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Book review

Steven Pressman (Ed.), *Alternative Theories of the State* Palgrave MacMillan, New York, NY (2006). viii+229 pp., Price \$90.00, ISBN: 1-4039-9939-2

Steven Pressman's *Alternative Theories of the State* compiles eight essays from various schools of thought discussing views about the nature and functions of the state. These include the Institutional, Social, Marxist, Social Structure of Accumulation, Post Keynesian, Feminist, Behavioral, and Austrian approaches. The theory of the state is perhaps one of the most defining theoretical issues in economics that lays out the policy framework for a school of thought. Yet, somehow this topic has remained not fully explored. Whalen (1992) is one of the most notable recent attempts to survey the progress that has been made by various schools of thought on this subject; and in this book, Pressman et al. provide a more comprehensive assessment of the literature.

William Waller discusses the Institutional view via the concept of "The Pragmatic State." The state is seen as having not only the potential, but also the responsibility to mediate conflict and solve social and political problems. The state is able to ensure stability of real income, employment, education, and medical care. The activities of the "Pragmatic State" generally fall into two categories: social stability and continuity, and problem solving. However, as stressed by John Kenneth Galbraith in his 1972 *The Culture of Contentment*, since only a minority of the population participates in electoral politics, winning elections and therefore the due course of governmental policy rests with whoever wins the support of a majority of the minority of a society. It is usually the affluent segments of the population that hold a consensus on the appropriate role for the state, and claim that large income disparities are acceptable. In this regard, like Thorstein Veblen, Galbraith sees the state as subservient to vested interests. One question that could be further addressed is the issue of state sovereignty discussed by Institutionalists who also follow the so-called "State Theory of Money" approach. Waller only mentions one of them in passing, L.R. Wray. Indeed, this literature is an important contribution to the Institutional approach to the state as it relates it to monetary production and distribution theories, and deserves more attention in a future exploration.

The protective response, or "double-movement" discussed by James Stanfield and Jacqueline Stanfield is inspired by Karl Polanyi's work, who argued that the extension of the reach of the market acts as the impetus that necessarily creates a socially protective response. The free market is an ideal and the market never existed independently of the state. Consequently, the authors point to the flawed habit of perceiving freedom as a lack of state intervention. This approach puts an emphasis on the erosion of community life as a result of the permeation of the market in all spheres of life. They argue that the solution is embedding economic decisions into the social and political fabric. The authors describe how the market economy is at odds with the social, ecological, and even with industrial production, as it is driven by money-making motives. They correctly point to similarities between Polanyi's arguments and the Institutional dichotomy between making goods vs. making money – between industrial and pecuniary interests. The authors also point to the contradiction of the need for financial stability in a system that seeks continuous monetary expansion, and also hint at the role of central banking. They could have expanded this argument by incorporating Hyman Minsky's financial instability hypothesis where the state provides stability through government expenditures, and (the central bank) acts as a lender of last resort when there is a liquidity problem in the economy in order to "stabilize an unstable economy" (Minsky, 1986).

Raju Das describes two variations of the Marxist theories of the state – the Instrumentalist and the Structuralist theories. Both are characterized by their relation to class and class struggle. According to the Instrumentalist theory, the state is an instrument in the hands of the dominant class. Under the so-called State Monopoly Capitalism, the state and monopolies merge into one entity. Das discusses several variations of Structuralist theories of the state

that provide an explanation as to how the state protects the interests of the dominant class, and contributes to the reproduction of capitalist society. According to the author, these downplay the agency of the dominated classes and the state actors. Towards the end of the chapter, Das brings the reader's attention to theorizing about the state under what he calls "capitalist globalization." He reasons that the view about the powerless nation-state under globalization is too simplistic, and argues that it is nationally organized. Under this condition, he suggests that anti-capitalism and anti-state resistance can be seen as synonymous.

The next chapter complements the discussion on global capitalism. Philip A. O'Hara represents the Social Structure of Accumulation (SSA) view. O'Hara relates the state hegemony to the establishment of pro-corporate global system based on stable property rights. He discusses the effects of financial liberalization and austere fiscal and monetary policies, and argues that these have not contributed to long-term economic performance. A more thorough discussion of the type of policies and governance reforms required for a new state of SSA can be found in O'Hara (2006).

Government deficits that bring the economy to full employment and income redistribution through tax policy are the routes suggested by Post Keynesians. This view is discussed by the editor of the book, Steve Pressman. The primary responsibility for macroeconomic performance is in the hands of the state through investment spending, in case of an economy below full employment. In addition, the state must counter the economic power of large corporations. Pressman sees that the only way to do this is by generating independent and educated public servants who cannot be pressured or coerced by business enterprises to make decisions that are not consistent with the public interest.

Pressman outlines the critiques of "Keynesian" fine-tuning that have been made by the Public Choice and Rational Expectation literature with regards to the motivations of policymakers. He then offers a "critique of the critiques." His response is specific to the points that these authors make. But one important problem Pressman leaves out is that both Public Choice and Rational Expectations are formulated in terms of the so-called "sound finance" approach, whereas many Post Keynesians subscribe to the functional finance view of government expenditures. That is, concerns about expansionary policy failing to lower unemployment because of its supposed negative effect on government debt are simply irrelevant in Post Keynesian theory. In this regard, an interesting question to address is the process of institutional change from the dominant "sound" finance approach to a "functional" finance paradigm of policy formulation.

Institutional change is also at the center of the chapter by Ellen Mutari who offers a Feminist view of the state. She emphasizes the social creation of hierarchies, biases, prejudices, and stereotypes about men and women, and how gendered social practices are embedded in the welfare state. This point complements well the conclusions of some of the previous chapters which call for an expansion of the state for the sake of social stability. Mutari puts the spot-light on the supposed "gender-neutral" state policies, and argues that historically these have been underpinned by a notion of a "citizen-breadwinner" ideal. Mutari argues that neglecting the family as a site for social reproduction leaves out an important pillar of the welfare state.

While full employment and income redistribution are necessary, Mutari's feminist view emphasizes that state policy must avoid the separation between the breadwinning and caregiving functions, and ought to be formulated in terms of social provisioning. Furthermore, Mutari critiques the notion of "full employment" in light of the gendered character of the categories of "labor force," "economically active population," "gainful employment," and "economic participation." These are defined along the concept of "work," which is equated with paid employment. From a Post Keynesian point of view, we should note that this would mean broadening the meaning of the term "full employment." However, Mutari suggests that Keynesian full employment policy is not enough, as these are defined along the lines of wage work, excluding unpaid caregiving. Instead, the focus should be on social reproduction. This, according to Mutari would require not merely public policies that integrate women in the labor force, but ones that play a role in the construction of transformative social practices.

The next article uses a quite different framework and categories, although it is also focused on the idea of "institutional change." Morris Altman discusses economic efficiency and the state from a Behavioral point of view, under which work effort and choice of technologies can deviate from an efficient norm. "Economic efficiency" is defined as the point where an economy is on its outermost production possibilities frontier, which represents the maximum level of output that can be realized given factor endowments used at full capacity, prices, transaction costs, and available technology. This definition of efficiency is at odds with all the approaches delineated in the previous chapters. Altman argues that even under private property rights and competitive markets, the economy may still function inefficiently (according to Douglas North private property rights make efficient choices profitable), and therefore be characterized by "inefficient institutions." Under this analysis, "institutional change" is triggered by changes in the so-called "bargaining power" of agents. The author argues that in order for an efficient institutional change to take place, the political-institutional

framework would have to allow labor to increase its bargaining power. This will promote also technological progress if firms respond to the higher labor costs. Such conclusion is in contrast with that of the Neoclassical view, which states that enhancing labor's bargaining power is detrimental to economic efficiency. The Behavioral approach, however, reaches a progressive policy conclusion while keeping the same Neoclassical analytical categories – a practice that we can hardly qualify as “alternative.”

In the final chapter, Boettke and Butkevich present the Austrian perspective to examine Russia's transition to a market economy. The authors highlight the importance of identifying the key interaction between State, Market, and Civil Society. They argue that the appropriate debate should be focused on the contrast between State and Civil Society (rather than State vs. Market), where the latter (Civil Society) is divided into market and non-market activities. This approach, however, fails to acknowledge that by separating market from non-market activities, we create an inevitable hierarchy that would eventually enter into the valuation process and would lead to prioritizing market activities over non-market activities based on purely monetary valuations.

The essay also presents a useful discussion based on James Buchanan's theory of the state (1975). Buchanan argued that a state plays three distinct roles: the protective, the productive, and the redistributive. He favored a *strong minimal state* that *protects* property and individuals (policy, courts, national defense etc.) and *produces* public goods that are not supplied (or undersupplied) by the private sector (roads, bridges, sewer systems, etc.), but refrains from using its coercive power to benefit one party by exploiting another through *redistribution*. Despite recognizing the special powers of the state, this zero-sum game view of redistribution still considers the state as an entity of the same nature and with the same (financial) constraints as firms and households. Again, the “sound finance” view dominates the analysis, and we suggest that a functional finance analysis would bring the Austrian view closer to the Post Keynesian and Institutionalist views.

In conclusion, the book did an excellent job of gathering a diverse set of insightful alternatives to the mainstream theory of the state. The book does not claim to have a definitive single alternative to the Neoclassical view, but rather offers an invitation to an honest intellectual debate on the role of the state in society that all economists should engage in. The book's alternative perspectives are a must read for all serious students of economic theory and policy.

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