ASSAULT ON THE STATE AND ON THE MARKET: NEOLIBERALISM AND ECONOMIC THEORY

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> The idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness.
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> (Karl Polanyi, 1944)

The opposition between the State and marketplace is a part of the neoliberal agenda that only became a problem in our time when, in the 1980s and 1990s, Neoliberalism grew so hegemonic that its program came to seem as both natural and legitimate. This opposition, furthermore, placed on the same level two institutions that, by their very nature and structure, are complementary in modern society. The State is the constitutional-legal system and the organizations that guarantee it; it is, therefore, the fundamental institution of every society, the matrix of all other institutions, the coordinating or regulating principle with power over society as a whole, and the political apparatus by which it is permanently executed and amended. While societal actions are coordinated by law (that is, by the juridical order), public administration is what guarantees this coordination. The market, on the other hand, is a more limited, but equally fundamental institution: it is the mechanism of economic competition regulated by the State that, rather automatically, coordinates economic actions; it is the institution that complements the broader coordination carried out by the State. It makes no sense, therefore, to oppose State and market. We may acknowledge problems in the State, we may understand that certain activities might be better coordinated if the State limited its regulation of the market, but we would be wrong to see both forms of coordination as alternatives, because the State will always regulate markets and because ultimate responsibility for good or bad coordination will not be the market's, which has no will of its own, but society's – which, through its distinct forms of political organization (the civil society or nation), constitutes a State and, in the democratic State, elects its government.

Modern societies are capitalist societies that organize their territory in sovereign countries or nation-States. Today, within the framework of global capitalism, empires and areas previously occupied by tribes and clans have disappeared, and the entire planet is covered with nation-States that compose a broader and evolving world political system. As countries have opened their markets to international trade, globalization has transformed the world into a great marketplace – into one large and increasingly integrated economic system, where the political-territorial unit is the nation-State, comprising a nation (or civil society), a State and a territory. A country that is developed in the economic, social and political realms is a nation well served by a strong State capable of regulating a free and efficient market. The State and the market are, therefore, institutions of society – its instruments of collective action and the main tools for each society to achieve its goals. The primary instrument is the State; the market, socially constructed and politically regulated, is its complement. The stronger one institution is, the stronger the other will be.

Neoliberalism

It is vain to attempt to increase the power of the market by weakening the State, as the neoliberal ideology has irrationally aspired to do. When, after associating itself with seemingly scientific economic and political theories, Neoliberalism orchestrated a veritable assault on the social and democratic State that began to be established with the New Deal in the United States and was consolidated particularly in post-WWII Europe, the market also came under assault, because, in the absence of regulation, it ceased to carry out its function in society and become demoralized. Neoliberals and people guided by common sense will probably claim that the dominant ideology of the last 30 years – which for this very reason became commonsensical – did not seek to weaken the State, but merely to remove it from the productive realm; they wanted the State to cease being a "producer" and become a "regulator". To be sure, part of what they said seemed to corroborate this, yet their words were empty. Their discourse was classical Orwellian doublespeak that says the opposite of what one actually means. The fundamental role of the State is, indeed, that of regulator, defining and establishing itself as the constitutional-legal system. But the State can also be a protector, an inducer, an enabler and, in the initial stages of economic development, a producer. Neoliberalism not only rejected a State with these qualities – qualities that distinguished or were beginning to characterize the social and democratic State of capitalism's "30 glorious years" (1945-1975) – but also did not want a regulatory State. The name "regulatory State" was vacuous. Its goal was to deregulate, not regulate. For Neoliberalism, the State should become "minimal", and this meant at least four things: safety net, namely, the entire protective system through which modern societies seek to remedy the blindness of the market regarding social justice; third, it should stop inducing productive investment and technological & scientific development, that is, it should relinquish leadership of a national development strategy; and, fourth, it should stop regulating the markets and, in particular, the financial markets, deemed to be self-regulating. The most insistently repeated proposal of the Neoliberal creed has been the *deregulation* of the marketplace. How could it be possible, then, to speak of a regulatory State? Much better, and more forthright, would be to say "deregulatory State". What neoliberals aspired to, both in rich countries where their ideology emerged and in the developing world, was a weak State that allowed national economies to become a playing field for large corporations, their top executives and financial agents to obtain all kinds of rents – in lieu of moderate interest rates, fair business profits and professional wages, the legitimate forms of reasonably the economic elites.

Neoliberalism was the hegemonic ideology from the early 1980s to the early 2000s. It was the ideology adopted and promoted by American governments since Ronald Reagan. After the turn of the century, however, its intrinsic irrationality, its failure to encourage economic growth in developing countries, its efficacy in concentrating income for the richest 2% of every rich or developing society that adopted its ideas, and the increased macroeconomic instability (as shown by the successive financial crises of the 1990s) became clear indications of the exhaustion of Neoliberalism. Is it possible that, by forcing the State to intervene so forcibly to rescue indebted banks, companies and families, the crash of October 2008 and the ongoing economic and financial crisis might represent the collapse of this ideology – the end of its hegemony? The much-disparaged State was finally called upon to save the market… Neoliberalism today is a dead ideology, an embarrassing remembrance that owes its spectral existence only to the nefarious consequences it had on the societies it victimized. Am I, perhaps, being unfair with Neoliberalism and with the neoliberals? Having myself been always critical of this ideology, I call upon the testimony of someone wholly unsuspected, Francis Fukuyama (2004), a conservative but not a neoliberal, who in his book, *State-building: governance and world order in the 21st century*, vigorously criticizes the neoliberal policies imposed by the United States on less developed countries, particularly in Africa. He showed how such policies failed states[1]. I am aware that failed nation-States are a borderline case, but borderline cases can help us to clarify ambiguous situations that so often prevail in society.

For a long time, I defined Neoliberalism as radical economic liberalism, as the ideology of minimal State and self-regulated markets. Although these definitions are correct, the first poses a rather serious problem. After all, both political and economic liberalism were social conquests – and we've had many forms of radical liberalism that were not in the least neoliberal.[2] It is better to define Neoliberalism by making a

1 By State, singular, I mean the fundamental institution of a political-territorial unit (the country or nation-State). However, especially in international relations, when we speak of "States", plural, we are referring to countries or nation-States themselves.

2 The *Diccionario Enciclopédico Salvat* (Barcelona, 1954), for instance, defines radical liberalism as one with full independence between State and Church.

historical comparison with Liberalism. Liberalism, in the 18th century, was the ideology of a bourgeois middle class struggling against an oligarchy of landowners and weapons masters supported by an autocratic State. Therefore, if we wish to characterize Neoliberalism, a reactionary ideology, it is not enough to say that it is a radical type of economic liberalism, because the liberal radicalism of the 18th and early 19th century was revolutionary. Let us, then, attempt to see what Neoliberalism is or was historically. Neoliberalism is the ideology that the wealthy used in the late 20th century against the poor, the workers and a social democratic State. It is, therefore, an eminently reactionary ideology. It is an ideology that, bolstered by the neoclassical economic theory of rational expectations, by the so-called new institutionalism, by the theory of public choice and by the more radical forms of the rational choice school, orchestrated a veritable political and theoretical assault against the State and against regulated markets over the last 30 years. As a result, if we compare this period with the immediately preceding years, we will see that in the rich countries growth rates were reduced, financial and economic instability was increased and income become concentrated among the wealthiest 2% of the population. As for the developing countries that accepted the ideology – the followers of the Washington consensus –, growth rates were insufficient for them to even hope catching up.

State

The great institutional construction of modern societies is the State. Hegel was the first to understand this fact, to see it as the ultimate crystallization of reason, as the loftiest endeavor of human rationality. For us, it difficult to understand the claims of the great philosopher's, because we see our own State as an imperfect normative institution, always needy of reforms (the constitutional-legal system), and as an organizational institution peopled by public servants and politicians replete with administrative and ethical problems (the apparatus of the State or public administration). These, however, are merely differences between design and reality that do not disavow the State as a construct of human will, as the ultimate pursuit of rationality. Whereas the economy and society conceived with no heed to the State remain in the realm of necessity, politics and the State are the realm of freedom and human will. In the economy and in society, everyone defends their own interests and only secondarily cooperates with others – and both actions are carried out in a rather disorderly manner. There are no common goals, no collective choices. In this scenario, individuals are guided solely by their reason to fulfill their own self-interests. Because of this, when economists who define themselves as liberals [i.e., as conservatives in the American sense] seek to develop theories about society and the economy without considering politics and the State, they inevitably fall into the perversion of determinism. Determinism is a proper doctrine in the natural sciences, but it lures economists by making their science more "scientific", apparently more precise or seemingly better equipped to provide explanations. In reality, however, economics and other social sciences can only be rendered deterministic through a radical simplification of human behavior that is intrinsically misleading, because there is always an element of freedom and unpredictability in each human being and because social behavior is never the mere sum of individual behaviors. Brought together in society, individuals share values and beliefs and build institutions that themselves change the patterns of social behavior. It is by establishing a legitimate and effective constitutional-legal system – the State – and by means of other social institutions that citizens can transform their society and build their Republic in accordance with those values.

When attempting to understand society and the economy, we must always consider the State as well, its government and other institutions. As Karl Polanyi (1944, p. 33) said: “Economic liberalism misread the history of the Industrial Revolution because it insisted on judging social events from the economic viewpoint”, because it believed in the “spontaneity” of social change and ignored the “elementary truths” of “political science and statecraft”. Although concerned with their own interests, citizens can be called free when, in addition to this, they show themselves capable of regulating society and the economy, of organizing the common good, of building their nation and their State; in short, of changing their fate for the better. Success in this undertaking is always relative – but, if we believe in progress, we should reject pessimism and cynicism, and remember that the realm of freedom will slowly impose itself upon the realm of necessity, and that humankind, by constructing the State, will gradually give rise to national societies and a world society that are more prosperous, freer, fairer and environmentally-friendly. The social or welfare State and the social capitalism that European societies (particularly in Scandinavia) have built are far from paradisiacal, but they are a very significant sign of progress. This does not mean that citizens of those countries can afford to give themselves over to self-complacency. On the contrary, they remain engaged in an ongoing critique of their States’ practices and institutions, this being the only way to advance a perpetually evolving construction. Regarding this point, I always remember a German social scientist who, during a seminar in a developing country with much more serious social and economic problems than Germany’s, embarked on a ferocious critical analysis of his own native land. The other participants were taken aback, because they were used to criticizing their own society but saw the more advanced countries as something to emulate. In truth, however, a country and its society can only be deemed more advanced if its citizens have not lost their critical sense. Because they know that building a good society depends on the ability of each one to cooperate and commit to others; in particular, it depends on their ability to establish a good State in which social objectives and commitments have been embedded.

The State, as juridical order, is the concrete fulfillment of human liberty and reason. It is our quintessential instrument of collective action. It is, however, an imperfect instrument, not only because we ourselves are imperfect, but especially because this "our" is never seen as belonging to everyone, not even considering Rousseau's general will. Each society must learn who is the "we" that builds the State and uses it as an instrument to reach "our" goals. When Marx and Engels, in the *Communist manifesto*, said the State was the executive committee of the bourgeoisie, they were detaching themselves from the State. They were denying the State rationality and legitimacy. And they were right, because the State of their time was authoritarian and "liberal", upheld individual freedom but denied the political liberty of voting, being elected and participating in the government. They were right also because the two forms by which their society was politically organized to determine the actions of the State – nation and civil society – were themselves authoritarian, inasmuch as all the power remained concentrated in the hands of an emerging bourgeoisie and a decadent aristocracy. However, even at that time – or at that stage of development –, the constitution of a national State inevitably embraced the struggle of the poor and the workers, since the rising bourgeoisie needed them to attain independence or national autonomy, to form their own nation-State, in other words. Even if they didn't benefit from the establishment of the national State, workers knew that the State would be or might become their instrument of collective action. That is why they fought for a national State and why they later fought for this State to take on a democratic form. Democracy doesn't exist independent from the State; democracy is the political regime or constitutional system based on the right of people to take part in the government that the State underwrites. The more developed countries have a social and democratic State, because not only the State itself, but also civil society or the nation were internally democratized; because economic and political inequality has somehow diminished; and because, in modern societies and their respective States, the poor and the workers, even if they continue to have less voice than the elites, at least have attained some voice in defining the courses of collective action.

The modern State has regulated markets since its historical onset, the absolute State, which emerged from an alliance between landowning and military oligarchies and the emerging bourgeoisie. The liberal State came later – a victory of the bourgeoisie. The American liberal democracy and the European social democracy, on the other hand, were not born from the elites, but from the people. The bourgeois elites were content with the liberal State – the State that assured their civil rights. Who now demanded political participation, and obtained it in some measure, were the poor and the workers. The first result was the liberal democratic State and, after World War II, the social democratic State in the European countries where workers achieved greater power. Unlike the pre-capitalistic elites and oligarchies, for whom democracy was unthinkable, the bourgeois elite did not impose an absolute veto on the democratic State during the transitional process of democratic consolidation, perhaps because they understood that they would be able to continue appropriating the economic surplus without direct control from the State (Bresser-Pereira, 2007). The democratic State that exists today, however, either in its liberal form or in the more advanced social welfare form, is a conquest of the poor, of the workers and of the middles classes. And one of the roles of this State is, inevitably, to regulate markets. Therefore, it makes no sense to oppose the State to the market. Neoliberalism invented this opposition as a way to weaken a State that had transmogrified into a social democratic State during the “30 glorious years” of capitalism (1945-1975) and also as way to transform capitalism into neoliberal capitalism.

Market

The market is a more modest institution than the State. As a competition-driven mechanism of coordination, it requires no definition of goals or objectives: the standards are defined by competitors in the competitive process itself. Furthermore, the market requires no authority, no administrative power to define its goals and establish its means. Each company, each individual, is a competitor that makes decisions independently. For these reasons, the market is a marvelous institution. Without it, it would be impossible to coordinate the large and complex economic systems that capitalist development has produced. Only through the market – and, therefore, through price competition – is it possible to carry out a reasonably effective allocation of the human and material resources made available by these complex systems. Because of its tendency to even out (i.e., equalize) profit rates, the market enables a satisfactory allocation of the factors of production. If the offering of capital, labor or knowledge in a certain industry is lower than the demand, prices soon increase; but, as the factors of production are redirected to satisfy this greater demand, the prices and remuneration of these factors return to a state of equilibrium. The classical economists had already demonstrated the mechanism that Alfred Marshall’s theory of partial equilibrium made even clearer and more transparent.

Economic freedom and technical and business creativity, both of which are crucial for the development of complex societies, are only compatible if they are coordinated by the market. In the early stages of economic development, State intervention is indispensable to compel the requisite savings or primitive accumulation of capital for the industrial and capitalist revolution. The industrialization of Japan in the late 19th century was entirely carried out by the State, but around 1910 the country privatized its manufacturing industry. The initial development of the Soviet Union and China was done through State investment, even if their leaders believed they were making a socialist revolution (in reality, they were completing the first stage of the capitalist revolution). The Soviet Union failed when competing with the United States because its State-run regime, which had been adequate to drive the compulsory savings needed to implement the economic infrastructure, revealed itself inadequate for a more advanced stage of economic development. In Latin America, countries like Brazil and Mexico, managed to establish a broad economic infrastructure through the direct action of the State and State-run companies, but soon opened their economies to market-coordinated private enterprise because this is the only efficient option.

Yet, as much as the State, or even more so, this marvelous institution is imperfect. Quite imperfect, actually, because it is blind to fundamental political and human values – freedom, justice, protection of the environment – and blind even to the very same economic efficiency that justifies it. In certain times, particularly during crises, the market becomes incredibly inefficient. Economic crises are essentially failures of the market. They are instances when the market stops coordinating and begins to de-coordinate and disseminate disorder. It cannot do otherwise, as the market is the realm of economics – and, as we've seen, economics is the realm of necessity, not of freedom.

Economic theory is the science of the marketplace, or rather, the science of the marketplace as regulated by the State – that is why it is a political economy. Just as it makes no sense to have a market without a State that guarantees and regulates, it also makes no sense to have an economic theory without a State regulating and guaranteeing the market. But economists have always been tempted to declare their independence from the State. In the days of Adam Smith and Thomas Malthus, this aspiration of autonomy made sense, as the mercantilist State was an autocratic State that, more often than not, distorted, rather than corrected, the economic system. Likewise, it made sense to associate economic theory with Liberalism, because the emerging bourgeoisie needed more freedom for their business undertakings. The classical economists were sufficiently realistic, however, to understand that their theory was not strictly economic, but also political – that politics and the State were not a hindrance (as Neoliberalism would later contend), but an integral part of economic system inasmuch as it regulated and guaranteed the market.

The market is a competition-driven mechanism of economic coordination. In order to coordinate the actions of the members of any social system – and, in particular, of an economic system producing goods and services –, we must always have two instruments at our disposal: management and market. Whereas management is a hierarchical system that turns the social system into a bureaucratic organization (the firm), defines its goals and chooses the most suitable means to achieve them, the market coordinates individual economic agents, families and economic organizations through competition – mainly for profit (for companies), but also for better wages and salaries (for workers and professionals). The State hovers above every individual agent, family, organization and market, and coordinates them all. When it does so directly, it plans and intervenes in the production of goods and services. But this is not its main function. It is when it regulates the actions of all the members of society (by means of a Constitution, laws and public policies) and when, in the economic sphere, it institutes and regulates markets, that the State performs its highest and irreplaceable role.

Theoretical assault

In the last 30 years, a coalition between wealthy rentiers and a middle class of brilliant financial professionals used Neoliberalism as an ideological instrument to get rich. I will not discuss here how this coalition came about (it is enough to say that it rose in the United States and Great Britain), nor how, afterward, it became the preferred tool for the wealthiest 2% of the population (in rich countries and in middle-income countries of Latin America) to appropriate high incomes for themselves. I will not show how, during this period, financing (indispensable for an economic system to work properly) became "financialization", that is, the process of creating fictitious wealth and its appropriation by professional financiers. Having established the basic relationship of complementariness and hierarchy between both the State and the market, what really interests me here is understanding the role that certain schools of thought (in particular, the neoclassical economic theory, the new institutionalism, the theory of public choice) in providing instruments for the assault of the neoliberal ideology against the State – an assault that, while it lasted, was successful in legitimizing a profound distortion in the development of capitalism.

The best known episode of the origin of Neoliberalism was the establishment, in the 1950s, in Mont Pelerin, Switzerland, under the leadership of Friedrich Hayek, of a American sense), among which were also Karl Popper, Ludwig von Mises and Milton Friedman. This chapter, however, was merely the precursor of Neoliberalism, not Neoliberalism *per se*, because the members of the group members were truly great liberal [i.e., conservative] intellectuals who struggled against communism – who fought, therefore, against an ideology and a political movement that intended to replace capitalism with socialism and the market with State planning. This is not the place to discuss how real the communist threat was and what were misunderstandings on either side of the table. At the time, there was a great dispute between two fundamental ideologies of modern societies, liberalism and socialism, which were thought to correspond to alternative forms of organizing production (capitalism and, was becoming clear there was no real economic alternative to capitalism but that this same capitalism might, perhaps, evolve into a social capitalism if workers managed join the middle classes to establish Welfare States.

Neoliberalism emerged with full strength in American economic science a little later on, in the 1960s, and expressed itself clearly in four thought currents: the neoclassical economic theory, the new institutionalism based on transaction costs, the theory of public choice and the theory of rational choice, which reduced politics to no more than a market. The four theories sketched a reductionist view of the State and of politics itself. Neoclassical economic theory demonstrated that the State's regulatory actions were not needed, the new institutionalism converted the State into a "second best" *vis-à-vis* the market, the theory of public or social choice transformed the State into an inherently corrupt organization and the more radical versions of rational choice reduced politics to profits and losses in the marketplace.

Economists were never able to clearly separate their science from ideology. It is not surprising, therefore, that when the now-called "neoclassical" economists decided to change the name of economic science from "political economy" to "economics" (in order to consummate the separation between politics and the economy, and between ideology and the market, turning *economics* into a "pure science" at last), economic science was transmogrified into mere ideology. With this shift, they acknowledged that the economic field or sphere had finally attained a reasonable degree of independence from the rest of society and become a science in its own right – yet they were unaware that this did not justify a "pure" economic theory and that this made them even more ideologically-minded (because, by aspiring to this kind purity, they concealed the political element inherent in the economy, even after the economic sphere was rendered autonomous by capitalism). Although one of the founders of the neoclassical school, Alfred Marshall, was one of the four or five greatest economists in history (one has only to read his microeconomic analyses of markets), two tenets of this school – the subjective theory of value and the model of general equilibrium – were a veritable plunge into the darkness of ideology. In the latter half of the 20th century, neoclassical economic science turned the model of general equilibrium into an "idealist-realist" image of the capitalist system,[3] while at the same time the macroeconomic theory of rational expectations demonstrated that no economic policies were needed to counter economic cycles. Since this new macroeconomics had already proven to be consistent with the general equilibrium, their growth models revealed the same picture. Amazingly, however, the main criterion of truth in this humongous theoretical system was not its consistency with reality or its ability to make predictions (as required of any substantive natural or social science), but rather its own internal coherence – the emblematic criterion of the methodological sciences.

To make this aberration feasible, the method of choice was neither the empirical nor the historical (such as Adam Smith's and Karl Marx's), but the hypothetical-deductive (Bresser-Pereira, 2009). For this very reason, neoclassical economic theory became a purely hypothetical-deductive, purely mathematical science, a perfect demonstration of how markets are or tend to be self-regulated, and explained how the State was almost unnecessary and should remain only a guarantor of private property and the fulfillment of contracts. In the latter half of the 20th century, after the emergence of Keynesian macroeconomics and of development economics, this insanity was temporarily halted. Not by chance, Keynesian macroeconomics and development economics were dominant between 1945 and 1975, the same period of capitalism's "30 glorious years". In the 1970s, however, the slackening of the

[3] Idealist, because the general equilibrium would imply a perfect market; realist, because, nevertheless, it purported to be a realistic theory of the economic system.

developed economies, the falling interest rates and the stagflation phenomenon became a golden opportunity for Neoliberalism to mount its assault on the social State and for neoclassical economic theory to recover its dominant mainstream position. With its macroeconomic and mathematical growth models based on rational expectations, neoclassical economic theory was once again capable of "demonstrating mathematically" the self-regulatory nature of the markets – a trait liable to be hampered only by some very surmountable market flaws. Milton Friedman and Robert Lucas are the exponents of this successful two-decade long struggle for the monopoly of legitimate knowledge and, with the model of Modigliani and Miller (1958), neoclassical economists were able to provide a financial theory that posited that markets are intrinsically efficient and independent both from the State and from the individual decisions of financial managers. This radical economic determinism reached the pinnacle with Gary Becker's models, which not only separated the economic sphere from the State and from every other aspect of life, but also imperiously determined these other realms.[4] As Pierre Bourdieu observed (2000, p. 17-8), this separation involved an "ethical revolution" through which "the sphere of commercial trade was sundered from the other realms of life… and transactions ceased to be conceived according to the model of domestic trade commanded by familial obligations." Gary Becker went way beyond that and reduced the totality of personal life to the economy.

More subtle, but equally radical, was the assault on the State perpetrated by the new institutionalism of Ronald Coase. Instead of practically ignoring the State, he decided to bring institutions back into economic theory. Many economists welcomed this decision, which seemed to increase the realism of economic theory and, perhaps, instill it with the character of political economy once again. However, the new institutionalism had nothing to do with the historical institutionalism of the German historical school, or the American institutionalism of John Commons and Thorstein Veblen, so significant in the early decades of the 20th century. On the contrary, it was a hypothetical-deductive institutionalism, much as the political theory of Thomas Hobbes' and the Illuminist philosophers' social contract. But much more radical. Whereas the contractualist philosophers deduced the State from the state of nature and the need for safety or order which only a sovereing could offer, the new institutionalism deduced each and every organization (the State included) from the costs of transactions. In order to do this, however, it must make a rather unbiblical assumption. If we read in the Bible that "In the beginning was the Word", the new institutionalism implies that "In the beginning was the market", i.e., in the beggining were individuals producing and trading under the coordination of the market. Not the mythical Adam and Eve, not the wandering tribes of gatherers, not the primitive communities studied by anthropologists and others, but competitive and rational

4 Foucault (2004) was probably the first to criticize this aspect of Neoliberalism.

individuals who nevertheless incurred in transaction costs. How did they solve this predicament? How did the reduce the costs of making transactions in the market? Coase deduced they created organizations, including the State, for this purpose. Society was completely ignored. There were only individuals and "organizations" – understood in a much broader sense than the concept of bureaucratic organization, in general use since Max Weber. Organizations did not arise from the need to divide labor and cooperate – from a complex historical process, in other words –, but from the costs of transactions. The State of old mas not the historical outcome of increased productivity generating economic surplus (and its appropriation by stronger groups capable of imposing their law upon others and, thus, of coordinating all societal actions to their benefit), but merely an organization formed by bureaucrats and politicians that is necessary to internalize (and reduce) part of the costs of trading in the market. The modern State did not arise from the historical formation of nations and nation-States, nor even from a contract, but always from the need to reduce the costs of transactions. For the new institutionalism, therefore, the State and other organizations become a *second best*. The ideal, the original and "natural" form of organizing society and the economy is the market – the market is the beginning of everything. In other words, the State is subordinate to the market, even if only because this reductionist view sees it not as a constitutional-legal system, not as a juridical order and the organization that guarantees it, but merely as an organization with special powers to legislate and tax.

The most radical assault on the State, however, was the one furthered by the theory of public choice. The name itself is Orwellian, rejecting as it does the very idea of a public ethics. For James Buchanan and Gordon Tullock, its main advocates, the State is also seen from a reductionist perspective as an organization. Only thus can they separate this State from something they surely cherish, namely, the American Constitution. But this was only the first step that allowed them to take their assault on the State to the next stage. The State is not merely an organization. It is not merely an inefficient organization. It is also a *criminal* organization – an organization from which citizens are excluded and whose members are only interested in *rent seeking*.

Finally, we have the political scientists who advocated rational choice. This is a broad and sometimes contradictory area, about which it is dangerous to generalize. Its most general assumption is that the collective action of large groups is inefficient and is essentially hindered by the so-called free riders. Since society has no broader and more general collective action than the State, the latter is inevitably limited, inefficient and ineffective. It doesn't matter that historical experience says otherwise. The reasoning here is also essentially hypothetical-deductive. What matters is the logic of societal actions, not its reality. We can, however, conceive the State and politics as a market. After the work of Anthony Downs (1957), the more radical currents of the theory of rational choice attempted to reduce the logic of politics to the logic of the marketplace. The economists' assumption of a *homo economicus* is not absurd when one considers the actions of economic agents, who in capitalist societies seek to maximize their gains. What is absurd in neoclassical theory is to start out from this assumption to build models decoupled from reality – models that are strictly hypothetical-deductive, whose criterion of truth is not its adequacy to reality and its ability to make predictions, but its logical coherence. Likewise, placing the *homo economicus* in politics is unacceptable, because this assumption goes against the very nature of politics and the public sphere. Whereas the logic of the market is the logic of profit, the logic of politics is the public interest or the common good. We don't expect more from an economic agent than the defense of their own interests within the law, but we do expect much more from citizens and from the officials of a Republic. The State includes among its members not only public servants and elected officials, but also every citizen – and all of them, in addition to seeking their own interests, are committed to the national interest. It is clear that public officials must make tradeoffs that go beyond personal interest *versus* public interest. Delving more analytically, we may think of two kinds of public officials: the "rational" ones, whose tradeoff is between rent seeking and the desire to be elected, and the "republicans", whose tradeoff is between the desire to be elected and the public interest. The theory of public choice and the more radical version of rational choice do not even admit the first tradeoff: the only conceivable goal is rent seeking and, therefore, the State organization is criminal. There are, however, more moderate currents of the theory of rational choice that admit the first tradeoff, and even the second, but these are now ceasing to become true advocates of rational choice.

Are all players of this intellectual drama neoliberals? The question is meaningless, because there is in every ideology a fundamental unconscious element that is all the greater the more hegemonic the ideology is. The historical definition of Neoliberalism I gave at the beginning of this essay, when I compared it with Liberalism, is a radical definition that for most people is only applicable because it is unconscious. Whereas Liberalism was the revolutionary ideology of a bourgeois middle class that struggled against an oligarchic and autocratic State, Neoliberalism was the reactionary ideology of the rich against the poor and against a social democratic State. Even if Marx and Engles brought ideology closer to the conscious sphere by exposing it, this change was not sufficiently great for us to label as cynics those who associated themselves with Neoliberalism. Many of the intellectuals who identified themselves with these theories did not share the goals of Neoliberalism and did not benefit from it. They believed they were making science – a science that, by assuming a simple type of man, allowed the construction of beautiful and precise mathematical models that could be later used to bring order and clarity to economic policies. Many others thought they were defending public morality by denouncing public officials as rent seekers (such corruption, by the way, is not as widespread as they claimed, but is indeed always present among government officials and even more so among the capitalists who corrupt them). In reality, however, by adopting the assumptions of neoclassical economic theory and the theory of public choice, they were contributing to lower the moral standards of all economists, as confirmed by the studies of Robert Frank and others (1993, 1996), published in the *Journal of Economic Perspectives*, showing that American doctoral students who major in Economics have substantially lower ethical standards than their peers in other fields. With the dominance of neoclassical economic theory, never was so much spoken about transparency and trustworthy policies, never was corruption so criticized (the World Bank, for instance, became a kind of anticorruption agency), but never have the moral standards of economists and managers been so low. It was not by chance that John Kenneth Galbraith's last book (2004) was called *The economics of innocent fraud.*

Since the early 1980s, these theories and Neoliberalism went mainstream and the State started being seen as an obstacle. Politics was identified with corruption, or the dishonest quest for income, or with economic populism. Neoclassical economic theory, the model of general equilibrium, the macroeconomics of rational expectations and the growth models became a meta-ideology, the leading justification for the fundamental assertion of Neoliberalism, namely, the assumption of self-regulated markets. This ideological character of neoclassical economics becomes even clearer if we consider that its macroeconomic and economic growth theories were totally useless in the practical life of nations. They did not guide their macroeconomic policy or their economic development policies; they only guided only their own ideological proposals for deregulation. The testimony of one of their most representative macroeconomists, Gregory Mankiw (2006), leaves no room for doubt. After a two-year tenure as chairman of the Council of Economic Advisers, he stated that neoclassical macroeconomics was not used by policy makers in Washington; on the contrary, what is used is "a kind of engineering" inspired by Keynes. The more general ideas regarding deregulation, however, proved themselves "useful", because they legitimized the deregulation of financial markets, which led to the financialization of these markets, to an enormous concentration of income and, finally, to the great economic crisis of 2008.

The theory of public choice, by reducing the State and its officials to the status of rent seekers and citizens to the condition of mere economic agents seeking to protect their interests, might have, nevertheless, contributed to improve the moral standards of politics, but we've seen that the result was quite the opposite. By denying the possibility that men and women of the Republic might actually seek something more than their own selfish advantage, this and the other theories seen here legitimized the exclusive quest of self-interest – which, within the limits of the law, would become the general interest through the invisible hand of the market. Thus, in addition to being scientifically wrong, because moral and republican values are also powerful motivators of human behavior, they debased the moral and civic values of citizens and claimed that civic education was unnecessary. We are all well aware that these values do not prevent transgression; but when they are shared by society as a whole, they strengthen the institutions that were established in accordance with those values and became an invaluable heritage of that society.

The assault on the State and on the market mounted by Neoliberalism can be thought of in cyclical terms, as I myself did in the late 1980s, when the new ideological wave was reaching its crest – this, by the way, enabled me to foresee that it would soon deplete itself (Bresser-Pereira, 1989). In this were so, the process of liberalization would only be rectifying the distortions created by excessive State intervention in the economy during the previous cycle. However, even if there was a cyclical element in the economic and political process that culminated in the current crisis, I don't believe its legitimate to reduce the whole problem to a cyclical issue. The 30 glorious years of capitalism were not State-driven or State-enhancing, and the neoliberal reaction was much more radical than a simple cyclical process could possibly justify. In Latin America, during this period, there was strong State intervention, but this corresponded to the peculiar stage of development of most countries in the region, not to statism. On the other hand, neoliberal violence against the State was aimed not only at the producer State, but also at the State inducer of development and at the State as enabler of people. It was, in short, an ideology against the most advanced form of State humankind has been able to build until now: the social democratic State. In other words, it was not a cyclical correction and did not correspond to a necessary characteristic of capitalism; on the contrary, it was its perversion. By engaging in politics and building a State, societies have attempted to regulate and mold capitalism in accordance with its values, its political objectives. They have developed a system that combines regulation by the State and by the market that is admittedly far from ideal, that is always in dire need of correction, but has demonstrated in the recent past that it can be instrumental in providing more security, more liberty, more prosperity, more equality and better environmental protection. This process of political construction was interrupted and reversed, but there is no reason for it not be resumed now.

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ABSTRACT – State and market are complementary institutions. The State is the major institution coordinating modern societies; it is the constitutional system and the organizations that guarantee it; it is the main instrument through which democratic societies have been changing capitalism to achieve their own political objectives. Markets are competition-based institutions regulated by the State so that they contribute to the coordination of the economy. While Liberalism emerged in the 18th century to fight an autocratic State, Neoliberalism (a major distortion of economic Liberalism) became dominant since the 1980s and mounted a political assault on the State in the name of the market, but eventually also attacked the market. Neoclassical macroeconomics and the theory of public choice were the meta-ideologies that gave a “scientific” and mathematical allure to this assault.

KEYWORDS: State, Market, Neoliberalism, Economics.

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