Neoliberalism and the State

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INTRODUCTION

Many political economists have tended to view the Global Financial Crisis as a turning-point, leading us out of neoliberalism and into a more regulated form of capitalism (Gamble, 2009; Altvater, 2009; Wade, 2008).[2] The fact that even financial elites felt that insufficient regulatory constraints might have been a factor in the making of the crisis was taken as indicating the demise of free-market dogmas. Further confirmation of this diagnosis came in the form of the massive public interventions in the wake of the crisis, which ran counter to all the core tenets of neoliberalism. Such arguments often follow the logic of a Polanyian conceptual framework, according to which market expansion will generate contradictions that trigger a double movement whereby society organizes to re-impose its values on the market's commodification logic. In Polanyian metaphors, after several decades of market 'disembedding' we are potentially witnessing a new phase of regulatory're-embedding'.

By now, this optimism has been tempered somewhat: it has become clear that the public interventions in the wake of the crisis represent some of the most inegalitarian uses to which state power has ever been put–that is to say, that massive amounts of public funds have shielded financial elites from experiencing the consequences of bad bets while ordinary people are suffering the full effects of the crisis, including unprecedented rates of eviction and unemployment. Yet what persists is the notion that the crisis and the governmental responses it triggered

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represent a progressive moment: according to this reasoning, some form of regulated capitalism is not just imperative from an ethical point of view, but it is a practical necessity, as the self-regulating market will sweep away the very conditions of social and political order.

This article argues that such assessments of the current situation are based on a misappraisal of the past three decades, and it will elaborate this argument with reference to the US case. Its central claim is that neoliberalism was a return to classical liberalism only on an *ideological* level; neoliberal *practices* were never about institutional retreat or the subordination of public and private actors to the discipline of disembedded markets, but precisely involved the creation, legitimation and consolidation of new institutional capacities and mechanisms of control. To view the neoliberal era through the lens of institutionalization is to say that it has been a process whereby financial forms penetrated more deeply into the everyday life of ordinary Americans, financial innovation assumed a certain systemic coherence and functionality, and regulators created new policy channels that gave them more grip on financial expansion. This had little to do with the generalized subordination of private and public actors to market imperatives but rather involved a contraction of the room to maneuver available to the bulk of the population that found its counterpart in the growth of the state's capacities and the increased leverage commanded by financial elites. In the construction of these new relations, the *idea* of a return to a pre-Keynesian free market has played a crucial role, but it is the task of the critical social scientist to show how practices diverge from (even if they are also profoundly shaped by) people's ideas about them.

The idea that neoliberalism has enhanced political control represents a counter-intuitive conceptualization, but this article suggests that that is the case precisely because neoliberal ideology has such a hold on our common sense and intuitions. In order to uncover the nature of neoliberal practices we need to shift to a conceptual register not shaped by neoliberal free-market discourse–to a framework that allows us to see what such practices affect and do rather than say and project. This means that, in order to uncover precisely those dimensions of power that neoliberal discourse obscures, we need to broaden our conception of political authority and learn to operate with more capacious concepts of statehood and state power. Attempts to counter the hegemony of neoliberalism often rely too much on a narrow conception of public authority that, by seeking to reassert the salience of the official state vis-à-vis the

market, tend to remain within the conceptual parameters set up by neoliberal thought. This article first develops an alternative conceptualization of the state-market relationship and then discusses how this allows us to make sense of key aspects of the neoliberal era.

NEOLIBERALISM AND INFRASTRUCTURAL POWER

We may usefully draw here on Mann's (1984) conception of 'infrastructural' power: whereas 'despotic' power refers to fairly direct authority over a specific set of actors that is backed up by the threat of coercion, infrastructural power denotes a capacity to implement political projects through social life–that is, an ability to employ institutionalized networks of connections among social actors for the transmission of authority. Infrastructural power is more indirect and diffuse and confers more control over the systemic properties of social interaction. It is crucially dependent on the kind of hegemonic socialization that secures active cooperation from social actors. Such legitimacy is constructed through institutions that present us with formal, idealized accounts of the operation of our social relations.

That norms and institutions should not reveal everything about social life is essential to the emergence of stable mechanisms of social control: their full exposure would entail continuous questioning and so prevent them from becoming entrenched in the routines of everyday life. At the same time, however, the complexity and opacity at the heart of modern power means that its operation is often highly unclear to its participants, making it difficult to wield even for those who are positioned favourably in its networks. In other words, actors may exercise power without being aware of it or without knowing how to wield it most effectively. The capacities that modern power builds are contradictory and fragile, precisely because they require the navigation and manipulation of indirect social relations. Although dominant actors like financial elites and policymakers are likely to have more systemic oversight than subordinate actors, their actions are refracted by institutional mediations in ways that they cannot always control or fully foresee.

These considerations suggest a particular angle from which to view the dynamics of the neoliberal era. From this perspective, the fact that the modern American state's capacity to manage economic life and secure financial stability is regularly under threat should not be seen primarily as evidence for the idea (prevalent especially in (IPE) International Political Economy) that capitalism tends to destroy its institutional preconditions and that neoliberalism has given free rein to this tendency. The interpre-

tation proposed here relies on the idea that, instead, the tensions faced by and running through the neoliberal state are the very process through which the state's modalities of control evolve, reflective of the difficulties involved in managing more intricately interwoven social relations. From a historical perspective the unprecedented infrastructural capacity of the modern American state's institutional complex to steer and regulate social processes is much more remarkable than the fact that, like all relationships of political control, it is characterized by myriad problems, contradictions and unintended consequences. The infrastructural power wielded by the modern American state is without historical precedent, and so is the intensity of the contradictions that it must negotiate.

Infrastructural power cannot be easily conceptualized using the categories of political economy. While IPE has not only tried to bring the state and regulatory institutions back in but also tried to distance itself from a 'state vs. markets' perspective, its emphasis on the fluidity of the distinction between these spheres has not yet generated the conceptual instruments to understand the role of the neoliberal state in a qualitatively different way. Despite the attention to the state and its institutions, financial globalization is still conceptualized as the 'disembedding' of financial markets from their erstwhile 'embedded liberal' institutional environment and the resulting imposition of market discipline on public and private actors (e.g. Helleiner, 1994; Best, 2003; Ruggie, 2007).

To suggest that the lingering influence of a 'state vs. markets' perspective is apparent in the continued reliance on Polanyian metaphors of 'embeddedness' and 'disembedding' might seem to be inconsistent with the fact that many scholars use the work of Polanyi precisely in order to conceptualize markets as institutional structures. Polanyi's (1957) central argument was that markets are institutional constructions and that the periodically recurring tendencies of markets to disembed themselves from their institutional context would give rise to a counter-movement through which social forces would emerge seeking to re-embed and re-regulate the market. But, as Gemici's (2008) analysis of Polanyi's writings demonstrates, the way the problematic is framed–i.e. the tendency of markets to escape their institutional environment and the possibilities for re-embedding–suggests that a pre- or extra-institutional logic is at work. That is, insofar as the role of institutions is primarily conceptualized in terms of their ability to regulate and embed markets, the expansionary logic of markets is not *itself* seen as an institutional construction. Rather, it features as a pre-social mechanism that will emerge and expand whenever it is not

actively prevented from doing so. This point echoes recent critiques of the notion of embeddedness as a metaphor to theorize the locus of markets and exchange in social life, which argue that it allows for the persistence of an economistic understanding of the market as a sphere governed by actors' natural, pre-social propensities and not structured and produced through the norms, conventions and rules provided by institutions (Krippner 2002, Beckert 2003, Jones 2008).

We need to move beyond an account of neoliberalism that is consistent with its self-description, i.e., as the subordination of governmental authority and public purpose to the disciplinary pressures of disembedding markets. This argument needs to be differentiated from other perspectives that emphasize the continued salience of institutions in the era of financial globalization and neoliberalism. One of the central theoretical points of critical IPE has been the role of the state in fostering the globalization of financial markets. Moreover, it is widely recognized that neoliberal policies do not involve a literal retreat of the state from society and that deregulation is always re-regulation (i.e. that 'freer markets' mean 'more rules', in Vogel's (1996) terms). However, such interpretations tend to generate conceptual problems characteristic of a Polanyian understanding of markets, which stresses on the one hand their many institutional preconditions and on the other their periodically surfacing tendency to escape from that environment and to reverse the direction of causality as their own logic comes to prevail over the control that can be exercised through institutional structures. That is to say, even if it is acknowledged that markets are always dependent on institutional supports, neoliberalism still tends to be considered in terms of the declining capacities of states vis-à-vis disembedded financial markets, the diminished control of political authority over the financial system.

The argument made here is different–it is that neoliberalism has involved a process of institutional reconfiguration that adjusted some of the key parameters of the existing financial regime in a way that enhanced rather than diminished the infrastructural capacities of the American state, as well as multiplied the strategic leeway available to those who enjoy privileged access to the state's mechanisms of infrastructural control (Panitch and Gindin, 2005). Neoliberalism did not represent a return to a purer form of capitalism more in line with the prescriptions of classical liberalism, i.e., 'an attempt once again to disembed the market from society' and as such 'merely the latest iteration of Polanyi's double movement' (Blyth 2002: 4). Rather, it connected the state's formal institutions in more functional ways to the networks of

governance and control that had evolved at the level of financial intermediation and everyday life, thereby improving the state's ability to manage those dynamics.

The understanding of market expansion implicit in the political economy literature contrasts in an interesting way with the way such processes have been conceptualized in other fields. In recent years, authors working in the field of 'cultural economy' have attempted to go beyond the residual economism of IPE to conceptualize financial expansion not as a dynamic of disembedding that destroys social bonds and cohesion, but precisely as a process through which new social forms and relations are created, whereby hitherto uncharted aspects of human life become incorporated into the webs of disciplinary social power and subsumed under the organizational forms of modernity (e.g. Aitken, 2005; Langley, 2008).

The argument in this article bears some similarities to these Foucauldian approaches. But it prefers the theoretical lens of 'infrastructural power' over concepts such as 'governmentality' or 'disciplinary power' because it permits us to foreground two key dimensions of contemporary capitalism that have generally not received sufficient attention in the cultural economy literature: the role of the state and the inequality embedded in the operation of power. Foucauldian perspectives have tended to assume that the proliferation of governance mechanisms in social life has meant an attenuation of the centrality of the formal state, but this tends to reproduce the image of neoliberal capitalism as a movement of 'disembedding'. Second, such approaches have tended to conceptualize the discursive structures of market governance as a somewhat anonymous *nebuleuse* that exerts its disciplinary effects evenly across the social field. The market may now be considered as a network of social relations, but these have become so web-like and anonymous that it still does not allow us to think of discipline as an asymmetrical relationship of control. The argument advanced in this article is built on the notion that discipline does not affect social actors in uniform ways, but consists of institutional mechanisms through which some actors build and leverage their agency and expand their strategic options at the expense of the room for manoeuvre and capacities available to others.

RE-INTERPRETING THE NEOLIBERAL ERA

In order to fully understand the configuration of social forces out of which the neoliberal era emerged, we need to begin with a schematic look at the nature of the preceding era (from the New Deal to the 1970s), which saw the emergence of modern mechanisms of infrastructural

power. The development of this order during the post-WWII period was characterized by contradictions that motivated new strategies and policies that would consolidate and extend the mechanisms of infrastructural power during the neoliberal era. IPE usually understands the post-New Deal era as a Polanyian mix of markets and state intervention. However, the concept of 'embedded liberalism', which suggests a balance of governmental institutions and market forces, doesn't give us much conceptual grip on that period. Far from being contained or suppressed, the post-New Deal American financial system underwent a dynamic of vigorous expansion. The point of many New Deal reforms had been not to reduce, but precisely to promote, the integration of the American middle and working class into the financial system. This was evident above all in public sanction and support for the use of securitization techniques in order to increase the supply of popular (especially consumer and mortgage) credit. Finance was seen not as a force of social fragmentation but as a cluster of institutions that could be used as a means of social integration (Calder 1999).

The New Deal had thus created institutional foundations for the deeper penetration of financial forms into the fabric of American life. And such financial expansion was seen not as increasing but undermining public control: policymaking in the post-New Deal era reflected an emerging awareness of the mechanisms of infrastructural control, of the potentially symbiotic relationship between public authority and economic expansion. This was allied to growing awareness of the fact that the proliferation of economic connections produced network characteristics and systemic properties that allowed for more effective institutional steering and manipulation (Mitchell 2005)–expressed in the prominence of Keynesian economics.

For a range of complex (and mostly familiar) reasons, this order came under pressure during the 1960s and 1970s. In this context, the demand for consumer and mortgage credit accelerated in a way that the existing financial system was not designed to accommodate. In order to respond to this demand, banks initiated a huge wave of innovation, dramatically expanding their securitization options. This had contradictory effects: it promoted the state's institutional capacities in one respect but complicated them in another. On the one hand, the expansion of popular credit compensated for the growing gap between wages and economic aspirations, integrated Americans into the discipline of indebtedness and repayment and in this way was crucial in blunting the political edge of social discontent and fortifying the logic of capitalist socialization. On

the other hand, innovative financial constructions created tremendous regulatory problems: policymakers did not have the instruments to stabilize this pattern of financial expansion (Degen 1987). While finance was increasingly important as a means of social integration, the fact that this function was insufficiently supported by the existing institutional regime was visible in high levels of inflation.

It is in this context that the emergence of a neoliberal regime should be situated. One of the key moments here was the Federal Reserve's turn to monetarism. Monetarism is often described as a return to more traditional, pre-Keynesian financial policies, but this is a misleading portrayal. Pre-New Deal financial authorities simply did not have the kind of policy levers that might have permitted them to manipulate financial markets in such a comprehensive way. It had taken the developments of the intervening decades to produce the financial connectivity that permitted such policy leverage. Monetarism was a policy to address problems that proceeded on the basis of institutional capacities built up over the previous decades. The standard view of neoliberalism in terms of the subordination of policy and politics to the discipline of the market fails to capture either its origins or effects: the turn to monetarism was initiated by policymakers within the state who sought not to abandon but precisely to increase regulatory control; and it had the effect of enhancing regulatory control over financial markets.

Monetarist policies involved putting strict limits on the amount of federal funds that banks could access, resulting in higher interest rates. This did not, however, suppress the creation of money and credit. Rather, it triggered a new wave of innovation and liquidity creation. Banks benefited from the increased price of credit without suffering the downside of restricted quantity (Greider, 1987, p. 139-40). Capital markets activity surged and financial markets began to function as a kind of vortex, sucking in economic activity. Monetarism therefore did not stamp out inflationary pressures but rather re-directed them: inflation was concentrated in the financial sector and so transformed from a generalized problem into a dynamic beneficial to financial capital.

The flipside of this development was the recession in the manufacturing sector, which, in combination with the social policies of the Reagan administration, had a devastating impact on the income of the lower strata of the American population, pushing these groups to borrow against unfavourable rates and often to borrow more in order to be able to repay their loans and interest charges. Everyday life and high finance, Main Street and Wall Street, became connected in a highly asym-

metrical relationship. In other words, what neoliberalism meant was not across-the-board market discipline but a *redistribution* of discipline and constraints: it gave financial capital much more leeway, and the other side of this was the intensification of economic discipline on the lower strata of the American population.

This redistribution of financial discipline was highly functional from the systemic perspective with which policymakers were concerned: the inflation of asset prices was much more manageable than the consumer-price inflation of the 1970s. So the monetarist shock reconfigured the financial regime in such a way as to eliminate its most serious institutional contradictions and to bolster the infrastructural capacities of the US state. Debt-based socialization could now proceed without creating the kind of regulatory contradictions that had marked the 1970s.

This did not mean that active financial management had become unnecessary, but that the American state had created sufficient policy room for itself that it could deal with the contradictions of financial markets in more constructive ways. Increased public capacities were evident in the Treasury's ability to sell massive amounts of public debt in expanding financial markets, allowing it to finance large budget deficits with relative ease. These public financing capacities would become crucial in the American state's management of the crises of the 1980s (like the debt crisis and the Savings and Loan crisis (S&L)), as it permitted the Treasury to bail outs firms that were considered 'too big to fail'. And such interventions created expectations for the way in which financial authorities were likely to respond to the threat of large financial intermediaries failing in the future, i.e., it created a regime of implicit bailout guarantees (De Cecco, n.d.).

'Too-big-to-fail' policies involve a socialization of risk that is inherently asymmetrical in nature, since access to its benefits is conditional on the degree of market power that actors already enjoy. The interests that can count on public backing are those that have already become leveraged to such an extent that, if they were to collapse, would bring entire segments of economic life down with them. Since the onset of the subprime crisis, 'too-big-to-fail' policies have been portrayed as a very recent development and a departure from the hegemony of neoliberalism, as a kind of pathological 'moral hazard'. However, public bailouts have been a consistent feature of US financial policy since the early 1980s, and it is crucial to see that the state's willingness to selectively socialize risk has never just been a moral problem: the ability of financial elites to externalize the risks associ-

ated with their strategies has been a consistent driving force behind financial innovation and to the market expansion from which the US state benefited so much.

Much of the neoliberal period can be understood in terms of a publicly sanctioned and promoted unfolding of a highly symbiotic relationship between financial innovation and elites' market power on the one hand and social trends like growing inequality and stagnant wages on the other. In the wake of the S&L crisis, regulators and banks cooperated to expand the techniques and instruments for securitization (MacDonald, 1996, p. 298), and the Clinton administration's social policies were heavily based on improving access to financial services. The government-sponsored enterprises Fannie Mae and Freddie Mac increased their investments in mortgages for lower-income borrowers, and other financial institutions were given incentives to do the same. The availability of securitization techniques interacted with neoliberal social trends and policies to produce a massive expansion of asset-backed debt (Montgomerie 2007, Dymski 2007). While the integration of lower-income groups into the formal financial system was widely portrayed as promoting financial inclusion, intermediaries increasingly treated low-income households as a 'captured market' (Montgomerie, 2007, p. 21).

The nineties saw the steady expansion of an elaborate web of financial relations based on the mutually reinforcing further penetration of financial relations into everyday life and the accelerating gyrations of the wholesale capital markets. During this time 'too-big-to-fail' functioned as a background regime that, owing to the decade's relatively stable growth, did not have to be invoked very often. The infrastructural aspects of US state power were more immediately obvious in the very significant policy leverage that the Federal Reserve developed. Not entirely unlike an economist who can alter the parameters of a model on the basis of an understanding of its systemic properties, the Fed could set some of the institutional parameters of a system of highly liquid financial markets. Due to the growth of market depth and the consequent improvement in market arbitrage, the price of federal funds was now almost instantly transmitted across highly integrated financial markets, allowing the Fed an unprecedented degree of control over market interest rates (Krippner, 2007; Phillips, 1996). To be sure, the Fed's regulatory authority remained dependent on the networks of institutional linkages through which it had been constituted. Its policy autonomy was specifically a capacity to manage and stabilize financial expansion; it was not in a position to control the total quantity of money and credit created in the financial

markets. Even if Federal Reserve chairman Greenspan's expression of concern regarding 'irrational exuberance' threw the markets off-kilter for a few weeks, this lamentation was itself testimony to the fact that the Fed was not in a position to reduce their dynamism on a structural basis (Parenteau, 2005).

This logic of financial expansion and governance survived the dot-com meltdown of the first years of the century largely intact. Owing to the Fed's liquidity-infusions, the effects of the stock market meltdown, while spectacular, were prevented from spilling over into the wider financial system and triggering a system-wide credit crunch. Banks quickly embarked on a new set of profitable strategies, with securitized mortgage and consumer debt the driving forces behind financial growth (Blackburn, 2008, p. 81). Lending practices took on increasingly predatory qualities. Many mortgage lenders found their way into poor neighbourhoods that in the past they had 'redlined', that is, designated as areas ineligible for loans.

The incorporation of new actors into the forms and relations of American finance produced contradictions that were more serious than financial authorities had imagined possible. As banks and brokers adopted lending strategies that in earlier times had been the preserve of loan sharks, they went well beyond enlisting subordinate actors into hegemonic patterns of control. Instead, by tightening the financial screws to the point of overstrain, they undermined their ability to function as competent social actors with access to the requisite set of capacities. Many poor Americans were less creditworthy than lenders and credit-rating agencies had hoped. And so it was that, in the summer of 2007, it became clear that many Americans had for some time been unable to service the debts they had taken on. Because much of this 'bad debt' was hidden in larger pools of asset-backed securities, uncertainty spread and markets froze.

Over the course of the following year, the gravity of the situation became fully apparent. When the Federal Reserve's attempts to restore confidence proved ineffective and several Wall Street giants teetered on the brink, authorities quickly signalled their willingness to extend financial guarantees. As it became clear that selectively rescuing firms was not going to hold the American financial system together, 'too-big-to-fail' policies assumed entirely new dimensions, beginning with the Troubled Asset Relief Program. Over the past years the US state has extended major public guarantees to financial institutions. This has reinforced the structural salience of the 'too-big-to-fail' logic: since post-crisis legisla-

tion has not in any meaningful way changed the configuration of incentives facing American financial institutions, they will still be able to take on risks that will have to be socialized when they go sour. The question is how this continued redistribution of financial pressure will be managed and what kind of responses it will provoke.

CONCLUSION

The US state's recent crisis management efforts have been highly non-neoliberal in spirit. However, we should exercise considerable caution when depicting the highly visible role of the state in the present situation as a break with a preceding neoliberal era. For, as this essay has argued, neoliberal practices have *never* been very neoliberal in spirit. If we see the disjunction between neoliberal theory and practice as a constitutive aspect of the construction of power relations and political capacities over the past three decades, then the recent deployment of political capacities appears less as the breakdown than as the provisional culmination of the neoliberal era and its distinctive practices. Like all episodes of intense strategic manoeuvring, these strategies generate contradictions and will be affected by a range of unforeseen consequences and unacknowledged interdependencies. Yet they are not without foundation, as they operate on the basis of capacities rooted in the institutional construction of the American financial system.

If, as a result of the severity of the crisis, the discrepancy between theory and practice has now become so flagrant that it has actually undermined the credibility of neoliberal free market myths, we should bear in mind that that myth has only ever been the tip of the iceberg of neoliberal patterns of power. We are not just dealing with neoliberal policies and ideas but with a much wider infrastructure of power that involves organically rooted norms, institutions and actor capacities (Cahill 2009).

A conventional perspective that aims to re-assert the state *against* financial markets is profoundly inconsistent with developments of the past years. The current strategies of the American government, far from representing a classic instance of direct state intervention or a return to Keynesianism, are profoundly imbricated with and reliant on the financial institutions and connections that have proliferated throughout social life during the neoliberal era. The sheer degree of infrastructural control that is involved in the bailout packages goes well beyond the kind of intervention mechanisms that were available to Keynesian welfare state planners during the post-WWII period. The state's tentacles have been

wrapped around the heart of economic life, and it is now wielding these to reconfigure the institutional parameters of financial growth and in such a way as to restore systemic properties that allow for stable expansion. The progressive potential of this will be slim, unless we can muster the political agency to effect such change.

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