Cutting Government Deficits: Economic Science or Class War?

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Abstract: The financial crisis of 2008 was widely blamed on reckless and predatory behavior by the banks, and public debate therefore centred on supporting employment and reforming the financial system. But during 2010, the focus of attention has shifted to the deficits and debts of governments, which are widely believed to be excessive and unsustainable. It is argued here that cutting government deficits is not an economic necessity, but a strategy for justifying attacks on the living standards of workers and heading off reforms that might threaten the power of the dominant business and financial elites.

Keywords: Public finances; Keynesianism; neoliberalism; class rule

Introduction

Shortly before the British General Election of 6 May 2010 an independent London economic policy think-tank, the Institute for Fiscal Studies (IFS), called for the major parties to 'come clean' about their strategies for reducing the public sector debt, if elected to office (Chote 2010). The IFS report resonated strongly with the overall public attitude towards the main political parties in the campaign: fuelled by the parliamentary expenses scandal that dominated British politics for much of 2009, many people had come to regard all politicians as devious and untrustworthy. The media response pandered to this attitude by unthinkingly echoing the IFS position. The centre-left *Guardian* asserted that the IFS was "the leading economics think-tank" in the country, clearly implying that its views must be accepted without question. In this particular case that meant accepting not only that

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the political parties had to be transparent, but also that the public sector debt had to be reduced.

To any critical social scientist, such claims require substantiation. Leaving aside the less contentious first claim, that political parties should be open about their intentions, the purpose of this paper is to examine the second claim. Is cutting the public debt really an objective economic necessity, or is it actually a deeply political stance, reflecting the interests of business and financial élites?

In the next section, I look at the historical reconfiguration of public finances over the last forty years, focusing on the shift during that period from post-war Keynesian state interventionism to the neoliberal hegemony that characterizes the current economic policy landscape across the world. The following section then examines the contemporary debates over public sector deficits and sovereign debt, arguing that because of the global savings glut that has persisted right through the crisis that began in 2007, it is not 'economically necessary' to give immediate priority to cutting public deficits and debts.

In the final section, I suggest that the real reason for the cuts is twofold. On the one hand, the business, financial and political élites—in short, the ruling classes—were obliged in 2008 to summon the interventionist state back onto the stage to avoid a total collapse of global finance, and now want to banish it once more to a merely supportive role. On the other hand, the cuts in state spending and increases in taxes are being structured in such a way as to transfer income and wealth from working people to the rich and powerful: ironically, this has now been authoritatively confirmed in a detailed study by the self-same IFS (Browne, 2010). This combined attack, at once economic, political and ideological, requires a response that breaks decisively both with the easy compromises of social democracy, as well as with the unpalatable elitism of vanguard communism.

The political economy of state spending in historical perspective

Over the last forty years, the theory and practice of economic policy has shifted markedly from mainstream post-war Keynesianism to the unchallenged hegemony of free-market neoliberalism. Although there have been many elements in this overall shift—notably privatization of state enterprises, deregulation of financial markets, the globalization of finance and attacks on trade union rights—public finances have consistently played a central role.

Continuing a long historical tradition, Britain was a pioneer in this shift to neoliberalism. There were two key campaigns in particular that affected the UK: the first during the 'stagflation' crisis of the mid-1970s, and the second during the sharp recession of the early 1990s.

The 1970s and the rise of Thatcherism

Through the 1950s and 1960s, economic growth in Britain had been slower than in continental Europe, let alone Japan. In the 1970s, slow growth came to be accompanied by both high inflation and the return of mass unemployment, a combination that was completely at odds with conventional Keynesian thinking at the time. A long decline of industrial employment in Britain also accelerated in the 1970s. This 'deindustrialization' was blamed variously on poor business management, a national culture hostile to scientific and technical education, the continuing cost of empire, excessive investment abroad, or the obstructiveness of highly-organized trade unions.

Attempts by successive governments to address these problems of decline started under the 1964-70 Wilson administrations, and continued through the Heath years to the return of Labour in 1974. In the decade from 1964, restricting public spending might have been necessitated when sterling was under pressure, but it was not seen as the key to macroeconomic stability. Instead, the predominantly Keynesian policy mainstream favoured state initiatives in the form of income policies and indicative planning, aiming to reconcile the conflicting interests of employers and unions through the good offices of the state. However, by 1976 these efforts appeared to have failed, as inflation reached a record level of 26% even though unemployment remained stubbornly high—an unprecedented combination that came to be called 'stagflation'.

Although Keynesians tried to argue that the inflation was largely the result of international developments such as the breakdown of the dollar-gold link in 1971 and the oil shock of 1973, their policies were clearly in disarray. This led to the emergence of two policy platforms standing to left and right of the mainstream. On the left, Labour and the unions flirted with an Alternative Economic Strategy which centred on a radical extension of state intervention in the modernization of British industry (London CSE Group, 1980). On the right, the monetarist followers of Milton Friedman offered an equally radical diagnosis, blaming stagflation on the fiscal and monetary indiscipline of the government (Laidler, 1982). While Friedman's followers argued that inflation was always due to excessive expansion of the money supply by the central bank, in Britain Bacon and Eltis (1980) argued that alongside this, successive governments had 'crowded out' private economic activity through the excessive growth of the public sector.

Following a sudden dip in Britain's trade balance in 1976, a run on the pound forced Chancellor Healey to turn to the International Monetary Fund (IMF) for help. The public spending cuts that followed signalled an early victory for the monetarist right, and the end of the road for both mainstream Keynesianism and the leftist Alternative Economic Strategy. Thatcher's election success in 1979, followed by Reagan's in the USA, signalled the return of pre-Keynesian economic and social conservatism. In Britain, the fierce monetary and fiscal squeeze that ensued put manufacturing to the sword, while the abolition of exchange controls allowed the burgeoning wealth from North Sea oil to be invested largely abroad. Trade union rights were severely restricted through a series of legislative measures. The breaking of the print unions by Rupert Murdoch and the defeat of the year-long miners' strike of 1984-5 signalled an end to the power of organized labour. The second half of the 1980s saw an eventual revival in economic growth, which was widely seen as a triumph for Thatcherism (Coates and Hillard, 1987). Politically, that triumph was very well summed up by Gamble (1988) as combining the free economy and the strong state: in order to liberate capital from the suffocating embrace of the state, it was necessary for the state itself to act decisively to restrict its own sphere of action.

Internationally there were soon clear parallels to the rise of Thatcherism in Britain. The Bretton Woods international monetary order, set up in 1944 and broadly inspired by Keynes, had tied most currencies to the US dollar, which in turn had been tied to gold. The availability of temporary loans from the IMF in principle gave governments the leeway to work out their own solutions to deficits in their balance of payments. This system had been abandoned in 1971-2, when the US no longer had the gold reserves to support it, and thereafter currencies were mostly allowed to float, meaning that their values were determined by international market forces. The revival of private international finance accelerated as a result of the massive 1973 rise in oil prices, when oil producers' revenues were recycled as loans to oil-consuming countries. In 1979, President Carter's Federal Reserve chairman Paul Volcker attacked US inflation through a dramatic monetary squeeze, raising interest rates sharply and plunging the US into recession.

This not only signalled a shift to monetarist economic policies in the US, but also directly contributed to the Third World debt crisis of the 1980s. Hit by falling export revenues and a rising cost of debt service from higher interest rates, many developing countries were forced to seek help from the IMF and the World Bank precisely when those bodies were themselves adopting the revived economic ideology of free markets and sound money. Loans were only made available on condition of cuts in public spending and the liberalization of trade and finance, the new development policy that became known as the Washington Consensus (Williamson, 1993).

The triumph of neoliberalism – and globalization

While the Third World was devastated by the debt crisis of the 1980s (Haggard & Kaufman, 1992), the UK and US financial sectors pressed forward with deregulation at home and expansion abroad, laying the basis for their joint domination of global financial markets. However, by the end of the decade, the US recovery under the Reagan administrations ended in a major financial crisis centred on the savings and loan companies that traditionally provided residential mortgage loans. Recovery in the UK centred on financial services, retail and property, generating a boom that led to renewed inflation and an unsustainable expansion of credit. Meanwhile in Japan too, a frenetic stock market and property boom led to a spectacular crash in 1987.

When these developments culminated in a global financial bust in 1990-91, coinciding with the fall of Communist regimes across the Soviet bloc, the free-market right once again blamed lax monetary policy and excessive public spending. Within the European Union, this resulted in the strictures of the Maastricht Treaty, first negotiated in 1991 and finally enacted, after some resistance, in 1993. In relation to public finance, from now on all EU member states were enjoined to limit their fiscal deficits to 3% of GDP, and their aggregate public debts to 60% of GDP. The free-market reforms that the Washington Consensus had imposed on the Third World were now also imposed upon the post-Communist 'transition' countries of Eastern Europe and the former Soviet Union.

As a result, economic policy regimes across the world began rapidly converging on a single model, that of neoliberalism. Within each country, this took the form of monetary and fiscal policies that prioritized open markets and low inflation, rather than full employment or the eradication of poverty. In the monetary field, the overriding purpose was to achieve a target rate of inflation. Because banking and finance were both deregulated and internationally integrated, the money supply became almost impossible to measure, let alone control, and selective state intervention in credit markets was now ruled out. As a result, the rate of interest became the key policy instrument; if inflation exceeded its target, the central bank would raise the rate of interest charged to banks, and if it fell below, they would reduce it. Meanwhile, the limits on public expenditure and government deficits not only brought to a halt the expansion of welfare states, but also accelerated the privatization of state-owned industries everywhere, most extensively in the ex-communist countries.

The wider political economy of neoliberalism centred on two significant processes through the 1990s. The first of these was *financialization* (Epstein, 2005), in which capital accumulation shifts to the financial services sector from the production of other goods and services. While financial firms certainly took full advantage of the sector's deregulation, the growth in financial markets and the development of new financial products was enthusiastically welcomed by businesses and households alike. For big business in particular, the 1990s saw a boom in mergers, buy-outs and restructuring, and the embedding of financial imperatives within the firm aimed at maximizing profits. This signalled an abrupt end to the more benign 'managerial revolution' of the post-war period, in which professional management and organized labour supposedly worked together in pursuit of growth, innovation and good working conditions. Households, suffering from stagnation in earnings as a result of fierce competition in labour markets, began to pile up debt as they sought to maintain the growth in living standards to which they had become accustomed. Unwittingly, they were being transformed from wage-earning workers into universal financial subjects, viewing the world in terms of investment opportunities and capital gains (Radice, 2010b).

The second important process of change was *globalization*, which became a dominant subject of study across the social sciences and in political and cultural discourse. After two decades of relative stagnation, the 1990s saw dramatic growth in trade and foreign direct investment (FDI) across all sectors of the economy and in all parts of the world. Within the Washington Consensus, FDI was to replace publicly-funded aid programmes as the primary means of modernization and development, enabling 'emerging economies' to take advantage of trade liberalization by expanding their exports to the consumer markets of the rich countries. FDI was also central to the remarkable acceleration of economic growth in Asia, especially the rise of China, and in Latin America. By the end of the decade, the conventional perception on the left of a Third World entirely and inevitably mired in poverty and stagnation had become seriously out of date.

These twin processes strongly reinforced the transformation in economic policy regimes everywhere. Globalization and financialization ensured that the state's fiscal and monetary discipline was backed up by the mighty power of global credit markets. The capacity to withdraw funds from states backsliding on their commitment to neoliberalism was exemplified in the dramatic crises that hit Mexico in 1994, many East Asian countries in 1997, and Russia in 1998. With active monetary and fiscal policies to pursue national economic goals now outlawed, the standard policy model became that of the 'competition state' (Cerny 1997), seeking to attract inward investment flows to boost employment and exports, and to provide the 'supply-side' infrastructure for domestic businesses.

Although the turn of the millennium was accompanied by further outbreaks of financial crisis—for instance, the 'dot.com' stock-market bust and Argentina in 2001—a new wave of global economic growth accompanied by low inflation appeared to justify the self-satisfied claim that 'the 'Great Moderation' had arrived (Bernanke, 2004). Until 2007, the hegemony of neoliberalism seemed assured.

The course of the crisis: government deficits and the bond markets

The origins and course of the crisis that began in that year have by now generated a large literature (for a fuller account see Radice, 2010b). The combination of a long period of growth with exceptionally low interest rates had led to the over-selling of 'sub-prime' mortgages to poorer households in the USA, who were persuaded that ever-increasing house prices could provide economic security. Like other forms of household loan, these mortgages were funded through securitization, issuing bonds whose value was based on the stream of expected mortgage payments. For the purchasers of such bonds, the risk appeared minimal, since each was based on a diversified bundle of mortgages, so that if some were to go into default, the rest would carry on generating income. In any case, the risk could also be laid off through a new form of insurance eagerly supplied by global investors—the credit default swap. Through 2005-7, mortgage defaults climbed as interest rates rose, while both house prices and employment stalled, and it slowly became clear that the risk to the value of mortgage-backed securities had been drastically underestimated. As defaults increased, thousands of banks, insurance companies and other investors such as hedge funds found themselves facing potentially catastrophic losses. With the markets unable to arrive at any clear idea of the real value of trillions of dollars worth of financial assets, day-to-day lending transactions between banks ground to a halt, not just in the USA but around the world. During 2008, the entire global financial sector slid inexorably towards total breakdown.

After the bankruptcy of Lehman Brothers in September 2008, governments began a hectic programme of concerted actions. These were aimed first at supporting the banks so that they could continue to manage the world's monetary flows, and then, as a world recession rapidly set in, at sustaining aggregate demand. Interest rates fell to near-zero and central banks pumped money into their economies. For the worst-hit countries, the IMF organised rescues using the methods established in the 1980s Third World debt crisis. The traditional G8 summits were hastily supplemented by larger G20 meetings, bringing China, India and Brazil among others into the mix. Global governance agencies, such as the Bank for International Settlements and the Organization for Economic Cooperation and Development, provided coordination and advice, and began the process of crafting regulatory reforms for the banking sector aimed at avoiding any repetition of the crisis.

Despite the obvious echoes of the global crisis of the 1930s, however, there has been no repetition, at least in the major capitalist nations, of the catastrophic rises in unemployment and falls in international trade that characterized that decade. This is surely partly due to the dense web of global governance institutions, which scarcely existed eighty years ago. The cooperative response has also reflected the dramatically greater extent of cross-border economic interdependence. However, the proximate reason is undoubtedly the adoption of massive fiscal stimulus packages, most notably in the USA and in China, but also in many other countries. The fiscal stringency of the Maastricht Treaty and the Washington Consensus was quickly abandoned from late 2008, with current budget deficits rising rapidly to levels ranging from 5% to 15% of GDP or more.

However, through the second half of 2009 the tide of support for public intervention began to turn. Precisely because the giant investment banks make their money from market-making and transactions, rather than loans and investments, their fortunes quickly recovered from the 2008 debacle, the supreme irony being the vast commissions they got for marketing the flood of new sovereign borrowing, and restructuring and refinancing busted large corporations like General Motors. As credit markets began to function again, even the derided ratings agencies like Moody's, which had happily taken fat fees for doling out AAA ratings on sub-prime mortgage-backed securities, recovered their nerve and began to pronounce upon the sustainability of the much higher—and still rising—post-crisis levels of government debt. As the Eurozone powers bickered over how to address Greece's fiscal crisis in late 2009, governments recently freed from the shackles of fiscal restraint found themselves once more on the defensive.

How and why has this happened? It is striking that at no point in the past forty years of debate on public finances did the monetarist economists—or their neoliberal successors—explain why any particular limit to public deficits and debt was *economically necessary*. Instead we have been offered, then as now, an entirely circular argument. We are told by supposed economic experts that deficit cuts are necessary because international bond markets require them. So why do the investors in international bond markets require cuts? Because the economic experts say they are necessary!

Now it is certainly the case that any single government which accumulates debts that are very high compared to those of other governments will find itself subject to special scrutiny by the bond markets, as the Greeks now know only too well, and as many Third World governments found out already back in the 1980s. We should of course also make allowance for the pernicious effects of speculators: for instance, the role of George Soros in Britain's 1992 crisis that forced it out of the European Union's Exchange Rate Mechanism, or the flight of 'hot money' from East Asia in 1997. But a reasonable case can still be made that governments should, in normal times, avoid excessive reliance on borrowing, especially to fund current expenditure as opposed to capital investments.

However, from the standpoint of macroeconomic stability, and especially that of maintaining full or near-full employment, our overriding concern today should remain that of Keynes: the need for governments to sustain economic activity at a time when savings in the private sector greatly exceed investments. This need is met by absorbing excess savings through the sale of government securities, the proceeds of which are then spent so as to sustain aggregate output and employment.

There are however big differences in the nature of capitalism today, compared to the 1930s when Keynes first made the case for counter-cyclical public spending. In 1933, after the failure of yet another international conference aimed at coordinating responses to the crisis, Keynes reluctantly made the case for a national solution led by the state. As a lifelong liberal, he rejected both the Soviet experiment of central planning, and the emerging Nazi model of extreme economic nationalism under the joint dictatorship of capital and the state. From then on, he consistently argued that international capital movements should be tightly restricted, so that governments could fully exercise the control over national financial markets that they acquired through the sheer scale of their borrowing and their control of the money supply (Radice, 1988).

But precisely as a result of the combined processes of deregulation, financialization and globalization discussed earlier, governments no longer have this degree of structural power over finance. In addition, for decades now, massive imbalances in international trade between countries have been sustained, with the huge trade surpluses of Japan, Germany, and now China being matched by the huge deficits of the USA and Britain. These trade imbalances are by definition offset by capital flows from surplus to deficit countries, and these flows—as well as the financing of expanded trade—have been a major feature of financial globalization. As a result the Keynesian premise, of the state's structural power over finance, can only be fully applied collectively at the global level. State power over finance could only be re-established within a single country by a radical disengagement from the world economy, but given the economic and political resources invested in building the global economy and its neoliberal order, the cost of doing so would be immense.

Adopting this approach, we can see that the continued growth and prosperity of countries with chronic trade surpluses, like Germany and China, depend, in conditions of global recession, on the willingness of other countries like the USA and Britain to continue to run trade deficits. As a corollary—and this is *really* an economic fact—there will be continuing matching outflows of capital from the former countries, and inflows into the latter. Given the current reluctance of businesses and households in the trade-deficit countries to borrow and spend, it is their *government* borrowing that keeps the world economy going. And the very fact that so many governments have been able to borrow so much since 2008 shows that, despite the global recession, there remains a *global savings glut*. This savings glut has arisen because of the massive shift from wages to profits, and from the closely-related subordination of hundreds of millions of peasants and independent producers to wage labour in those 'emerging' economies. As states have abandoned their earlier commitment to the fiscal mitigation of inequality, the wealthy have increased their grip on global savings.

As long as those savings continue to exceed global private sector investments, governments must continue to absorb that excess. Otherwise, the world economy will slip back into the famous 'double-dip' recession, a prospect that has become increasingly likely through the summer of 2010. Indeed, as and when the global recovery has reached the point where private sector investment has substantially recovered and cyclical unemployment has disappeared, why should 'the markets' require a reduction of government deficits to 'normal' levels? There is, after all, no economic law that dictates a 3% cap on the government deficit, and 60% on debt, or indeed any other numerical values. The level of aggregate economic activity is entirely unaffected by the proportion of demand that flows through the public rather than the private sector. As real interest rates swing back to being moderately positive, the power of compound interest is surely enough to sustain the economic advantage of the rich, as well as the pensions of the middle classes.

Resolving the crisis: restoring class rule

In the end, now as in the 1970s, the real reason for the attacks on state borrowing and state expenditure lies not in economics, but in politics, or more specifically in class warfare. For it is primarily through the politics of democracy—even our highly restricted form of it—that the privileged position of private wealth has historically come under threat. After 1945 the propertyless in most parts of the world, West, East and South, made remarkable gains in their well-being and in the strength of their political voice. By the mid-1970s, the propertied classes—whether capitalists, usurers, merchants or landlords, or indeed the Soviet-bloc bureaucratic élite—found themselves on the defensive on many fronts.

Many radical nationalist governments in the Third World continued to press for reforms in the governance of the world economy, challenging the new forms of economic colonialism that followed independence (Biel, 2000, ch.6). In the Soviet bloc, the 1968 Prague Spring and the first stirrings of the Polish workers' movement in 1970 threatened the bureaucrats' highly centralised power (Harman, 1974). And in the West, not only had new social movements challenged the elites on issues of gender, race and the environment, but workers were also advancing new claims to workplace democracy and economic security that seriously threatened the power of big business and high finance (e.g. Rowbotham, Segal and Wainwright, 1979; Gorz, 1985).

The previous two sections charted the rise of neoliberalism with a particular focus on public finances. With the benefit of hindsight, the historical logic of that rise seems all too apparent. But the political articulation of an effective response by the ruling classes to the combined challenges of the 1970s was by no means clear at the time. For more than thirty years, the ideologues of neoliberalism, with economists at the fore, worked assiduously to construct a new common-sense about the economy based on the old liberal mantra: property rights, individualism and the residual state. Yet they were constantly faced with resistance, not only from the diverse forces of the left, seeking to at least defend the post-war gains of workers, but also from political strands of the right: nationalism, religious authoritarianism, and even, in parts of the global South, the traditional paternalism that remained from the rule of precapitalist landed interests (Barrington Moore, 1966). Karl Polányi (1944) had argued that the nineteenth-century liberal utopia of a market society had historically foundered on the social consequences of subordinating not only produced commodities, but also land, labour and money, to the market—in Marx's terms, to the rule of capital. The result was a historical 'double movement': first towards the market society, and then towards social protection.

By the turn of the millennium, the restructuring of the state, the redistribution of income and wealth to the rich, and the removal of workers' collective rights had seemingly turned the tide once more towards the market society. Yet in 2007-9, the crisis immediately led to widespread public challenges to the neoliberal order, and the ruling classes were obliged to tear up the neoliberal rulebook in favour of vigorous state intervention. Perhaps this heralded the second phase of a new Polányian double movement, as Hettne (1997) had argued a decade earlier (for a sceptical view see Wade, 2010). But as we have seen, within about six months the neoliberals regrouped. In Britain, as the debate over Labour's 2009 Budget already showed, their ownership of the economic common sense allowed them to steadily shift the focus of debate from exacting retribution and repayment from the banks, to blaming governments for assuming the vast fiscal deficits that have kept capitalism afloat. Meanwhile, those who spoke up for real alternatives—for Green New Deals, for radical reform of the banks, for a new international financial architecture—have been pushed to the margins of public attention.

The immediate need, at this juncture, is for the left to continue to make the case for maintaining public expenditure, supporting the efforts of Keynesian economists such as Paul Krugman, Robert Reich and Joseph Stiglitz in the US, or David Blanchflower and Robert Skidelsky in Britain. Across the EU, the progressive economists of the EuroMemorandum Group (2009) have argued this case, and even the International Monetary Fund has argued that "growth prospects in advanced economies could suffer if an overly severe or poorly planned fiscal consolidation stifles still-weak domestic demand" (IMF, 2010, p. 7).

However, it is becoming increasingly clear that this is by no means enough, because it takes the easy course of looking back at how the world was before neoliberalism—and often doing so through rose-tinted glasses. James Ferguson (2010) argues, in relation to the global South, that returning to the alternative of the developmental state is not enough because the building-blocks of politics—workers, markets, nation-states—have been so fundamentally reconfigured by neoliberal restructuring. In the context of a realistic appreciation of these changes, we can see that the assault on public spending goes far beyond the simple matter of the macroeconomic management of effective demand. In this respect, Britain is leading the way, as has so often been the case historically. Following the election on 6 May 2010, a coalition government was unexpectedly formed between the Conservative Party under David Cameron, which had won the largest number of seats but not an overall majority, and the much smaller Liberal Democrats under Nick Clegg, which had widely been assumed to favour a centre-left coalition with Labour.

On 22 June, the Coalition announced an Emergency Budget, setting out savage cuts in public spending of up to 25% in all areas except health and overseas aid" (for details see Radice, 2010a). However, as government ministers began to detail their substantive plans for the years ahead, it quickly became clear that the immediate macroeconomic consequences were only one issue for the government's critics. In the key areas of health, education and welfare, the Coalition intends a far more radical assault on the nature of the state and its relation to society. This assault is not only aimed at deepening the neoliberal restructuring of institutions, but also at banishing the very idea that societal goals can be advanced through the collective state provision of public goods. The message is relentlessly driven home, that the Coalition wants to 'restore power to the people', linking service provision directly to clients and engaging the public actively in the substantive shaping of that provision. In historical terms, this is taking Britain back not merely to the era before the post-1945 welfare state, but to before the Liberal reforms of the early 20thcent ury.

However, in every respect the Coalition is cleverly building upon initiatives and perceptions already established not only by the Tory administrations from 1979 to1997, but also under New Labour from 1997 to 2010. New Labour dropped the Tory experiment under which family doctors commissioned specialist medical services; but in opting for an indirect commissioning model via local bureaucracies under central state control, they ensured that the NHS would still be driven by financial motives and managed along private-sector lines. In education, New Labour persistently undermined democratic local control through central initiatives and through the creation of specialist academies at the secondary level. And in welfare, despite some successful initiatives aimed at tackling child poverty, they pursued 'modernization' and 'value for money' programmes that did nothing to break the weary cycles of poverty and welfare dependency in which so many millions were trapped.

However, at a deeper level the neoliberal project is also about reshaping the very nature of citizenship, the way in which individuals imagine and live their relations with each other and with social institutions. In the post-war period, it was generally taken for granted that these relations were shaped by institutions structured around class interests: trade unions, professional associations, and political parties whose ideologies reflected the interests of capital or labour. Today, any such concept of class as a mediating force has been expunged from public discourse. On the left, the retreat from statism (social-democratic or communist) led in the 1990s to the famous 'third way' of Giddens (1999), and the search for progressive elements in 'civil society' and 'social movements'. On the right, the currently-fashionable British 'red Tory' thinker Philip Blond (2010) argues that the modern citizen can be mindful of social needs and active in ensuring their provision, while still responding to market signals in the more narrowly economic sphere.

The consequence is to deprive anyone seeking to pursue traditional progressive goals of equality, solidarity and sustainable livelihoods of the potential for a *collective* response to neoliberalism. So can the concept of class be resuscitated? In Marx's work in particular, class is a relational concept centred on the way in which society's material reproduction is ensured. Under capitalism, the predominant but by no means exclusive form of this is capitalist production, based on the separation of the majority from direct appropriation of the means of production. This separation divides society into workers and capitalists, with the many and varied strata of society comprehensible only in terms of their standing in relation to that fundamental division.

Neoliberalism has developed a double denial of the significance of class division in this sense, building upon the dominant theoretical traditions of mainstream sociology. First, class is redefined empirically in terms of the detailed differentiation of income levels and occupations in society, whose multiple groups are then aggregated into 'working class' and 'middle class'. Many Marxists have been drawn into this position, accepting the divide between the two, and arguing only that elements of this middle class could still challenge the rule of capital, either in conjunction with or in place of the industrial working class (Walker, 1979; for a general review of 'new class' theories see King & Szelényi, 2004). But as long as the main axes of differentiation are rooted in the production of goods and services as commodities, the common subordination to the dynamics of capitalist accumulation ensures common experiences that potentially unite these supposedly separate 'classes', however elusive this unity may have become (Meiksins, 1986).

The second denial addresses this problem directly, by positing other systematic determinants of the relation between individual and society, firmly based *outside* the realm of production. This has also been a perennial feature of mainstream sociology, but in recent decades it has been fuelled by the universal rejection of most varieties of Marxism for their 'economic determinism'. Twentieth-century Marxism, from Gramsci to Poulantzas and on, had in many respects accepted the criticism, downplaying the analysis of 'economic' production relations in favour of an approach in which 'the political' is constituted as 'relatively autonomous'. But equally, since the 1970s much of the left has rejected 'class politics'—interpreted narrowly as the sectional interests of the traditional male industrial working class—in favour of the 'rainbow politics' of social movements, rooted in the different, supposedly more authentic needs of particular social groups.

It seems clear that the rejection of class politics goes hand in hand with the view that economic activity *really is* constituted separately from other aspects of life in capitalist societies, including politics. However, such a view is at the very core of liberalism as a political ideology. For if the economic is really separated from the political, then its regulation can and should lie outside the realm of political action. In other words, the institution of private property cannot be politically challenged, and property rights cannot be subordinated to human or civil rights in forms such as 'the right to livelihood'.

It is precisely in order to develop a substantive underpinning for this proposition that neoliberalism now seeks to redefine the individual in effect *as a capitalist*, an economic subject whose engagement with others is mediated by the market, and structured by the accumulation of private capital. Since it is self-evident that the great majority of individuals are not 'capitalists' in Marx's sense—possessing a sufficient mass of money-capital that can generate at least a subsistence income—they are, instead, seen as capable of accumulating 'human' or 'social' capital (Fine, 2010), the possession of which enables them in principle to *acquire* money capital. Yet they can only do that through the sale of their labour-power—in other words, through wage labour, as members of the working class.

In order to escape from the trap that neoliberalism is now springing the left needs to reassert the class nature of capitalism in these terms, albeit without in any sense denying the political significance of other forms of oppression. In a letter to Marx, Engels (1858) famously quipped that "the English proletariat is actually becoming more and more bourgeois, so that the ultimate aim of this most bourgeois of all nations would appear to be the possession, *alongside* the bourgeoisie, of a bourgeois aristocracy and a bourgeois proletariat". The reality is that Britain is *the most proletarian* of nations, in terms of the proportion of its population who rely on wage-labour for their subsistence: there are no peasants left, and small-business capitalism has always been feebler than in other capitalist countries. By recognizing such foundations in present-day economic reality, it may yet prove possible to build a movement of universal appeal that can challenge the class rule of capital.

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