

## **Lecture on James O'Connor, The Fiscal Crisis of the State, 1970**

O'Connor was attempting to modify Marx's role for the state. Marx contended that the state was merely an extension of the capitalist class. It was controlled by this class and, therefore, had little or no independence.

This is an oversimplified view of Marx's interpretation of the state, but it is useful to what we are talking about here. Later in Marx's writings he called the state, "...the structure of society."

O'Connor contended that the state had some independence and a life of its own. The state is not a simple instrument of the capitalist class in this modification. O'Connor's contention means that we must have a theory to deal with how the state operates as a separate entity. This theory must take into account the state's role(s) in a capitalist economy. It must also include the contradictions inherent in the state's role in capitalism and the ways in which these contradictions will lead to a new crisis in capitalism's progress.

We will begin with a few definitions and generalizations we will use in analyzing O'Connor's view of the state. O'Connor divides the capitalist economy into three distinct sectors: The monopoly sector, the competitive sector, and the state sector. Each is of roughly equal size in terms of employment. The monopoly sector is the innovative sector, the growth sector, and the dominant sector in a capitalist economy. The competitive sector employs what Marx would have referred to as the reserve army. Failure of some sector to do so would lead to a crisis of major proportions.

The state must meet the needs of the monopoly sector, as Marx would have contended. But the state also has the role of holding society together. This means that the state must support capital accumulation. It must also promote the legitimization of the capitalist society. There are contradictions in the state's trying to fulfill these two roles.

I'll give you the conclusion first. The state will find it increasingly difficult to raise enough money to fulfill these two roles. As the roles become more and more difficult, the state will realize a fiscal crisis characterized by large budget deficits. Attempts to reduce this burden creates the business cycle, much as Marx had predicted.

### **The Details of this Theory**

That is the relationship between the three sectors and surplus value generation/distribution? Approaching the theory through attempting to answer this question makes O'Connor's work still Marxist in orientation. The competitive sector is the petty bourgeois sector described by Marx. The exploitation of the worker in this sector is direct. Laborers are hired, paid a wage equal to their subsistence, and the products produced are sold at a value that is greater than

the worker's subsistence requirements.

The wages in this sector are generally low, the working conditions are poor, and the hours are long. It almost sounds like O'Connor is describing eighteenth and early nineteenth century England. There are but limited chances in this sector for technology enhancement or capital accumulation. Therefore, productivity in this sector is relatively stable.

The monopoly sector is what Marx envisioned all industry to be in advanced stages of capitalism. There is rapid capitalization in this sector with technology (usually provided by the state sector) being a central source of increased productivity. Increased productivity is the major source of surplus value for the monopoly sector. In order to sustain the rate of increase in productivity, the monopoly sector makes a "deal" with the workers. Workers in the monopoly sector are generally better paid than workers in either of the other two sectors. These higher wages buy the union's loyalty to work processes aimed at improving productivity. Obviously, the monopoly sector bourgeois would not make such a "deal" if the increase in productivity did not provide surplus value above and beyond the value of the wage increases.

The state sector does not produce surplus value. The state sector appropriates some of the surplus value from the other two sectors to carry out its role(s) described earlier. It does contribute indirectly to the creation of a surplus by engaging in activities to encourage the accumulation process.

We have already said that the state helps with accumulation and creates legitimacy for the capitalist system. It is not entirely clear what O'Connor meant by the legitimacy function. At times, it seems he is saying this function has to do with providing social benefits to the have nots. At other times, it seems he is saying this function has to do with access by disenfranchised groups to the state. This access is for the purpose of making claims against the state, although how those claims are reconciled was left uncertain.

Finally, O'Connor sometimes seems to be saying that the guts of the legitimacy function is in the state's attempts to cloud its real function and reason for being, to encourage accumulation. In other words, the state is the capitalists' agent for telling lies. Whatever the function, the legitimacy function involves the expenditure of time and money on the part of the state to keep the system legitimate, even to those at the bottom of the ladder.

### **Social Capital and Social Expenses**

O'Connor divided the activities of the state into two categories: social capital and social expenses. Social capital is the appropriation of surplus for the purposes of encouraging accumulation. In other words, the state socializes some of the accumulation function.

O'Connor further divides this activity along the lines of constant and variable capital as described by Marx. The constant capital component he called social investments, the variable capital component he called social consumption. Social investments include any state activity which enhances productivity. Roads, industrial parks, human capital activities, etc., all fall into this category. Social consumption is anything that the state does resulting in

reduced labor costs for private capital. Public schools, social security, day care provision, unemployment compensation, etc., all fall into this category.

Social expenses have nothing directly to do with productivity or with accumulation. They fall into two distinct categories: buying the surplus of a capitalist system and enhancing the social harmony of a capitalist system. The first represent the Keynesian policies of enhancing aggregate demand. The second involves everything from welfare payments to foreign aid.

These are not necessarily mutually exclusive activities on the part of the state. For example, a teacher helps in providing for human capital (a social investment) and helps to reduce the costs of training the labor force (social expense).

### **The roles and relationships between the monopoly and competitive sectors**

It should be pointed out that O'Connor disagreed with Marx. The competitive sector and the monopoly sector might not agree on everything, but they need one another to survive. This does not mean that they do not require different things from the state, however. The monopoly sector requires the competitive sector for its own survival. It requires that the competitive sector thrives.

For example, the oligopoly of McDonalds could not survive without a number of small franchises to sell its food. The oil industry depends on a large number of gas stations to sell its refined product.

In order for the competitive sector to survive, wages must be kept at subsistence. The monopoly sector helps in this regard by providing a strong second hand market. With planned obsolescence, with rapidly changing technology, and with the ever replacing of workers with technology (or constant capital), the monopoly sector provides obsolete goods, second hand goods, and second hand workers to the competitive sector. These second hand goods keep prices down for the workers so that a person on subsistence can have a house, a car, etc. The second hand work force are potentially unemployed people that are only too happy to work at subsistence wages and under poor working conditions.

There is no question that the monopoly sector is the dominant of the two. However, the relationship between the monopoly sector and the competitive sector is symbiotic, not competitive. This represents O'Connor's major contribution to Marxian analysis.

O'Connor (remember, he wrote this in the early 70's) predicted that as capitalism advanced, more and more workers and capitalists in the monopoly sector will be driven out through technology and the competitive process. Under Marx's notion, these would comprise the reserve army of the unemployed and the basis for future revolution. In O'Connor's view, these people would go to the competitive sector and work for minimum wages.

Marx's reserve army of the unemployed, to O'Connor, is actually a reserve army of the underemployed. Marx's reserve army becomes hidden in the competitive sector. However, these people are full time workers living in poverty. The state, in its legitimization activity,

must keep these people over the subsistence edge or risk revolution.

O'Connor, through this analysis, predicted the movement in the United States from a manufacturing based economy with relatively high wages to a service based economy based on minimum wage levels. As we shall soon see, he also predicted an expanding need for the state to provide child care, health insurance, and related programs to the urban, working poor.

### **The Role of the State**

The monopoly sector requires several specific things of the state:

1. The state must mediate between the monopoly sector's labor demands and the firms. In this respect, the state must pay some of the monopoly sector's benefits (social security, unemployment compensation, workers' compensation, perhaps day care, perhaps medical costs). The state must pay for the protection of the labor contract through the provision of mediation services, etc.
2. The state must help with the largest and most expensive of the technology developments on behalf of the monopoly sector. The space program is a very obvious example. University research programs, direct state investment through business locations support, and many military expenditures are technology development and investment in form.
3. The state must purchase the overproduct through Keynesian type policies.

The competitive sector also requires very specific things of the state:

1. The state must keep the laboring class underemployed in the competitive sector "in line" while shifting most of the tax burden in the nation to these individuals.
2. The state must keep the competitive sector healthy while not allowing it to gain any real influence in the economy that would hurt the accumulation process of the monopoly sector. In this respect, the state will often have to provide subsidies to firms in the competitive sector to underwrite the low profits of this sector. Farm subsidies are an excellent example of such underwriting activity.
3. The state must undertake the welfare burden of an underpaid and overtaxed laboring force active in the competitive sector.

The state must also provide a minimum of welfare benefits for those workers that are a part of the classical Marxian reserve army, but no more than is absolutely necessary to keep the peace. What all this means is that the state responds to conflicting political pressures to keep the system together. The state maintains the system by responding to groups of individuals rather than to classes of individuals. This pits workers against workers and capitalists against capitalists. It provides the myth of a state that responds in a democratic fashion to the needs of its constituents.

However, in responding in this way, the state can never lose sight of its primary role, aiding the accumulative function of the monopoly sector. All of this also has the effect of putting economic affairs into the political sphere, requiring an every growing bureaucracy to maintain the expanding functions of the state and to respond to the various groups pressuring the state, and makes the state's role in serving a unique class function in society more difficult to maintain.

The fiscal crisis of the state comes out of these conflicting roles. The state must have the appearance of independence to carry out these various roles. Yet, in a capitalist economy, the state can never be truly independent. The state depends on the production relationships of an economy to do its job, yet its decisions become more and more political in form. The state finds its job of guaranteeing profits more and more difficult under such a complex of relationships.

All of this leads to the so-called "structural gap" between the demand for state activity and the state's ability to raise revenue to pay for these demands. The real problem is between the increasing role of the state in financing the mitigation of conflicting roles in the social realm of production and the inability to raise taxes for anyone but the lowest and poorest class in the system. The ruling class will always be reluctant to pay taxes since taxes represent to them an appropriate of surplus value. The conflicting roles are in the welfare/warfare prerequisites for a functioning capitalist economy - oriented towards keeping the system functioning but extremely expensive to maintain.

The state must be able to gain more revenues. It can only do so through raising taxes, debt financing, monetary growth (inflation), or state run enterprises. There is a limit to the working classes' ability to pay taxes. It has already been said that the monopoly sector will always resist new taxes, and to tax the competitive sector would threaten the stability of the system.

The United States has long resisted the temptation to have state run enterprises in direct competition with the monopoly sector. Where other nations have tried they generally take on those industries with low profit levels to minimize the competition with the monopoly sector for surplus value. That leaves (for the United States anyway) debt financing or inflation, both of which have been our main policies the past several years. One might ask, what are the chances of the current "surplus" lasting?