsmen, and the petty traders, taken together, witness not just a stagnation but even a decline in their living standards. The social hiatus between the working *people* and not just the capitalists and other propertied classes, but even the upper middle class, widens significantly.

The crisis makes the conditions of workers in advanced countries, and working people as a whole in third world countries, even worse, and provides fertile ground for the growth of fascist and semi-fascist movements (often referred to misleadingly these days as ‘populist movements’). Such movements put the blame for the people’s plight not on the system, but on some ‘other’,: the immigrant who takes away jobs, the Chinese worker who steals jobs, the Muslim intruder who causes insecurity, and so on.

Two specific factors contribute to the growth of such tendencies, apart from the material deprivation that neoliberalism in general and the crisis of neoliberalism on top of it, engender. One is the weakening of class organisations such as trade unions under the neoliberal regime. We have already seen how the fate of workers in advanced countries now gets tied, willy-nilly, not just to the local labour reserves, but to the huge labour reserves located in distant countries of the global south. This has a baneful consequence even for the trade union movement. Likewise, the trade union movement in third world countries also suffers because of burgeoning labour reserves, which in addition manifest themselves not in the form of a growing unemployed workforce co-existing alongside the employed, but rather in the form of growing casual employment, intermittent employment, part-time employment, etc., all of which make unionisation difficult.

Put differently, employment rationing in third world countries takes the form not of a dichotomy between the ‘employed’ and the ‘unemployed’, but of each worker being unemployed for a little while, which is what part-time or casual employment entails and which hinders unionisation. Another very important reason for a weakening of trade unions is the privatisation of public sector units. The extent of unionisation, as is well-known, is greater in public sector units than in private sector ones, and the former have traditionally housed some of the most powerful unions in most countries. Privatisation of public sector units acts in the direction of weakening trade unions.

A second factor behind the rise of fascist and semi-fascist movements, apart from the decline in working class organisations, is the loss of moral credibility of the intelligentsia under the neoliberal regime. It is not just the traditional political parties, tied to a neoliberal agenda owing to their fear that any pursuit of an alternative agenda may trigger a capital flight, which cease to be responsive to the conditions of the working people, and hence lose credibility as even potential defenders of the working people's interests; it is also the entire world of media persons, literati, and even academics, whose social distance from the working people widens under the neoliberal regime, and who are perceived by the latter, not unreasonably, as beneficiaries from neoliberalism and hence as part of the 'establishment' supporting neoliberalism, which loses its credibility with them. They develop anti-intellectual attitudes which in turn make them easy prey for the unreason being peddled by the fascist forces. The fact that all over the world, from the US to Europe to India, fascist and semi-fascist forces are in the ascendancy is the outcome of this particular conjuncture.

IV

Donald Trump's victory in the US reflects this ascendancy. His economic agenda incorporates protectionism, both against imports of foreign goods and also by penalising US companies that produce abroad for sale to the US market. But it does not incorporate an expansion of aggregate demand in the US economy through fiscal means. Trump no doubt has expressed his willingness to enlarge the fiscal deficit, but he has done so in the context of his proposed reduction of corporate tax rates from 35 to 15 per cent. He is, in other words, willing to enlarge the fiscal deficit only as a means of effecting a transfer of purchasing power to the corporates. This, however, hardly constitutes an increase in aggregate demand in the domestic economy. Boosting corporate incomes does not give rise to larger investment, since investment depends on the expected growth of the market and not on corporate incomes *per se*. And it does not give rise to larger consumption since, even if the increase in corporate incomes is distributed as dividend, the marginal propensity to consume out of such additional dividend is quite small.

In other words, while transferring purchasing power to the workers by enlarging the fiscal deficit increases aggregate demand in the economy—because of the workers' high marginal propensity to consume—workers transferring purchasing power to the capitalists does not have the same effect. Trump's protectionism therefore is unaccompanied by any measures to enlarge the size of the US domestic market.

Hence his protectionism amounts to the pursuit of a 'beggar-my-neighbour policy. If US demand is not increasing, and by implication the world aggregate demand is not increasing, then US protectionism simply amounts to snatching more of this overall fixed demand for its own producers *at the expense of other countries' producers.* This is what a 'beggar-my-neighbour' policy means: it seeks to reduce unemployment at home by increasing unemployment abroad, i.e., to export unemployment.

Such a policy of exporting unemployment can work only if there is no retaliation from other countries. If they too adopt protectionism for maintaining their employment levels, then such competitive 'beggar-my-neighbour' policies across countries does not just leave each of them where they were to start out with, *but actually worsens their collective position.* This is because the inducement to invest on the part of capitalists everywhere gets even further reduced in the face of such 'beggar-my-neighbour 'policies, owing to the general rise in uncertainty which it entails. Such a weakening of capitalists' inducement to invest further shrinks the size of the world market, and hence increases the magnitude of global unemployment.

While introducing protectionism, Trump does not propose any curbs on the free mobility of *finance capital*. His desire not to disturb the hegemony of finance implies that it is not just the US, but all other countries which will eschew larger fiscal deficits. They will continue under thralldom to the caprices of finance, a thralldom that cannot be shaken off through capital controls, for fear of offending the US which continues backing free global financial flows.

Trump’s measures therefore entail controls over the free global flows of goods and services and upon capital engaged in the production of goods and services (manufacturing capital), but not over the free global flows of finance capital. It entails, in short, a shift from the earlier pattern of globalisation; and if other countries retaliate against US protectionism, as they are bound to do, then the shift away from the earlier globalisation would become even more decisive. No matter how we see it, therefore, we are entering a post-neoliberal world.

Such a world however does not overcome the crisis of the capitalist system. What it does, as we have seen, is either to worsen the crisis, if there is a spate of competitive ‘beggar-my-neighbour’ policies which further damage the inducement to invest of the capitalists; or, at the very least, to leave the crisis unaffected, if other countries simply turn the other cheek to US protectionism without themselves going protectionist. Ironically, therefore. even as the crisis engendered by the neoliberal regime is causing a shift away from that regime in a bid to overcome the effects of crisis in the leading economy of the world, this very shift, if anything, is likely to aggravate the crisis.

V

If Trump’s way is not the right way to combat the effects of the crisis, then the question naturally arises: what is the right way? In a regime of global mobility of finance, where individual nation-states are hamstrung, unless they impose capital controls, in effecting any expansion in aggregate demand through fiscal means in their respective economies, for fear of triggering a capital flight, the obvious means of doing so, in the absence of a global State, is to use a ‘surrogate’ global State for the purpose. This basically means a group of important States coming together to start a coordinated fiscal stimulus. Since finance capital in such a case is hardly likely to move *en masse* into marginal and peripheral economies, they can do so with impunity only if they can combine.

If the US, which is also reasonably safe from capital flight (because the world's wealth-holders still see the US dollar as being 'as good as gold'), had started a fiscal stimulus, then matters would be quite different despite its protectionism. Other countries could still have maintained or even increased their exports to the US since its market would have been growing. In other words, the US in such a case could have acted as a 'surrogate' global State. But since such an expansion of its domestic market through a fiscal stimulus is not what Trump is planning, the initiative for a fiscal stimulus would have to be taken by a group of States coming together.

This is an old idea. Even during the Great Depression of the 1930s, this idea had been mooted by many, including a group of German trade unionists, and also by John Maynard Keynes (Kindleberger 1973); but nothing came of it. Even now, if such an initiative is taken, there would be massive opposition from globalised finance capital, but at least a group of major States coming together would, in principle, be able to resist the pressures of globalised finance. But no such initiative is forthcoming, or even being talked about at present.

In its absence, the only other possibility for overcoming the effect of the crisis is for individual countries to impose capital controls (in order for their nation-state to acquire some autonomy vis-à-vis globalised finance), and to enlarge their markets through larger public expenditure financed through taxes on wealth or profits (so that the reduction in consumption at the margin per unit of such tax revenue raised is small), or even through a fiscal deficit. If there is such expansion of the home market and consequently a larger domestic output, the trade balance is likely to worsen for such a country, to prevent which some trade controls would become necessary. But such controls, in the context of a growing economy, would not necessarily entail any absolute reduction of imports from other countries and hence any export of unemployment to other countries. They would therefore be different from the case discussed earlier, namely, the pursuit merely of competitive 'beggar-my-neighbour' policies.

Of course, for small countries which do not, or even cannot, have a diversified production structure, such a policy is feasible only if they get together with other neighbouring countries to create a bloc. A policy of internal market expansion through State action, combined with suitable capital and trade controls, can be pursued successfully over such a bloc of small countries. And if all countries, or blocs of countries, in the world pursued such a policy, which would entail a degree of delinking from the current globalisation, then *ipso facto* the world market would have expanded, and world output increased in response to it, bringing an end to the current crisis.

Any such action by nation-states, delinking themselves, only in this sense, from the current regime of globalisation, will of course be fiercely resisted by globalised finance capital. Pursuing it therefore requires considerable resilience, courage and strength, which can be provided only if working people are mobilised behind such a policy. Put differently, any nation-state that can adopt such a policy will have to be one that relies on the political support of an alternative alliance of classes, consisting of the workers, the peasants, the other petty producers, the agricultural labourers, the fishermen, the craftsmen, the 'informal sector' workers, and so on, in lieu of the current State that caters to the needs of globalised capital, and accordingly derives its political support from globalised capital and from the landlords, together with the upper middle class, and uses communal and other forms of divisive politics to garner support from other segments.

For such an alternative mobilisation, however, a programme of economic expansion must be one that actually benefits the workers, the peasants, and the other groups, while at the same time overcoming communal, caste and other divisions that can be used against it. One way of achieving this dual objective is to institutionalise a set of universal, justiciable economic rights for every *citizen*, which would therefore not only usher in a welfare state, but would privilege the concept of a citizen transcending caste, communal and other divisions.

A minimal set of constitutionally-guaranteed *universal* economic rights which would supplement the existing political rights could be the following: right to employment, right to food, right to State-provided free quality healthcare, right to State-provided free quality education, and right to adequate old-age pension and disability benefits.

In the Indian context, the institution of such rights (if free quality public education is assumed to be provided universally until the school-leaving stage) will not cost more than 10 per cent of the Gross Domestic Product (in fact it would cost less). If all of it is assumed to be raised through taxes (which itself is unnecessary since expenditure for achieving some rights, e.g., education, would *ipso facto* help in realising others, such as employment on constructing school buildings), then the tax–GDP ratio in India would go up only to about 26 per cent, which is about the level of the US and still much lower than in European countries.

The hurdle to instituting such a programme in a country like India (and similar schemes have to be visualised for other countries) does not lie therefore in any paucity of resources; the hurdle lies in the opposition of the capitalists to welfare state measures which both strengthen the bargaining power of the workers, and also go against the 'ethics' of capitalism (which in the words of Michal Kalecki, the renowned Polish economist, states that '"you must earn your bread in sweat", unless you happen to have private means" (1971: 140).

Whether capitalism restructures itself to come out of its current crisis by accepting welfare state measures, and financing them by taxing profits or wealth, or even running a fiscal deficit, remains to be seen.[4] But we are today in that interregnum where the neoliberal regime has reached a dead end, and even the new avenues being tried, for instance by Donald Trump in the US, to come out of this dead end, are themselves also dead ends.

Notes

[1] This calculation has been made by using US Labour Bureau data.
[2] The argument which follows has been developed at some length in Patnaik (2016).
[3] The argument which follows has been discussed at greater length in Patnaik (2017).
[4] It may be thought that even if no welfare state measures are undertaken but there is larger military expenditure, then this too could provide a stimulus, and that Trump is moving in this direction. But a pre-requisite for such expenditure as well to provide a stimulus is that it must be financed by running a fiscal deficit or taxing profits or wealth. Hence, while capital, especially finance capital, would oppose such taxation and also a fiscal deficit, there would be no countervailing social pressure, as in the case of welfare state measures with its numerous beneficiaries.

There may therefore be no feasible alternative to welfare state measures as a way out of the current crisis, which is why capitalism does appear today to be in a serious bind.

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