Capitalism, The Minimal State, and the Positive State

"The history of public policy in the United States is the history of the political response to the transformations of the American economy over the course of two centuries."
Edward Greenberg

• The Founders were capitalists and constitutionalists. They took the revolutionary step of liberating property, commerce, and finance from state control….by law. In effect, they privatized the means and relations of production. The Founders created a governing system with a minimal state. Minimal does not mean laizzez-faire….the government is a vital actor. Indeed, the market and the government are partners in a capitalist political-economy. This form of social organization features two realms of human relations…..a private sector and a public sector.

• The purpose of government was to create and maintain the framework…..the infrastructure, for the operation of a market society. Government was to assist the market economy by performing a variety of accumulation functions….policies that would assist in the creation of profits.

• What did the minimal state do? What are the accumulation functions?

  >Create and maintain the legal framework for a market society (a system of civil law providing for the sanctity of contract and the primacy of property)

  >Provide mechanisms for financial transactions (direct or indirect provision of a system of currency, credit and banking)

  >Ensure civil peace and order (instruments of social control and national security--police, militia, army, courts, etc.)

  >Provide protection of domestic industry (tariffs, customs service)

  >Provide direct subsidization (land, material infrastructure, transportation, communication)

• The minimal state is quite active in creating conditions conducive to market capitalism. This is first evident in the early and middle decades of 19th century when the US government was building roads and canals, removing Indian populations from exploitable lands, conducting internal and external wars,……generally, acquiring territory through purchase and force.
• The product of this version of liberal capitalism was the spectacular mechanization and industrialization of the US economy in the late 19th century. This produced a revolution in economic, social, and political relations…...a turmoil that exposed the mixed blessings of industrial capitalism. The result was a crisis that threatened the legitimacy of the US economic and political systems. The reforms of the progressive era and the New Deal were the response. What emerged as a consequence was a second basic role for government……in addition to the accumulation function, a legitimation function was established (not without resistance and controversy).

• What are the legitimation functions of government? In Edward Greenberg’s (1979) analysis, these 20th century reforms are interpreted by both liberals and conservatives as a movement to the left, as the demonstration of the commitment of the state to a more equitable society…….However, he sees them as an attempt (mostly successful) to rationalize and stabilize corporate capitalism (i.e. use the state to address the problems created by a corporate dominated market place). The reforms helped to impose some order on the economic system and to liberate the corporate sector from the dangers of the business cycle. They also temporarily created a situation of labor peace by legitimating collective bargaining and reduced the impact of unemployment and inequality by the use of welfare and relief expenditures.

• The accumulation and legitimation functions produce the modern positive state of the past half-century. In addition to the functions of the minimal state listed above, policy in the positive state includes:

  >Providing public goods including regulating natural monopolies, environmental protection, consumer product safety, education, public health, support of the arts, health insurance, pension schemes (positive and negative externalities)

  >Ensuring economic growth and stability: fiscal policy (manipulate aggregate demand/supply-side/demand-side), monetary tools (affecting money supply, interest rates)

  >Dealing with poverty and inequality: social and economic safety nets such as unemployment insurance, welfare, Medicaid, Head Start, Affirmative Action, etc.

• Many people (conservatives and libertarians, for example) reject government activity in many of these areas, particularly regulation of the economy (including negative externalities) and efforts to alleviate poverty and inequality.
SUMMARY:

- The main instrument for the directing of society is the market. Why is it not the government?

- Liberal capitalism features a partnership between market and government---market is senior partner, government is junior partner.

- Public policy debate is over the appropriate focus and amount of government activism in its role as junior partner. Arguments about public policy begin with the question, “when are private interests public?” This is why we refer to involvement by government in regulating, promoting, ordering private life as intervention.