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# THE 21ST CENTURY AND ITS CHALLENGES: RECONSIDERING THE KEYNESIAN STATE

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**Abstract:** The article advances the argument that there is a great need for reconsidering States' role in regulating socio-economic, environmental and political spheres. The period of the collapse of communist economies has seen the private market led system being seen as rational. State intervention was seen as an impediment to successful development. Banks, insurance companies and stock markets have done much in the last decade to free themselves from State rules and regulations. On the Climatic front, most of the challenges that are confronting the world today have their roots in the by-products of the activities of private led economics. With the failure of the laissez-faire policies in 2008, a reassessment of the role of the State is needed. Using empirical data through data review, this article gives the importance of reconsidering the role of State by revisiting the concept of the State, not as an institution where those who scorn it as an impediment to growth only realise its importance when the ills of private capital accumulation needs to be repaired through rescue packages.

**Keywords:** *capitalists, free market, laissez faire, interventionist, recession, state, sustainable development.*

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## INTRODUCTION

A lot has been said and debated on the role of the state and its relation to economic development (Perry, 2002; Purcell 2002; Valocchi, 1989). Most of these debates have centred on two extremes, one which is occupied by advocates of the laissez faire approach while the other end is occupied those who argue for an interventionist approach. Advocates of the laissez faire state (International financial institutions; John Williamson; Adam Smith) argue that free-market approaches with no state intervention are the best for development. Those who advocate for a strong interventionist state (Noam Chomsky; John Maynard Keynes; Robert Pollin; Joseph Stiglitz) are however, of the view that strong state intervention in regulating

economic activities is the best form of governance. While debates have been on the best way to achieve development, few attempts have been made at analysing the role of the state over the years and its significance towards sustainable development.

This article aims to take a historical analysis of the role of the state in an effort to show how the state ought to behave under the current global challenges in the financial and climate front. Possible explanations to the causes of the current global challenges that threaten sustenance of the planet are discussed and concluding recommendations on the role of the state will be made. A literature review was conducted to analyse international experiences regarding to the role of the state.

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## STATE AS A CONCEPT

Defining state as a concept is not easy (Axtmann 2004; Reis 2004; Sawyer 1996). Giddens (1990: 301) defines it by characteristics like the existence of political apparatus, a territory and the capacity to enforce policies through the monopoly use of force at times. Therefore, political apparatus can either take a *laissez faire* approach or an interventionist approach in implementing its policies. Over the years, it is the last character, the capacity to use force to implement policies which has been under threat and consequently resulted in catastrophic ends.

Throughout the discussion few references will be made to the African, Asian and other transitional states because there exist few of them if the concept of state is applied. At times political apparatus are present but do not serve their intended purposes, in some instances there are absent and in many instances corporations and international financial institutions have eroded the capacity of transitional states to carry out their duties. This is not to say that in the Western countries the concept of state is clearly defined though, regional blocs like the European Union are challenging the traditional state.

## THE COLD WAR ERA

During the Cold War period, state centralised planning and intervention led to economic and social break-down in most developing countries (John Marangos, 2004: 461). Critics of state intervention are quick to point to this as a failure of state intervention approach and do not acknowledge the failure by transitional statesmen who misunderstood the maintenance of government intervention for authoritarian and autocratic rule. There is a difference between failure of a system due to endogenous factors within the system and a malfunction as a result of exogenous factors. Critics of state centralised planning as will be seen later in the discussion, concentrated on endogenous factors while overlooking external factors.

*Laissez faire* advocates contributed to the failure of communism as an alternative to free market,

the United State (US) provided financial and technical support under the Marshall Plan between 1947 and 1991 (Chandra, 2004: 2287). The US promoted economic development among its allies and made them less susceptible to the influence of the Soviet Union. Cromwell (1979: 423) argues that the US courted the democratically elected governments in Western Europe as its allies and raised their standards of living so that communism lost its appeal. This historical feature and others are ignored or brushed aside by most free-market advocates who discredited communism as if it lost ground only as a result of its own internal factors.

## EVENTS FROM THE PAST TWO DECADES

The policy of deregulation which is at the heart of *laissez faire* politics led to severe economic crisis, starting with the Asian Tigers' crisis in 1998, spreading to Latin America, and in 2001 to a recession in the US. Olivier Blanchard (1993: 270) notes that around 1990/ 1991, the US economy experienced some negative growth. A hideously inflated housing bubble backed by mortgages led to an enormous destabilisation of the financial system, which remains crippled by the credit crunch that initially emerged in 2007. Capitalism has thus shown that recessions and depressions are inherently part of it and since preventing them is impossible, states can only try to counteract their brutality. There has been so much state intervention from governments which have been arguing for *laissez faire* approach for the past three decades. Rather than taking a hands-off approach, the last three years have seen states aggressively trying to stabilise the financial system through partial and temporary nationalisations and the introduction of major stimulus programmes, violating some key principles of free-market approach which sees state intervention as harmful to the economy. The crisis, itself a product of neo-liberal deregulation, has forced a break from the policies and ideologies of the past three decades. This is so because simply there is no other alternative.

As its duty the state must protect its citizens from physical harm, the state is forced to intervene in

society because of the anti-social effects of capitalism. The economic system itself contains no means to combat its own socially destructive workings e.g. the US government is forced to step in on the British Petroleum oil spill case in the Gulf of Mexico. Throughout history the market on its own has never provided basic needs of modern life (Purcell, 2002: 308). The state has supported private industry in sectors like the transport system and the supplying of power, in creating education and training regimes which are suitable for free market and in creating conditions for the development of new industries.

## THE ROLE OF THE STATE OVER THE YEARS

Some scholars (Chomsky; Kropotkin) argue that there has never been a point when either state intervention or laissez-faire operated separately. The state has intervened in the economy in different ways. The Roosevelt government in the US integrated several interventionist strategies in its restructuring New Deal policy of the 1930s (Weatherford & Sergeyev, 2000: 315). In the wake of terrorism, many governments intervened and in most cases revoked even the so-called individual rights like the right to association and movement.

State intervention has been a feature of capitalism from the start, Kropotkin (1995: 97) is convinced that, "...nowhere has the system of non-intervention of the State ever existed". There has always existed a process of selective laissez-faire from the start of capitalism. In 1934, Wagner Act in the US gave US labour its first and last political victory. The act made it legal for unions to organise, but this placed labour struggles within the boundaries of legal procedures and so meant that they could be more easily controlled (Weatherford & Sergeyev 2000: 315). Trade unions have been keeping industrial peace, working in the interests of governments and capitalists.

While free market approach backers argue that state's interference with the market causes the problems that society blames on the market it is surprising

however that the beginning of the 2008 recession was experienced at the peak of free trade. State intervention came about in response to the social disruptions resulting from laissez-faire approach, it did not cause them. Capitalism is too weak in modern economies to operate on its own without massive state assistance. Commenting on the England state, Chomsky argues that the state only turned to laissez-faire approach once it found out that it could benefit from the approach. She says that, "Only in the mid-nineteenth century, when it had become powerful enough to overcome any competition, did England embrace free trade" (Chomsky, 1995). Presumably it means that during its infant stage of development, it followed an interventionist approach. Most developed countries passed through periods of both laissez faire and interventionism.

State intervention was reported in Singapore's development by Grice and Drakakis-Smith (1985: 348) who says that the Peoples' Action Party (PAP) and its leader, Lee Kuan Yew had a belief that a strong government will lead to public participation and the state led to the demolition of slums within the urban renewal programme creating space for the accommodation of foreign businesses within the central business district. Historically, therefore the state has been working with industrialists to establish capitalist system through phases of state intervention and free market ideologies depending on which one suiting best the interests of industrialists. It does not come as a surprise therefore that at the G-20 summit in Toronto June, 2010, taxing banks and financial institutions as a recovery measure were shelved though it is from where most of the current recession problems emanated from.

## CURRENT CHALLENGES WITHIN THE STATE

The challenge facing the world, especially in the aftermath of the global recession, is to work out what a more rational economic world would look like and how it would operate. Most production is essentially rational, in that it is about the meeting of human needs in one sphere or another. Barkey and Parikh (1991: 526) define capacity as the state's ability to implement

strategies to achieve its economic, political, or social goals in society. The biggest challenge facing today's state is having the capacity to discharge its duties as Capitalists have eroded this ability. The state has relied on industrialists in financing its projects through the funding of political parties and through corporate taxation from entities who might be compromising sustainable development. The hurdle before the modern state is how to ensure economic growth without compromising environmental sustenance through overconsumption and pollution.

Greece is reported to be having more public than private debt due to the inability of the state mechanism to collect taxes from the privileged particularly money that goes to luxurious imports (McHugh, 2010). It becomes apparent that state capacity must be enhanced and state powers that limit self serving institutions must be improved. Institutional arrangements thus play a significant role in development regardless of the policies at work and geographical area. Valocchi, (1989: 354) argues that for states to impose their policy objective on a population they must have fiscal, administrative, and political capacities that are not directly dependent on the organized interests of groups from civil society. Fukuyama, (2005) tried hard to defend liberal policies and argued that their failure in developing nations was as a result of lack of institutions necessary to initiate development. With the current crisis even the operations of institutions in developed nations should be overhauled.

Victor Krasilshchikov, (2009: 14) identified the following characteristics that led to the success of the East Asian model: the control of luxury consumption; control of foreign direct investment and the pursuit of infant industry protection and export promotion. It becomes clear that Asian states played an important developmental role by pursuing a mixed model. Laissez faire policies have been detrimental in the interests of developing countries that still have a lot to achieve in economic and social welfare. It harms local industries as cheaper goods are brought in and sold by foreign manufacturers who have great economies of scale, large amount of employees and labourers are laid off and companies are shut down.

The success of the rescue-packages of governments has to be doubted, these lead to a further expropriation of the working class through inflation, which will be the inevitable result of the enormous expansion of debt (<http://www.federalbudget.com>). Public spending cuts have negative impact and will fall hardest on those least able to defend themselves. While developed economic leaders are gathering and announcing cutting public spending, scholars like argue that outside of the repercussions of war, no state has succeeded in absolutely cutting public spending. There has been no reported state which has managed to do so after a recession. Even under Thatcher, in the supposed brutal period of the 1980s, public spending overall continued to rise (Giddens, 1990: 318). This is not surprising because free market system has proved incapable of fulfilling essential functions of society e.g. no state has ever had an education system which is purely run as a private business and no state has had a purely private health system. In the US, a strong supporter of the free market policies, state funding of Medicaid is an essential part of health provision.

The post World War 1 and post World War 2 saw high levels of public debt. The debt was incurred to finance a temporary bulge in public spending motivated by a shared cause of defeating Japan and the Nazis. The current debt is being blamed by some (Fassin, 2005; Le Veness & Primeaux 2004; Wolf, 2008) to the irresponsibility, extravagance and incompetence of some Capitalists. Achieving a political consensus to raise taxes or cut spending to restore governments' solvency is going to be difficult. It remains to be seen whether the rescue packages will yield the desired results because in the 1970s the UK government failed terribly to bolster failing businesses such as British Leyland.

One of the reasons for an existence of a higher deficit is that the recession led to a drop in government revenue from tax. As the recession hit, less people paid income tax as they were unemployed or took pay cuts and companies were paying less tax on lower profits. Some critics oppose public spending cuts and argue for policies which encourage faster economic growth. If this is the way to go then state intervention will be needed more than ever to

control capitalists who might want to compromise sustainable development with economic growth.

There is a threat of climate change as a result of years of unlimited exploitation of the natural environment through exponential quantitative economic growth. Driesen, 2006: 254, traced international environmental laws and concluded that all of the current environmental problems have their roots in the by-products of private activities. Kyoto protocol on climate change is as a result of humans especially capitalists burning fossil fuels (and US, the highest contributor of emissions refused to be a signatory to the agreement), Montreal protocol on ozone depleting substances is as a result of the unleashing of the substances mostly by manufactures of vehicles and refrigeration components while CITES came as a result of some animals becoming endangered as a result of sale of animal parts by those with unlimited appetite for money.

Some scholars (Brohman, 1996; Driesen, 2006; Perry, 2002) report fossil fuels increasing the average earth's temperatures and (Perry, 2002: 3; Reynolds, 2002: 5; Postnote 2006; Cline, 2007) Parliamentary Office of Science and Technology, 2006; Cline, 2007) went further in arguing that it is developing countries that are likely to suffer from the economic impacts of climate change as they are least able to adapt to the effects. Regardless of overwhelming evidence of the relationship between carbon emissions and the side effects on the environment, Marc Le Menestel, et al (2002: 257) quotes Exxon-Mobil's response to the Kyoto Protocol, the CEO, Lee Raymond in 2001 said:

*"Although the science of climate change is uncertain, there is no doubt about the considerable economic harm to society that would result from reducing fuel availability to consumers by adopting the Kyoto Protocol or other mandatory measures that would significantly increase the cost of energy. Most economists tell us that such a step would damage our economy and almost certainly require large increases in taxes on gas and oil. It could also entail enormous transfers of wealth to other countries."*

Decisions like these which are based on conventional economic returns further exacerbate environmental problems. The profit orientation of industrialists makes them concerned with economic growth at the expense of the environment; the fact that in Andhra Pradesh temperature increases killed people, or the 2004 floods in Bangladesh which killed over six hundred people and displaced over 20 million, or that 90 per cent of wetlands in Iran dried in 2001 after a two year drought is not their concern. It is more difficult when these firms are the once controlling state apparatus and even if treaties and accords like the Kyoto and Copenhagen are signed because of a lack of supra-national authority, non-compliance is the result.

## POSSIBLE PATHS

Farshad, (2008) distinguishes the difference between the solutions for the 1930s recession and the one currently being adopted. The 1930s crisis was resolved by labour and popular movements through recognition of a social wage contract, collective bargaining and workers' rights, unemployment insurance and social security. The present crisis is following regressive tax policies and financing capital to bring in more liquidity into lending and speculation. This is surely a temporary measure. Progressive income taxes are required for redistributive functions that reduce the gap between the rich and the poor. State intervention that focuses not on exponential economic growth but on ecological quality and control is required. A present reactive state which tries to manage the ecological disasters e.g. by setting up the Haiti Reconstruction Fund and cancelling debt is a failed state. A move towards a state which is free from industrialists and finance capital lobbyists is needed.

The Bureaucratic Authoritarian state which according to Barkey and Parikh (1991: 533) has strength, autonomy and capacity is the one that is needed to solve the current problems. The state's capacity to carry out its objectives is a product of its internal institutional structure and its ability to mobilise resources such as expertise and capital. A reformation of the relationship between the state and

capitalists is of paramount importance. As long as capitalists influence state apparatus, a commitment by governments of the West to sustainable environmental concerns is unlikely. Capitalists, like any citizen must be accountable to the state for their actions and not the state to bow down to capitalists. Commenting on the election campaign in the US, Samuels (March 30, 2010) says the way campaigns are financed in the US results in, "government going to the highest bidder," this is so because when elected office holders are likely to want to pay allegiance to those who would have financed them. A revision of political parties' funding in most countries is necessary in this century. In transitional countries, failure to know the funders and the amounts pledged might result in terrorist organisations funding their preferred candidates.

An acknowledgement that states' intervention is needed and necessary is the way to go and ways that best direct and guide states' intervention are required. The legal and ecological frameworks for the regulation of financial markets, producers, consumers and institutions are overdue. As for the transitional countries, emphasis on what Pelser (2001: 59) refers to as 'social networks for support' is essential whereby communities work together and support each other in all aspects of life. This entails mostly using abundant local resources and knowledge to solve problems e.g. Sigenu and Pelser (2009: 81) report that in a community in Eastern Cape in South Africa, community beliefs are important tool in dealing with environmental issues.

## CONCLUSION

Throughout the history of the state, there have always been periods of state intervention and laissez faire approaches to governance. The use of these approaches has been determined by capitalists influencing governments to suit their needs. In the last three decades, a contest between liberals and socialists have led people to an illusion that there is one approach which is better than the other and that each can exist purely without the other. Free market has been triumphing over this illusion contest until the financial collapse of 2007/2008 which unravelled

the need for an interventionist state which over the years, liberals have tried, though with difficulties to hide.

The unlimited appetite for capital accumulation has led not only to recession but to climatic change effects which the state must and should solve. On the road to mend the ills of the past developmental errors, the state should re-examine its association with capitalists for the sake of the current generation as well as generations to come. When the state regulates the market effectively, the two are not opponents. States should intervene every time and shape the market process through legal frameworks on what is permissible and not permissible in competition and in profit-making.

## BIOGRAPHY

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