

The Crisis of Liberalism*

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Trump's victory in the US Presidential election conforms to a pattern presently observable across the world, namely a collapse of the liberal centre and a growth in support either for the Left, or for the extreme Right, the neo-fascists, in situations in which the Left is absent or weak. This was visible in France where Macron's party lost substantially, and the ascendancy of neo-fascism was prevented only by a hastily-formed Left alliance; this is also evident in our own neighbourhood, in Sri Lanka, where a Left candidate emerged as president through a sudden and substantial increase in his vote-share, defeating the incumbent president who belonged to the liberal centre. This ubiquitous collapse of the liberal centre, indicative of a crisis of liberalism, is the most striking phenomenon of contemporary times; its roots lie in the fact that political liberalism today remains tied to economic neoliberalism which itself has run into a crisis.

The political philosophy of classical liberalism, which provided the basis for liberal political praxis, was sustained by a long tradition of bourgeois economic thought, straddling both classical political economy and neo-classical economics. Both these strands believed, notwithstanding significant differences between them, in the virtues of the free market, whose shackling by State interference had to be removed on a priority basis.

The vacuity of this entire line of reasoning was exposed by the First World War (whose economic roots belied all claims relating to the virtues of the market) and even more blatantly of course by the Great Depression. Keynes showed that laissez faire capitalism, leaving aside "brief periods of excitement", systematically kept large numbers of workers involuntarily unemployed, that the free market, far from being the ideal institution it was portrayed to be, was so flawed that it exposed capitalism to the danger of being overthrown by the rising tide of socialism. But being a liberal, and apprehensive about the socialist threat if the system was not rectified, he proposed a new version of liberalism (which he called "new liberalism") that was to be characterised by perennial State intervention to boost aggregate demand and to achieve high employment, rather than an avoidance of it that had been the hallmark of classical liberalism.

Keynesianism however was never accepted by finance capital. Keynes himself was intrigued by this and attributed it to a lack of understanding of his theory. The real cause however lay deeper, in the fear that any systematic State intervention would delegitimise the social role of the capitalists, especially of that section of capitalists which was engaged in the sphere of finance and whom Keynes had called "functionless investors"; this is a persistent fear and remains to this day. Keynesianism became State policy only after the war, since the war had weakened finance capital and had led to the ascendancy of social democracy which had embraced Keynesianism.

The post-war boom in advanced capitalist countries saw a consolidation of finance capital and an expansion in its size to a point where it became increasingly international. At the same time post-war capitalism, even though supplemented by

State intervention, ran into a different kind of crisis, not one caused by inadequate aggregate demand but one that consisted in an inflationary upsurge that occurred in the late 1960s and early 1970s. This crisis was rooted in the twin phenomena that characterised post-war capitalism: high employment that diminished the reserve army of labour and removed its “stabilising influence” in a capitalist economy, and decolonisation that removed the mechanism for compressing third world demand to keep primary commodity prices low. It allowed the new international finance capital to discredit the regime of Keynesian demand management (aided and abetted by a revival of apologetic bourgeois economics re-propagating the virtues of the free market) and to promote neoliberal economic regimes everywhere. Since in the new situation, retaining the “confidence of the investors” (that is, preventing capital flight by kow-towing to the demands of international finance capital) was the overriding concern of State policy, Keynes’ “new liberalism” had to be jettisoned; the liberal centre, much of social democracy and even certain sections of the Left, lined up behind neoliberalism.

Neoliberalism however brought immense suffering to the working class in advanced capitalist countries and still greater suffering to the working people in the third world, even before it had run into a crisis; and the suffering increased greatly when it did run into a crisis. The growth rate of the world economy slowed down significantly in the neoliberal era compared to the dirigiste period; and it slowed further in the period after 2008 when the last of the US asset price bubbles burst. This crisis, a result of inadequate aggregate demand caused by the massive increase in income inequality under neoliberalism (which invariably produces a tendency towards over-production) had only been delayed by the US asset price bubbles that had kept up world aggregate demand through a wealth effect; the crisis manifested itself with the bursting of the bubble. It cannot be overcome within the bounds of neoliberalism, because neoliberalism eliminates the scope for Keynesian demand management; and a new bubble that could mitigate somewhat its intensity, is ruled out by the very experience of the previous ones that have made people more circumspect. In fact monetary policy aimed at stimulating a new bubble has only succeeded in stimulating inflation through higher profit-markups even in the midst of stagnant demand, which only aggravates the crisis even further.

Contemporary liberalism in short, committed as it is to the neoliberal order, does little, and indeed can do little, to alleviate the people’s distress. Not surprisingly, the people are turning away from it towards other political formations to the Right and to the Left. The Right too can do little to alleviate the people’s distress: its pre-election rhetoric is invariably at variance with its post-election policy which is neoliberal, as Meloni in Italy has shown, and as Marine Le Pen’s prime ministerial candidate, Jordan Bardella, was beginning to show even before the elections through a shift in his party’s stand vis-à-vis international finance capital. But the Right whips up a rhetoric against the “other”, typically some minority religious or ethnic group, or immigrants, to produce a semblance of some sort of activism in the face of the crisis, while the liberal centre barely acknowledges the existence of the crisis. Monopoly capital in this situation shifts its support towards the Right, or the neo-fascists, in order to maintain its hegemony in the face of the crisis, which is another reason for the weakening of the liberal centre and the crisis of liberalism.

Trump, it may be argued, does have an economic agenda, of protecting the US economy against imports not just from China but even from the European Union; he cannot be accused of merely adhering to the old neoliberal script like Meloni. But several points must be noted here: first, even while moving away from liberal trade to protectionism, Trump has never mentioned putting restrictions on the free cross-border flow of international finance capital, so that the crux of the neoliberal arrangement remains unchallenged by him even in his pre-election rhetoric. Secondly, protectionism is not Trump's original idea; it had begun even under Obama. Besides, protectionism alone would not revive the US economy; it can at best encourage domestic production at the expense of imports from competing economies, but it cannot per se expand the size of the domestic market, for which an expansion of State expenditure, financed either through a fiscal deficit or through taxes on the rich, is essential. But with his penchant for corporate tax-cuts revealed from his last presidency, Trump will not resort to higher State spending, so that at best after a temporary blip caused by greater protection the US economy will settle back into stagnation and crisis.

While Trump's victory therefore was expected, being in conformity with the globally-observed phenomenon of a collapse of the liberal centre, it does show that the people have not seen through his economic agenda, of adherence to the basic tenets of neoliberalism (other than introducing greater protectionism which can at best produce a temporary increase in jobs while worsening the inflationary situation because of the absence of cheap imports).

The international context, it follows, is favourable for the ascendancy of the Left, which alone can bring an end to the ongoing crisis by bringing an end to neoliberalism, and which alone can bring about an end to the wars that are currently going on (and for which the liberal centre is culpable, a matter to be discussed on a later occasion). The Left however has to be prepared for this task.

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