

## **The Crisis of Liberalism\***

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Each strand of political praxis is informed by a political philosophy which analyses the world around us, especially, in modern times, its economic characteristics. On the basis of this analysis, the particular political philosophy sets out the objectives which have to be struggled for, and the political praxis informed by it carries out this struggle. The objective may be difficult to achieve, more difficult in certain contexts than in others, and this difficulty may act as a hurdle for political praxis; but this does not constitute a crisis for that political philosophy. The sheer difficulty of achieving an objective does not constitute a crisis. A crisis of a political philosophy arises when it has an internal contradiction, when the objective it puts forward is logically in conflict with some other feature in which it believes.

Many would argue that the objective of socialism that the political philosophy, Marxism, puts forward, has in the present context become somewhat more difficult to achieve; but this, while explaining the present weakening of the Left, does not constitute any crisis for Marxism. The political philosophy called liberalism however is facing a crisis in the sense that the objective it puts forward for the achievement of what it perceives as human freedom is logically impossible to achieve in a world which liberalism itself holds dear; in other words there is a logical contradiction within itself which has arisen in the course of the development of the economy and to which it has no answer. The crisis that liberalism faces is of this nature.

Modern liberalism was developed in response to the Bolshevik Revolution during the capitalist crisis of the inter-war period, as a way of resolving that crisis, and other similar crises that could arise in future, without transcending capitalism. It believed that the combination of western-style liberal democracy and capitalism tempered by State intervention, provided the best framework for achieving human freedom. It believed that under the institutions of western-style liberal democracy, the State, far from being a class State, would express social “rationality”, and would do so better than under any other institutional framework. Hence such a liberal democratic State can intervene in the economy both to rectify any malfunctioning that may arise because of the spontaneous working of capitalism, and also to make this spontaneous working, even when it is not a case of malfunctioning, conform to the demands of social rationality. This version of liberalism, in whose formation the English economist John Maynard Keynes had played a major role and which Keynes had called “new liberalism”, differed from earlier versions of liberalism in so far as those earlier versions had wanted State intervention to be kept to a minimum, in the erroneous belief, that had prevailed earlier, that the capitalist economy always operated at “full employment”.

This new version of liberalism, even if we do not go into its validity within the institutional framework it envisages (and it is utterly invalid, among other things, because of the phenomenon of imperialism which it does not even cognize), certainly ceases to be valid when capital, including finance, gets globalised. This is because we do not in this case have a nation-State presiding over capital that is essentially national, but a nation-State confronting globalised capital; and in any such confrontation the nation-State must yield to the demands of globalised capital for fear

of triggering a capital flight, which means, as even the most ardent “new liberal” would admit, that the State cannot possibly act as the embodiment of social rationality.

Put differently, the presumption behind “new liberalism” was that the domain over which the writ of the State ran and the domain over which the capital originating in that country operated, more or less coincided. This was in fact the case when Keynes was writing and even later. But with increasing globalisation of capital, this presumption loses its validity. And when this happens, then it is unreal even to pretend that the executive of the State would be goaded by public opinion to act in ways that it thinks are socially rational, irrespective of whether globalised capital concurs with such action.

The roots of the crisis of liberalism therefore lie in the phenomenon of globalisation; but this crisis clearly manifests itself in the period of crisis of neo-liberalism when large-scale mass unemployment appears on the scene, which was exactly what Keynes thought was the Achilles heel of capitalism that, unless overcome through State intervention, would make the system vulnerable to Bolshevik-style revolution.

The pursuit of Keynesian “demand management” that was supposed to overcome the crises of overproduction that plagued capitalism, requires that larger State expenditure, the panacea for the crisis, should be financed either by raising more taxes at the expense of the rich or by raising no extra taxes at all, that is, through a larger fiscal deficit: larger State expenditure financed by raising more tax revenue at the expense of the working people who consume much of their incomes anyway, would not add to aggregate demand and hence would not alleviate the crisis. But these two ways of financing additional State expenditure, taxing the rich and increasing the fiscal deficit, are both opposed by globalised finance capital which therefore eliminates the scope for any fiscal intervention by the State against the crisis. It can of course intervene through monetary instruments but these, as is well-known, are extremely blunt, often encouraging inflation that compounds the crisis, rather than stimulating larger private spending. Within neo-liberalism therefore there is no way of overcoming the crisis; Keynes’s “new liberalism” comes a cropper. The cul-de-sac or dead end of the neo-liberal economic regime therefore becomes a crisis for the political philosophy of liberalism.

This entry into the economic cul-de-sac can be illustrated with the example of Europe. Until the mid-seventies the unemployment rate in EU countries (15 at the time) had been less than 3 per cent for a long period. It started climbing in the late seventies and the eighties as globalisation proceeded, and has remained roughly above 7 per cent on average since then, though with variations between countries; and State intervention has been unable to bring it down.

Since a single nation-State cannot intervene to boost aggregate demand and reduce unemployment when confronted with globalised capital, the country can either impose capital controls to get out of the vortex of globalised finance altogether, or have a co-ordinated fiscal stimulus along with other countries in which case capital’s tendency to fly out of any country that expands demand can be checked (since all countries would be following a similar policy of expanding State expenditure). The first of these entails getting out of the neo-liberal regime: capital controls would also necessitate, sooner or later, trade controls, and this means that the basic character of a

neo-liberal regime, namely relatively unrestricted flows of capital and goods and services, would be infringed. International finance capital will oppose this tooth and nail, so that such a course would require an alternative class mobilisation that cannot remain confined to a programme of preserving monopoly capitalism.

The second of these routes, if it is to be a genuinely coordinated fiscal stimulus across all countries, requires a degree of internationalism that capitalism, with its in-built tendency for dominating the periphery, is incapable of demonstrating. It can therefore at best introduce a coordinated fiscal stimulus within the metropolis even while imposing fiscal austerity on the periphery, which would mean a tightening of imperialism. Capitalism may well try this, but such a tightening of imperialism cannot be acknowledged by liberalism as a feather in its cap; on the contrary it would mean a defeat of liberalism as it presents itself, namely, as an alternative non-socialist path to human freedom.

It is this predicament of liberalism that constitutes its crisis. It cannot claim that freedom is possible within capitalism when there is large-scale unemployment which also keeps down wages, causing a general stagnation or worsening in the condition of labour. It cannot overcome this material reality without transcending neo-liberal capitalism, the requisite class alliance for which would carry the economy beyond capitalism itself. (The talk of retreating to a pre-neoliberal capitalism is analogous to the talk of returning to an always mythical 'free competition capitalism' as a means of doing away with the ills of monopoly capitalism, that Lenin had pilloried in his book *Imperialism*). Any acquiescence in a coordinated fiscal stimulus among metropolitan countries alone for reducing unemployment that leaves out the periphery from its ambit, amounts to a betrayal of what liberalism claims it stands for.

Classical liberalism had come to grief during the Great Depression. Keynesian, or new liberalism, has come to grief with the crisis of neo-liberalism. And there are no other versions of liberalism that are available, or even possible, which can take economies out of their current stagnation while keeping them confined to their capitalist integument.

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