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Source: *Social Scientist*, May-June 2010, Vol. 38, No. 5/6 (May-June 2010), pp. 3-21

Published by: Social Scientist

Stable URL: <https://www.jstor.org/stable/27866707>

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Socialism or Reformism?

Prabhat Patnaik

We live at a time when resistance to the inequities that exist in this world and the struggle for a better world are almost totally detached from any striving for socialism. Climate change, imperialist aggression, forcible dispossession of peasants in the name of “development”, oppression of the tribal population, gender discrimination, and ecological degradation, bring forth passionate protests, but these protests, even when they trace the root of the problem to capitalism, do not invoke as its solution any vision of a world beyond capitalism, the vision of an alternative world of socialism. The most serious threat to the existing system of course comes at present from the Islamic fundamentalists, whose utopia has nothing to do with socialism; but even the “radical” opponents of capitalism, whether feminists, or environmentalists, or defenders of civil rights, or “civil society activists”, do not visualize any transcendence of the system. The capitalism-socialism distinction is largely irrelevant for them; they see socialism as constituting neither a necessary nor a sufficient condition for overcoming the specific injustice they happen to be concerned about.

This is also true, paradoxically, of many who formally swear by socialism, that is, of sizeable segments within the Left. While they may still believe in a vague and distant vision of socialism, this vision is so vague and distant that it makes no material difference to their conception of political praxis, which in their view should be concerned at best with survival as a distinct political force within the existing system, making whatever compromises are deemed necessary for such survival.

There is in short a remarkable consensus at present about the durability of capitalism, a consensus that apparently vindicates Mr. Fukuyama. It is widely perceived as a permanent mode of production, the last in human history. All struggles, it follows, must be oriented towards removing its defects and making it more perfect. This presumes of course that these defects are removable, a presumption that expresses itself in a myriad different ways, including in the substitution of the concept of “the empire” for the concept of “imperialism”. “Imperialism” being rooted in the system, can be overcome only by transcending the system; but “the empire” being the outcome of “evil” policies of people like George Bush, can be overcome within the

system itself by replacing its proponents by a “better” set of rulers. “Reformism” in short has replaced socialism; and paradoxically, the most militant, radical and intransigent protests of today are fought for the cause of “reformism” rather than of socialism.

Even the preoccupation of the Maoist movement in India is with the removal of injustice to the tribal population, not the overcoming of imperialism or the ushering in of socialism, as one would have expected in view of the lineage it claims from Marxism-Leninism. And its sympathizers within the intelligentsia defend it quite explicitly by recalling the gross injustice suffered by the tribal population. The movement’s lack of concern over India’s becoming a strategic ally of US imperialism, or over the agrarian crisis that has pushed millions of peasants into destitution, or over the spectre of communal fascism, which is evident from the fact that on none of these issues has it sought to mobilize the people at large or to make common cause with others that have taken up positions of resistance, is symptomatic of the *distance* it has travelled from Marxism-Leninism. This distance also separates its extreme radical “reformism”, backed even by armed insurrection, from socialism. I use the term “reformism” in its case because the concern with the oppression of the tribal population within the system, which is invoked to justify its violent methods, cannot possibly provide the basis for system-transcendence, since the tribal population, being too small in its relative size, cannot alone overthrow the capitalist order that is consolidating itself in India. To take the Maoist movement’s engagement in armed struggle as proof of its commitment to socialism, as many tend to do, is not only to subscribe to a facile notion of socialist praxis, but also, additionally, to confuse form with content.

To contrast socialism with “reformism” is not to run down the reforms in which the “reformists” are interested. Socialists too are in most cases interested in struggling for those very “reforms”. The point is not the “reforms” as such but the perspective within which the struggle for them is carried out. And here the contrast between socialists and “reformists” could not be sharper.

The fact that protests or struggles today are informed not by socialism but by “reformism” makes the contemporary period rather unique in the history of capitalism, since from the days of the “Utopian Socialists” right until late into the last century, capitalism had always been haunted by the spectre of socialism. And this sense of being haunted had been particularly intense after the Bolshevik Revolution, which was predicated upon the presumption that mankind had entered a period of world revolutionary transition, through stages, from capitalism to socialism. The sudden vanishing of this spectre therefore makes the contemporary period quite unprecedented.

There is an additional, and somewhat intriguing, factor here. Even economists who had nothing to do with socialism and who never visualized

any system beyond capitalism (*apropos* whom Marx had said in *The Poverty of Philosophy* that for them “Till now there has been history, but henceforth there will be none”), but who contributed to the development of political economy as a scientific discipline, had nevertheless sensed, paradoxically, that capitalism was an evanescent system. For example, David Ricardo had a vision of capitalism inexorably proceeding towards a “stationary state”, where profits would disappear altogether, via a continuous fall in the rate of profit. And even earlier, Adam Smith too had come up with his own theory of the falling tendency of the rate of profit, which, notwithstanding its logical deficiencies, underscored Smith’s perception of a sense of doom awaiting the system. John Stuart Mill also subscribed to the notion of a stationary state being the destiny of capitalism, though he was not too alarmed by it as long as the workers were better off in that state than in a state where accumulation was proceeding apace. John Maynard Keynes too saw the pace of accumulation slackening under capitalism, and hence a kind of doom awaiting the system, in the absence of state intervention propping it up through demand management policies, to ensure a combination of full employment and the widespread provisioning of the material means for cultivating a civilized life. And Joseph Schumpeter, though far from being a socialist, also saw capitalism increasingly being supplanted by socialism.

In short, even outside of the socialist tradition, the whole tradition of political economy, other than the “marginalist” strand initiated by Jevons, Walras and Menger, saw capitalism, at least *laissez faire* capitalism, in an implicit sense as being fundamentally doomed. The idea of its being a durable mode of production, endowed with near permanence, would certainly have been rejected by the leading lights of political economy, which makes the current pervasive belief in its durability so very odd.

Two questions immediately arise: first, why has such a *denouement* come about? And secondly, is there any reason why one should not accept this widely held perception that socialism is irrelevant to mankind’s quest for a better world? These two questions are in fact interrelated. I wish to argue below that the very circumstances that contribute to the pervasiveness of this perception also constitute an impediment to any improvement in the condition of the people within the system, and hence an argument for socialism. Though my argument focuses on the economic sphere, since the economic, while not *determining* the other spheres, certainly *permeates* them, it has a more general relevance.

II

Let me take the second question first. The assumption underlying “reformism” is that an improvement in the condition of the people is possible within

the system, and that successful struggles for “incremental” improvements can cumulate to an overall change that constitutes the achievement of a noticeably better world. What this assumption overlooks is that capitalism is not a malleable but a self-driven or “spontaneous” system (to borrow Oskar Lange’s phrase), which is governed by its own immanent tendencies, such as the tendency towards the centralization of capital, or the tendency towards the expropriation of pre-capitalist petty producers (who may not be supplanted outright but be left as a degraded and destitute mass), or the tendency to reproduce continuously a reserve army of labour, and so on. The “normal” role of the capitalist State is to facilitate or aid its “spontaneous” movement by hastening it and removing impediments to it.

The most significant aspect of capitalism’s “spontaneity”, however, consists in the fact that it has an in-built mechanism, even leaving aside the intervention of the capitalist State towards this end, for “spontaneously” overcoming whatever resistance is put up against its “spontaneity”. This resistance can come in two ways: one is through direct economic struggles launched by “combinations” of the oppressed, such as trade unions or peasant organizations; the other is through the political intervention *in certain circumstances* by the State in capitalist society under pressure from the oppressed classes.

Capitalism has two basic in-built mechanisms for overcoming interventions against its immanent tendencies exercised in either of these ways. The first consists in the fact that these interventions, if they are significant, make the system dysfunctional, necessitating either a reduction or withdrawal of such intervention, or a further intensification of intervention to overcome the dysfunction induced by the initial intervention. In the latter case, the progressive intensification of intervention in the system ultimately becomes incompatible with its capitalist integument, and requires its transcendence beyond capitalism. In the former case, where intervention is reduced or withdrawn in the face of the dysfunction generated by it, the system starts to lapse back towards its pre-intervention state.

In other words, intervention of any significant kind meant to bring about an “improvement” in the condition of the oppressed, which necessarily entails overcoming, however partially, the “spontaneous” behaviour of the system, gives rise to two possible dialectics: either a dialectics of intensifying intervention that must ultimately lead to a transcendence of capitalism; or a dialectics of withdrawal of intervention. I have elsewhere called these two alternatives a “dialectics of subversion of the logic of capital” or a “dialectics of subservience to the logic of capital”. And in so far as the balance of class forces does not allow the dialectics of subversion of the logic of capital to proceed beyond a point, the dialectics of subservience to the logic of capital takes over, and the “improvement” attempted through the intervention is progressively negated.

The second mechanism consists in the process of centralization of capital itself which keeps enlarging the size in which “blocs” of capital appear. This mechanism operates as follows. If workers “combine” to form a union in, say, a particular factory, and that union begins a struggle for better conditions, then that struggle will have a better chance of success in a situation where the capitalist owns only this one factory than when the capitalist owns ten similar factories, for in the latter case he would shift production to other factories to blunt the impact of the struggle. Of course this would not be the case if the workers in all ten factories combine together to form a union. But as capital keeps getting centralized, the coming together of workers facing these larger and larger blocs of capital always lags behind. Hence, centralization of capital becomes a means of beating back the workers, of weakening and nullifying workers’ struggle.

Exactly the same happens when there is State intervention even within the capitalist system, under pressure from the workers, for improving their condition. If centralization makes capital internationally mobile, whether in the form of pure financial flows or in the form of direct foreign investment, i.e., whether as “capital-as-finance” or as “capital-in-production”, then the capacity of the nation-State to make its writ run against capital gets undermined. Hence the improvement brought about by the intervention of the State gets progressively reversed. The “spontaneity” of capitalism extends therefore to a “spontaneous” tendency to overcome any resistance to “spontaneity”. It is this which frustrates any attempt to improve significantly the condition of the workers, or of other oppressed classes, within capitalism, except to the extent that the improvement of one segment of the oppressed is brought about at the expense of another. (Even this latter, as I have tried to show elsewhere, is achieved quite “spontaneously”.)

The argument against “reformism” that follows from this can also be put as follows. The proposition that the condition of the workers and other oppressed segments can be improved under capitalism through “reformist” struggles assumes that an advance made by any segment of the oppressed is a durable one over time, that the system will remain “frozen” in the new state where this advance will become incorporated into it, and that from this state a further advance can be made. “Reformism” in short believes in incremental improvements where each improvement is irreversible, and sets the stage for the next improvement; it visualizes a sequence of ever shifting, ever forward-moving “equilibrium” states. But the immanent tendencies of capitalism entail that from each improvement there is a “spontaneous” slide-back towards the pre-improvement situation, unless the balance of class forces is such that the improvement is defended and further extended as part of the dialectics of subversion of the logic of capital, which must be prepared to transcend capitalism and move on to socialism.

Capitalism in other words is caught forever in a struggle between these two dialectics; there is no escape from it, and hence no possibility of a “frozen” state or “equilibrium”, let alone an “equilibrium” from which we advance to another, the next higher one. Nothing is irreversible, and there is a continuous struggle between moving ahead and moving back.

It may be thought that the outcome of this struggle between these two opposing forces might give rise to a state that might remain unchanged or stationary for a certain period, and in that way perhaps the reformist notion of an “equilibrium” being succeeded by another might get smuggled back into the argument. But that too is not possible. The point is that to sustain the initial improvement itself, *more and more intensive intervention becomes necessary, which, if not effected, leads to a slide-back.* The question of a “frozen” or stationary situation as the outcome of two opposite forces does not arise and hence cannot be invoked to sustain the “reformist” argument. “Reformism” in short is flawed in its very perception of the system, since, together with the incremental perspective that goes with it, *it assumes away the “spontaneity” of the system.*

III

The foregoing raises the question: is it never possible then for the workers and other oppressed classes under capitalism to improve their condition within this system? And since we know that in real history they have actually improved their condition, isn't the above analysis obviously flawed?

In answering these questions we must recall once more the two in-built mechanisms discussed above which negated any significant improvements in the conditions of the workers under capitalism. One was the fact of such improvement giving rise to dysfunction within the system, and the other was the effect of centralization of capital in overcoming resistance within capitalism. The first of these would be inoperative if this dysfunction was somehow kept in abeyance; and the second of these would become inoperative if certain other factors acted to ensure that the effect of centralization in overcoming improvement was kept in abeyance. “Imperialism” in the more inclusive sense of the term has served historically to keep both in-built factors in abeyance, and hence permitted a significant improvement in the condition of workers in the metropolis, even before the post-war regime of State intervention in demand management (on which more later) made an appearance.

The point I am making is *not the usual one which says that the surplus extracted from the periphery helped to improve the condition of the metropolitan workers.* I am talking about the role of imperialism in blunting the in-built mechanisms of capitalism to negate any significant improvement in the condition of the domestic workers. The dysfunction generated by comparatively

high levels of employment for instance was kept in abeyance by imperialism which served to ensure adequate labour supply for the metropolis to offset the small domestic reserve army of labour. Likewise the dysfunction arising from possible inflationary pressures, caused by an *ex ante* improvement in workers' condition (via a money wage increase), was kept in abeyance by imperialism through compressing the *ex ante* claims of primary commodity producers of the periphery. On the other hand the effect of centralization of capital in overcoming workers' resistance was kept in abeyance since the possibility of migration from the metropolis to the "empty spaces" of the temperate world served to keep up the "reservation wage" of the domestic workers.

The fact that capitalism was historically ensconced within an imperial world consisting of subjugated pre-capitalist producers, including Amerindians who were driven out of their land into reservations, meant that the offsetting tendencies to the improvement in workers' condition were blunted. By the same token however, the improvement in the condition of the metropolitan workers had as its counterpart the deterioration in the condition of the working people in the periphery, i.e., some other segment of the oppressed. Not that it was a "zero-sum game", with the gains and losses among the oppressed as a whole balancing one another out, but the durability in the improvement in the condition of the domestic workers in metropolitan capitalism was ensured by imperialism. This was particularly true in the pre-first world war period when *Pax Britannica* was at its zenith. With the "closing of the frontiers" in the inter-war period when the so-called "empty spaces" of the temperate world got filled up, capitalism got engulfed in a crisis, that was the Great Depression, from which it recovered only with the second world war. The post-war developments which occurred in the context of "the closing of the frontier" and of decolonization (even though imperialism did not disappear) were so *sui generis* that they deserve a separate discussion.

IV

The "spontaneity" of the system and the way it nullifies the improvements that may have been enacted within the system in certain specific conjunctures is best illustrated with reference to the most ambitious State intervention in its functioning ever attempted in the history of capitalism, namely State intervention in demand management in the post-war years under the influence of Keynesianism.

This intervention did not come about in the inter-war period, even though strong voices had been raised in favour of such intervention even then. Keynesian remedies were suggested in Britain against the Depression as early as 1929 by Lloyd George, but were summarily rejected by the British Treasury under the influence of the financial interests located in the City of London.

And throughout the 1930s Keynesian ideas had little impact in Keynes' own country because finance capital was vehemently opposed to any State intervention (except only such intervention that directly promoted its own interest). Roosevelt's New Deal, which ushered in State intervention for boosting demand, much the way that Keynes had suggested, did succeed in alleviating the impact of the Depression in the U.S. But at the first sign of such alleviation, Roosevelt was under pressure from the financial interests to bring down the fiscal deficit, which he did in 1937, precipitating another serious recession, from which the U.S. recovered only with the onset of war preparations towards the end of the 1930s. The "liberal" capitalist countries emerged from the Depression only with the second world war, while the fascist countries had overcome it earlier through their militarism.

The point is that the adoption of demand management in the post-second world war period came about, against the "spontaneous" tendencies of advanced capitalism, only because of working class pressure in a conjuncture when financial interests were weakened and in retreat. It was an "improvement" in the condition of the workers enforced against the "spontaneity" of the system in an exceptional situation. And the "improvement" was indeed very significant. Capitalism enjoyed a boom for nearly two and a half decades from the beginning of the 1950s, the like of which, over a comparable period, it had never experienced in its entire history. And with the unemployment rate down to unprecedentedly low levels, the workers were in a position to gain wage increases in tandem with productivity increases which were steep because of the rapidity of growth. These wage increases, together with the Welfare State measures through which State expenditure was injected into the system (in addition, of course, to military spending in the U.S. on whose pre-eminence much has been rightly written, but whose pre-eminence must not make us overlook the reality of Welfare State measures), meant a significant improvement in the condition of the workers. This improved state was widely considered at the time to have become a permanent feature of capitalism, a durable phenomenon from which further improvements were possible but there was no going back. So firmly entrenched was this belief that several distinguished writers (including even John Strachey, at one time a front-ranking British Communist thinker) expressed the opinion that "capitalism had changed".

Two factors however, precisely the two mentioned earlier, brought this so-called "Golden Age of capitalism" to an end. The first was an inflationary upsurge, triggered by a money wage explosion that occurred all over the metropolitan capitalist world in 1968. The precise sequence of developments that underlay or preceded this wage explosion need not detain us here, but it brought home the point that capitalism could not operate for long with such

low levels of unemployment. True, the higher wages made possible by such a small size of the reserve army of labour, could be accommodated without either hurting the share of profits in the gross value of output or causing inflation (which arises when profit-share in gross value of output is sought to be protected), if the terms of trade could be turned against the primary producers, so that their share in gross value of output could be correspondingly squeezed. But even if this could be done, as indeed it was and also to some effect since the inflationary upsurge came down proximately because of it, the capacity of this factor to sustain low unemployment had become severely restricted. This was because the share of primary commodities, other than oil, in the gross value of output in metropolitan capitalism had already become quite minuscule, given the long history of past squeezes on the primary producers. And oil prices were protected by a cartel, which, far from allowing a price-squeeze, administered to the world on the contrary an oil-shock, the first of its kind, in 1973.

Even the unequal world economic arrangement, spawned by imperialism, in other words, was no longer adequate to sustain for any length of time the levels of unemployment witnessed during the “Golden Age”. Such levels of unemployment achieved through State intervention made the system dysfunctional and presented to it two alternative possibilities: State intervention had either got to be intensified, with intervention in demand management being supplemented additionally by intervention in the form of a prices and incomes policy; or it had to be reduced. The initial “improvement” in short had given rise to the possibility of two alternative dialectics. And given the balance of class forces, the dialectics of subservience to the logic of capital, which meant a retreat from Keynesian demand management and a triumph of “sound finance” as advocated by monetarism, with its fall-out in the form a much larger reserve army of labour, a weakening of trade unions, and a significant increase in the share of profits in GDP at the expense of wages, became the order of the day.

Our second “spontaneous” development contributed to the triumph of this dialectics of subservience to the logic of capital; and this was the “globalization of finance” brought about through the process of centralization of capital. The enormous accumulation of finance during the period of Keynesian demand management itself had created pressures for easing cross-border capital flows which had been restricted under the Bretton Woods system, since Keynes himself had been acutely aware that any economic intervention by the nation-State (other than in accordance with the dictates of finance capital) could not be sustained if finance was supra-national. Advanced capitalist countries eased cross-border capital flows during the decade of the sixties, creating problems for “demand-management regimes”, in Britain starting from

the days of Harold Wilson's government and in France during the Mitterrand presidency in particular.

The neo-liberal regimes that have followed in the metropolitan capitalist countries since then (it is only very recently that they have been jolted by the world crisis and some intervention has once again come on the agenda), and have been extended to the world at large, including to the third world, correspond to the era of ascendancy of international finance capital. They reflect the supremacy of financial interests, are run on the principle that what is good for finance is *ipso facto* good for the economy (and conversely that the interests of the economy are best served by serving the interests of finance), and are marked by higher unemployment rates on average (even before the current crisis), a decline in the share of wages in value added (and even an absolute stagnation of late in real wages of workers in advanced countries), and a rolling back, wherever possible, of Welfare State measures. In short, they represent, in varying degrees, a turning back of the clock, caused by the fact that the "spontaneous" tendency towards centralization of capital has given rise to the phenomenon of hegemony of international finance capital. The belief that "capitalism has changed" which marked the post-war years of Keynesian demand management has been belied as the "spontaneity" of the system has once again asserted itself.

V

A parallel development has taken place in the third world countries. Here too the initial post-war period, marked by a weakening of metropolitan capital, had produced decolonization and the formation of post-colonial nation-States, which, even when they were under the hegemony of the domestic bourgeoisie, were committed to an agenda of "national development" with self-reliance, and of protection of, and relief for, the masses hitherto exploited by colonialism. Accordingly, a *dirigiste* development strategy was pursued in most of these economies which sought to use assistance from the Soviet Union to achieve a certain relative autonomy from metropolitan capital. Its pursuit of self-reliance meant, at least in large economies like India, an improvement in food production, the setting up of heavy industry producing the basic means of production, the development of a public sector as a bulwark against metropolitan capital, an expansion of technological ability, and of the educational system, and, above all, national control, usually exercised through the public sector, over the mineral resources of the country, which had hitherto only enriched metropolitan capital. Towards this end protecting the economy against the free flow of goods and finance was essential, the former because without it getting out of the colonial pattern of international division of labour would have been impossible, and the latter because without it the autonomy of the

post-colonial State which was the lynchpin of this development strategy would have been impossible.

Contrary to what the current fashion of vilifying the *dirigiste* regime suggests, it had remarkable achievements as far as the people at large were concerned. Merely one statistic will suffice to show this. In India, at the beginning of the twentieth century, per capita food absorption (for “British India”) was around 200 kilogrammes per annum. During the last half century of colonial rule this declined by nearly 25 percent, to around 150 kilogramme at the time of independence in 1947. In the post-independence period, under the *dirigiste* regime, it increased to around 180 kilogrammes (for the Indian Union as a whole) by the end of the 1980s, i.e. just on the eve of the introduction of the neo-liberal policies. The figure was still below the level at the beginning of the century, but marked a significant reversal of the trend of the colonial period.

The neo-liberal policies, of privatization, of opening the economy to free flows of goods and capital, and of withdrawal of the State from its role of promoting “national development”, protecting small producers, and providing welfare services to the ordinary people, all of which are reflective of the hegemony of international finance capital, also eventually caught up with third world economies, with Latin America and Africa somewhat earlier, but with India in the late-1980s, and more pointedly in 1991. And everywhere, including in countries that are supposed to be success stories of neo-liberalism, it has brought about a decline in per capita foodgrain absorption, a crisis of peasant agriculture leading to the destitution of vast masses of peasant producers, the destitution of petty producers, a rise in unemployment, and a sharp reduction in the share of wages in value added in the “modern sector”.

Once again a few figures will suffice to show this. In India, which is supposed to be an “emerging power” along with China, per capita foodgrain absorption which had reached around 180 kilogrammes at the end of the 1980s, fell to around 160 kilogrammes by 2004-07 (annual average), which was the level in “British India” on the eve of the second world war. Hunger and malnutrition afflict vast masses of the population. In rural India, compared to 72-74 percent of the population that fell below 2400 calories per person per day in 1973-74 (which is the definition of the “poverty line” for rural India), the corresponding figure for 2004-5 was 87 percent. And in urban India, compared to 56 percent of the population that fell below 2100 calories in 1973-74 (the definition of urban “poverty line”), the corresponding figure for 2004-5 was 64.5 percent. When it is additionally kept in mind that 184000 peasants have committed suicide in the last few years because of getting into debt that was not repayable, the full horror of the impact of neo-liberalism can be grasped.

While many have noted the growing inequality within third world societies under the neo-liberal regime, the link of this regime to the hegemony of

international finance capital is often not recognized. It is the integration of large segments of the domestic bourgeoisie with metropolitan capital, in a period when finance capital itself has got internationalized, that accounts for the substitution of neo-liberalism for *dirigisme*: domestic big bourgeoisie itself had wanted to break out of the shackles of *dirigisme* when the attack on dirigisme by international finance capital was launched. The introduction of neo-liberal policies therefore is simultaneously both an imposition of neo-liberalism on the country by international finance capital, through its agencies, the IMF and the World Bank, and a revolt by the domestic bourgeoisie against the old State and its *dirigiste* policies, a breaking of ranks with the national formation that had fought the anti-colonial struggle, and hence an introduction of a hiatus within the nation itself.

In the case of the third world again therefore we find an enacting of the same scenario as in the case of the advanced countries. An improvement within world capitalism in the condition of the oppressed people of the colonies, made possible through the *dirigiste* regimes following decolonization that the specific post-war conjuncture produced (just as it produced Keynesian demand management), being negated, as international finance capital, a product of the “spontaneous” tendency towards centralization of capital under capitalism, acquires hegemony and introduces neo-liberal policies.

To talk of an improvement in the condition of the people in the era of hegemony of international finance capital, *when the improvement that had actually occurred in the era prior to this hegemony is being reversed by the fact of this hegemony itself*, is specious, to say the least. Such speciousness is inseparable from the “reformist” argument today.

VI

There are two areas in particular where the hegemony of international finance capital impinges on the prospects of improvement in the condition of the working masses in the world economy. The first relates to the ongoing crisis, on which we have said nothing till now. The proposition that the crisis is the result of the collapse of an asset-price-“bubble”-led boom, its depth attributable precisely to the size of the “bubble” itself, which was allowed to balloon through easy credit and the financial innovation of a derivatives market (which permitted a systematic underestimation of risk), will be generally accepted. The usual corollary is that there should be greater regulation of financial markets, so that such enormous “bubbles” are not allowed to develop.

The problem with this view is that in such a case contemporary capitalist economies will not experience pronounced booms of the sort that the nineties had witnessed in the U.S. They will remain sunk in quasi-stagnation with even higher levels of unemployment on average than hitherto, unless some

alternative exogenous stimulus for expansion is found for them. Capitalism historically has relied on such exogenous stimuli. In the pre-first world war period such a stimulus came from the migration of labour and capital to the temperate regions of white settlement, which in turn was made possible because of the existence of the colonial system, since capital exports to these regions took, to a significant extent, the *commodity-form* of the goods being produced in the colonies, and not of goods, like textiles, that the leading capital exporting country of the time, Britain, was still largely engaged in producing. The collapse of this stimulus, because of Britain's losing her stranglehold on Asian markets and also the "closing of the frontier", was responsible for the travails of capitalism in the inter-war period, including the Great Depression.

The post-second world war period saw the emergence of another such stimulus, namely State expenditure, which gave capitalism the foundation for a further extended boom. The weakening of this stimulus, owing to the hegemony of international finance capital which opposes State activism of this kind, has once again put capitalism into a bind, where it will experience only bouts of "bubbles"-led growth followed by collapses and crises, with the magnitude of collapse being related to the size of the "bubble", and with much higher average levels of unemployment than hitherto. In short, the "spontaneous" operation of capitalism, in the absence of any systematic re-introduction of Keynesian demand management, will see the system not only submerged in quasi-stagnation for quite some time in the foreseeable future, but also experiencing on average, even after the present crisis is finally overcome, much higher levels of unemployment than hitherto. An improvement in the condition of the working people in this situation can be ruled out.

The second area is the massive increase in the encroachment on peasant and petty production that has come with the ascendancy of international finance capital. This ascendancy has entailed the withdrawal of State protection to this sector, which had characterized the *dirigiste* period. The agrarian crisis precipitated by the hegemony of international finance capital had existed even prior to the current world capitalist crisis (the spate of suicides in India for instance had occurred long before the world capitalist crisis); but it gets aggravated by the world crisis. The destruction of the peasant and petty production economy, where the distressed producers cannot get employment as proletarians in the capitalist sector, because the latter's capacity to absorb labour, already limited, has shrunk further owing to the crisis, is a feature of our times. All these developments however are but a manifestation of an immanent tendency of capitalism, namely to undermine progressively the viability of petty production, which has extremely serious implications. Let us turn to these now.

The political viability of capitalism requires fundamentally an alliance between capitalist property and petty property against the “threat” of socialism. It is this alliance that underlay the defeat of the Paris Commune. On the other hand, whenever the peasantry and petty producers have got alienated from the capitalist order and formed an alliance with the working class, revolutions have occurred, preparing the ground for a transition to socialism, as was the case with the Bolshevik and Chinese Revolutions. Even the success of the anti-colonial struggle in countries like India owed not a little to the radicalization of the peasantry in the wake of the Great Depression of the 1930s.

It follows that the immanent tendency of capitalism to expropriate petty production ultimately undermines the condition of its own viability. By the same token it opens up the historical possibility of a transition to socialism through the formation of a worker-peasant alliance, since socialism, which has no such immanent tendency, can in principle protect petty production, and enable it to strengthen itself through co-operatives and collectives, and to integrate itself with socially-owned property. There is of course no automaticity or inevitability about the coming into being of a worker-peasant alliance, let alone about the transition to socialism; but the necessity of such a transition, and the speciousness of the argument that an improvement in the condition of the working people of the world is possible under capitalism, follow *inter alia* from this immanent tendency.

VII

Paradoxically, however, the present conjuncture, while it underscores the necessity of transcending capitalism and making a transition to socialism (on which more later), also entails a muting of resistance. The high levels of unemployment weaken traditional forms of workers’ “combinations” like trade unions (unemployment, it must not be forgotten, has historically been conducive to the growth of fascism rather than, directly, of radical or revolutionary movements). The scope for *economic struggles* by peasant organizations against adverse terms of trade is limited anyway. The possibility of workers and peasants struggling *politically* to put pressure on the State to bring about an improvement in their condition is blunted by the fact that the nation-State itself is powerless to go against the caprices of international finance capital as long as the nation remains open to global financial flows. The transitional costs of restricting such flows threaten to be so heavy that most political formations shy away from it, giving rise to a remarkable “consensus” behind neo-liberal policies. And the fact that a hiatus develops within the nation, fracturing the “national unity” that had been forged during the anti-colonial struggle, makes the other classes within the nation chary of taking on a combination of forces consisting of both metropolitan capital and the domestic big capital

which gets strategically aligned to it. All this contributes to the phenomenon of weakening class resistance and class action.

The collapse of “grand narratives” that many have noted as characterizing the contemporary period is the counterpart of the shrinking space for major class action in this period, and has its material basis in the hegemony of international finance capital. We live in a world where States are nation-States, while finance capital, which is the leading element of capital, is international. This contradiction has the effect of weakening the struggles of the oppressed, of blunting the edge of class struggle in a manner never seen before in the history of capitalism. “Reformism” becomes in this context both a rationalization of this quiescence and a last refuge. There appears no alternative to “reformism” in a “globalized” universe; and a virtue is made out of necessity by pretending that “reformism” also *works*, that it is in fact the only thing that works.

There is an additional factor at work here. Large-scale industry by its very nature concentrates workers in one place and creates the conditions for the coming into being of a new “community”; but the financial sector does not concentrate employees, and indeed, by offering financial rewards to its employees, “individualizes” them. What has been called “financialization” therefore, far from producing a new “community”, breaks up employees into individuals. Of course the Indian case is different in this context, since India has some of the best organized financial sector employees in the world, but this is because in India the financial sector continues to be predominantly State-owned, which neo-liberalism, despite its best efforts, has not yet succeeded in overcoming. Private financial institutions even in India by contrast, especially the foreign-owned ones, have succeeded remarkably in preventing or breaking up unions and “individualizing” the employees.

It follows from the above that the very same circumstances that thwart any possibility of improvement in the condition of the working people and hence necessitate the transcendence of the system, also work to blunt class struggles, to undermine resistance to the system. To argue from this absence of class-struggles that such struggles are unnecessary, that the system that prevents the building up of resistance is benign enough to effect improvements even in the absence of such resistance, is specious logic.

VIII

Precisely because the system has successfully insulated itself against resistance, has successfully blunted class action by the oppressed, its transcendence becomes all the more necessary. In the period of *dirigisme* in the third world and Keynesian demand management and welfarism in the metropolis, it could perhaps be plausibly argued that “capitalism had changed” and “reformism”

was all that was necessary; but to do so in the period of neo-liberalism, of hegemony of international finance capital, is unreasonable. But then what would be the characteristics of this socialism to which this transcendence is supposed to lead?

It would of course entail social ownership of the means of production, though not exclusive social ownership, since, as we have already seen, a historic task of socialism would be to protect peasants and petty producers from the decimation that capitalism has in store for them. Socialism however would not just accept petty private property, but would attempt, both for material and ideological reasons, its voluntary pooling together into co-operative or collective property that is integrated with social property. But this, though a necessary condition, does not capture the essence of socialism.

A crucial feature of capitalism we mentioned earlier is its “spontaneity”, which breaks up all “community”, atomizes and “individualizes” economic agents, traps them into a competitive Darwinian struggle for existence against one another, and gives rise on this basis to a set of immanent tendencies. Even the capitalist is not the hero of the capitalist system acting on the basis of his own free will but an economic agent coerced by the system into behaving in a certain manner, which is why Marx had called the capitalist “capital personified”.

This “spontaneity” has profound implications. Because of it, under capitalism it is economics that drives politics (in a manner we have discussed earlier) which makes democracy in its capitalist integument hollow. The “individual” who is supposed to arrive under capitalism undertakes actions not of his or her own volition but under the coercion of the system and hence becomes devoid of “subjectivity”. The “people”, far from being the “subjects” as is claimed under bourgeois democracy, i.e., democracy in its capitalist integument, become mere “objects”, victims of the immanent tendencies of a system over which they have little control. The supposed antagonism between the “individual” and the “collective” that the ideology of capitalism so persistently highlights in its struggle against socialism, turns out to be a non-issue under capitalism, since both the “individual” and the “collective” are mere “objects”, at the mercy of the immanent tendencies of capital.

In fact the objective of socialism is to transform people from being “objects” to becoming “subjects” who collectively take charge of their lives and destiny through political action, under a system where politics drives economics rather than the other way around. This becomes possible, i.e., under socialism it is politics that drives economics, because *socialism is devoid of any “spontaneous” immanent tendencies*. It follows then that authentic democracy can get realized only under socialism.

The “spontaneity” of capitalism arises from the fact of competition,

which in turn stems from the fact that it is a system consisting exclusively of private property owners. The capitalists of course own the means of production and subsistence. But even the workers, who have nothing to sell but their labour-power, appear in the market place as the owners of this labour-power, *which is their property*. Social ownership of the means of production, which simultaneously entails the end of labour-power as a commodity, puts an end to competition, and hence to the immanent tendencies that originated from it. Social ownership therefore is a necessary condition for socialism and the realization of authentic democracy and freedom (in the sense of freedom from the coercion of the “spontaneous” economic system).

But juridical social ownership is not enough. Socialism necessarily entails the creation of a new “community”. While the condition for the existence of capitalism is the destruction of every “community”, socialism creates the “community” anew, not on the old basis but on an entirely new basis. The “combination” of workers, each uprooted from his or her old “community”, is the first step towards overcoming the “individualization” enforced by capitalism, and the formation of a new “community”. The journey from this first step towards the a *denouement* where the “community” transforms itself through time and becomes the “subject” of its own life and destiny is the journey of socialism.

This new community is bound together not by the accident of religion or geography or language but by a certain common objective position within the relations of production, and a common understanding, based upon it, of the socio-historical process. It is a “community” of individuals where each individual remains part of the “community” because of a theoretical understanding of the socio-historical process. The role of revolutionary intellectuals, who form the Revolutionary Party, is to facilitate the formation of this new “community”, to act as midwife to its birth, by bringing theoretical understanding to the working people. This theoretical understanding is not a set of fixed doctrines, but an open-ended understanding that continuously questions itself and reconstitutes itself.

The formation of this “community”, which is a long process of self-creation, may get disrupted any time through the formation of “hardened interests” of individuals, of groups within the “community”, or even of the Party itself. By “hardened interests” here I mean the pursuit on the part of any of these subsets of the “community” of an objective, which, if pursued by all other elements or subsets of the “community”, would destroy the “community” itself.

The formation of a new “community” in response to capitalist exploitation, in the form of “combinations” initially, already starts, as Marx had pointed out in *The Poverty of Philosophy*, with an *abandonment* of “hardened”

individual self-interest on the part of the workers. There is nothing utopian or “idealistic” therefore about “hardened” interests being abandoned for the sake of the “community”. But the “community” being formed must always be watchful against the “hardening” of interests. It must, to escape destruction, always prevent the formation of “hardened interests”. The process of self-creation of this “community” must simultaneously be a process of struggle against any “hardening of interests” of individuals, groups, subsets of the “community” or of the Party. This in turn requires the perennial availability of sufficient democratic space where such struggles can be successfully fought out. It follows then that if socialism is essential for the authentic realization of democracy then democracy too is essential for the authentic realization of socialism.

Socialism, it follows, is not a happening that takes place on the morrow of a revolution. Nor is it an easy task to achieve. The struggle for it is arduous and would require repeated attempts. But no one who believes in the future of mankind can turn his or her back upon such an attempt, since a “spontaneous” mode of production cannot possibly be the last in human history.

IX

There remains one last question. In the present conjuncture, as we have seen, while the oppressed are organized, if at all they are, within particular nations, capital, especially finance capital is globalized, moving with extraordinary speed from one nation to another. This fact constitutes a severe handicap for the forces of resistance to capitalism. What then should be the perspective of socialist praxis within this conjuncture: to attempt transnational organizations of the oppressed, or to advance the struggle of the oppressed within particular nations, and with an overall objective of de-linking the nation from the vortex of contemporary globalization?

The latter appears at first sight to be against the spirit of socialism, but there is no practical alternative to it. While socialist praxis within the nation must be informed by internationalism, this praxis will have to be predominantly within the nation. In other words, the promotion and carrying forward of the struggle of the workers and peasants, say in India, must take the form of an attempt to acquire political hegemony within the nation and establish a State of workers and peasants that necessarily has to de-link itself from a global economy dominated by international finance capital, rather than of attempting transnational organizations and struggles, which do not yet appear to be on the horizon. This would expose socialists to the charge of being “reactionary” since the bourgeoisie in these countries is integrated with international finance capital and is hence apparently “internationalized”. But the fight against imperialist “globalization” cannot wait till “global” organizations have been formed and “global” struggles organized.

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Notes

1. The “end of history” perception of classical political economy, which Marx had critiqued, was therefore an epistemological rather than a predictive position.
2. Oskar Lange, *Political Economy*, Volume 1, Pergamon Press, Warsaw, 1963.
3. Prabhat Patnaik, “The Crisis of the Left”, *Economic and Political Weekly*, October 31-November 6, 2009.
4. Prabhat Patnaik, *Accumulation and Stability Under Capitalism*, Clarendon Press, Oxford, 1997.
5. They are discussed in Nicholas Kaldor, “Inflation and Recession in the World Economy”, *Economic Journal*, 1976. I have also discussed these in my paper “The Economic Crisis of World Capitalism” in P.Patnaik edited *Lenin and Imperialism*, Orient Longmans, Delhi, 1986.
6. These figures are based on the research work of Utsa Patnaik, which is available in the form of a number of papers published in the *Economic and Political Weekly* and *Social Scientist*. See in particular her paper “Neo-liberalism and Rural Poverty in India”, *Economic and Political Weekly*, July 28, 2007.
7. In a different context Keynes had called such suggestions as having the effect of “abolishing booms and keeping us permanently in a semi-slump”. See J.M.Keynes, *The General Theory of Employment, Interest and Money*, Macmillan, London, 1949; p.322.