16 The state, public finance and *régulation*

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From the point of view of orthodox political economy the period of the Golden Age ('trente glorieuses') is paradoxical, since it was characterised by a combination of strong growth in commodity production together with high levels of taxation and public spending. In France during this period the rate of long-term growth of gross domestic product (GDP) more than doubled its mean value of the previous hundred years. The level of public spending associated with GDP also more than doubled (from a maximum of 15 per cent before the First World War to more than 40 per cent in the 1960s and 1970s). Active public finance is thus not necessarily an obstacle to strong economic growth.

For both factual and theoretical reasons, however, it would be wrong to infer that the secret of economic growth lies in forceful financial intervention by the state. First of all, a correlation is not proof of causality; two phenomena that entertain causal relations with the same third phenomenon may be correlated without determining each other. In the case of the relation between public spending and growth, domestic transformations caused by an extension of the wage–labour nexus to the majority of the population appear to be this type of third term.

Furthermore, the indicators usually employed to assess the role of the contemporary state in the economy overestimate the size of public finances in comparison with commodity production. This overestimation increases as indicator levels increase, therefore also causing overestimation of the growth and differences among countries of this size. Owing to the feature of democratic regimes whereby the tax system is self-financing, subjecting the public sector to the same tax law as the private sector (public spending thus becomes productive of tax resources), private resources that deviate from direct use by the tax system are generally less than those accounted for in it (Théret and Uri, 1987, 1991a, b; Théret, 1992a).

Finally, as seen first in the 1930s and then in the 1980s, a high level of public spending can just as well be accompanied by slow growth as by a strong growth rate.

Theoretically, to postulate a mechanical, ahistorical relation between growth and high levels of public spending is to make a return to the functionalism of orthodox economic theories which claim that state intervention can be logically derived from the economy or its model. Once it is a matter of analysing relations between the economy and *the state as it really exists,* these relations are viewed not as functional but as the product of mutual adaptation involving the invention of appropriate regulating institutional forms. Furthermore, the life of these institutions appears to be limited to a period during which their individual and collective, combined and cumulative effects create the historical conditions of their own deviation, followed by a *régulation* crisis. This formulation of the problem is one of the original and distinctive aspects of the regulationist approach, which always avoids making the state the necessary and sole or central regulator of a commodity economy. Instead the state is considered one structural form of the mode of *régulation* among others (Théret, 1990).

However, for a long time regulationists 'forgot' to analyse the form of the 'state' according to their epistemology. The concepts of 'institutionalised compromise' and 'wage benefits' that were initially proposed (Chapter 12) are mainly economic, and are used to account for the forms of public–private interactions, rather than political *régulation* itself. Only in the 1990s was a collection of studies concerned with political *régulation* published (Bertramsen *et al.*, 1991; Boismenu and Drache, 1990; Delorme, 1991; Jessop, 1990; Théret, 1990b, 1991a, 1992a, 1994a, 1999; Palombarini, 1999). These studies all explore the economic implications of an autonomous political sphere, viewing the state as both *an active party in the economy* (via public finances and money) and as *constitutive of the environment of the commodity economy* (through the interaction of public policies).

The fact that the connection between extensive fiscal activity by the state and economic growth is reversible indicates that the state can hold back the development of capitalism just as much as it can encourage it. To take this into account, we can posit an *a priori* hypothesis that *the state, capitalism and the family refer to different practical spheres, each with its own historical laws of development.* This hypothesis is both historically and theoretically founded. Historical research supports the view that the economic and the domestic realms appear as autonomous spheres through a process of separation from an overarching political sphere. Theoretically, this differentiation leads to a definition of these spheres as follows. The economic sphere is a social space in which social domination is motivated by the capitalist logic of the endogenous accumulation of material possessions and the monetary titles that represent these goods. The political sphere, on the other hand, is a space in which domination is an end in itself, where the economy may be instrumental, oriented to the accumulation of power over others and the legal titles that represent such power. Finally, the domestic sphere is an autonomous space where the population is produced and reproduced as a 'natural' resource that is exploited in the other spheres once a separation in the contradictory logic of the state and capitalism is established. To analyse the relation between one type of state and a type of capitalist growth is, from this perspective, to clarify the historical laws corresponding to each sphere and the system of monetary, legal and ideological mediations that enable these heterogeneous spheres of practices to coexist.

The economy of the political, its organic circuit and fiscal and financial regimes

In order to be autonomous, the different spheres of social practices must be endowed with their own economic system for obtaining the material resources necessary for their functioning. To examine the financial development of the state in this manner therefore calls for an analysis of the 'fiscal' economy of taxing which is without a direct counterpart. This economy is managed by agents who are looking for the means for a 'final', non-utilitarian expense, intended to support the reproduction of the state's power. The fact that the economy is politically oriented in this manner does not prevent it from having its own rationale, its own professionals and a specific institutional and organisational consistency. Furthermore, the fact that it endures through different economic contexts is an indication that it experiences long-term endogenous processes of reproduction and that its dynamic is partly self-regulated. A regulationist approach to the state must therefore attempt to clarify this dynamic within the political sphere – in other words, to find the system of political constraints that gives public finances a rate of development or that may lead to crisis.

The Marxian model of the cycle of capital that inspired the concept of an accumulation regime also suggests a distinction between three major forms of the state that are linked together in the cycle of its functional metamorphoses:

1 Purely political forms of sovereignty.
2 Forms of legitimacy.
3 Tax forms.

These three functional forms are convertible in what can be termed the *organic circuit of the state.* In demonstrating how, in a given historical situation, this organic circuit effectively creates a 'cycle', authorising some financial growth of the state and the development of political power, a *fiscal regime* is established, along with the mode of *régulation* of the corresponding political sphere (Théret, 1992a). A fiscal regime ensures a functional correspondence between legal and expenditure forms of the state's legitimacy through the intermediary of the tax levying process.

Because the description of political *régulation* at the first level is purely economic and primarily descriptive, it does not clarify the origin of the form of the fiscal regime, nor how or why a crisis might arise. For this, a second level of functional interdependence within the political sphere must be taken into account. This is the level of relations that expresses the dependence of the fiscal regime on the political regime (in its classic meaning), in other words the equivalent of the relation between the accumulation and property rights regimes in the economic sphere. Hence the need to analyse the way in which at some time the sovereign state (governed by a political regime) creates forms of legitimacy, consolidates the legal state, shapes the tax state through its mediation, and structures its expenditure.

Hybrid spaces, modes of social *régulation* and fiscal metamorphoses of capital

A third level of interdependence must also be taken into account, since the nature of the state also depends on its economic, social and international environment. Even if restricted to an examination of relations between the political and economic spheres at the national level, it is clear that this type of interdependence cannot be viewed as the fruit of functional, direct interactions. Indeed, it appears that, owing to their contradictions, the logics of economic and political reproduction can communicate and 'compromise' only through the mediation of a set of monetary, legal and ideological constructs which, as a historically circumscribed whole, constitute a *hybrid space* situated in between the different spheres. The domestic sphere is also situated in this hybrid space, since the reproducing population is a resource for both the political (power of force) and the economic (work force) spheres. If this hybrid space is endowed with coherence, the set of procedures and institutions (including institutionalised compromises and wage benefits) of which it is constituted forms the kernel of the mode of social *régulation*. This mode of social *régulation* ensures the social bond by shaping political and economic *régulations*, as well as the fiscal regime and the regime of capital accumulation.

We can illustrate this point first with the relation between an accumulation regime and a fiscal regime. First, this is a monetary relation, since a currency is a common means of payment and a unit of account that enables public finances to connect directly to the commodity economy. But the relation between the two regimes is also legal and ideological, since forms of taxation and the assignment of public outlays depend on the *philosophical conception* of citizenship, as well as the nature and extension of rights to income redistribution which are *legally recognised.* Finally, monetary relations between public finances and growth depend on two interdependent elements: the assignment of public spending and the role vested in private finance in relations between the state and the productive economy.

The economic nature of taxation depends on the assignment of public outlays: if spending is purely political (military, ostentatious display, etc.), then tax simply levies a surplus, if not the value itself (thus destroying the bases of simple reproduction). If spending finances infrastructures whose utility is not only linked with the military and administration but is also productive (transport systems, communication networks, improving the quality of the work force, etc.) public financial intermediation is a socialisation of capital advances and represents the *fiscal metamorphoses of capital* (Théret, 1993a). The state then participates directly in the accumulation regime on specific terms: the assignment's structure of public spending must always correspond to a fiscal completion of the organic circuit of the state.

Moreover the level of financial constraint on the monetary regime and, through its mediation, on the accumulation regime as well as on the fiscal regime depends on the place of private finance in the overall economic system. If private finance is directly connected with public finances, it will have a major role in political *régulation.* Loans will be the privileged instrument for funding a self-maintained budget deficit, since the cost of loans will play a central role in the fiscal regime (Théret, 1991b, 1992a, 1993b, 1995). But if private finance does not succeed in imposing itself as the necessary intermediary for relations between the state and a productive economy, the power structure between creditors and debtors may swing in favour of debtors, allowing monetary financing of both capital accumulation and the state budget. Financial constraint on the monetary regime is weakened in favour of a social constraint, and the monetary *régulation* no longer depends on a finance-based anchoring of the national currency on a value standard outside the social system (either a material standard or a foreign currency). Instead it is directly dependent on an internal institutionalised compromise (for instance, an income policy) between the tenants of the three spheres: the administration, employers and employees.

From a virtuous configuration of Fordism and the welfare state to its crisis

A virtuous configuration linking high levels of public finance with growth is obtained if the marginalisation of private finance in the sphere of public finances is twinned with fiscal metamorphoses of capital favourable to both capital accumulation and development in the political sphere. This was the case during the Golden Age ('trente glorieuses'), when Fordism and the welfare state were mutually reinforcing.

The rights acknowledged to a person in the political sphere form a *public debt* in his or her regard. This is the other side of the state's duty to protect; it is the foundation of the legitimacy of the state's monopolisation of physical force. Whether it is financial or social, in a general sense the 'public debt' is the revised central legal form of state legitimacy, institutionalised in official 'books' where people are named and their position or 'status' in the political sphere is registered (Bourdieu, 1995). This includes the accompanying 'securities' and titles unlocking rights to the fiscal resources (census list, peerage, debt registers, the cadastral register, the register of births, deaths and marriages, the index of welfare recipients, academic qualifications, etc.) (Théret, 1992b, 1994a, 1995). From this perspective the question of the welfare state concerns the specifically wage-based content of the public debt. In a liberal state political citizenship is restricted and social citizenship does not exist, since state protection is reserved exclusively for society's managers (civil servants, those in 'high finance', the landlords and state's *rentiers*, trader-bankers). But in the welfare state the state's obligation to protect is extended to all wage earners, and is subsequently widened to include the general population.

When a true labour market develops, the public debt takes on the universal form of social security and a public right to training for all. The service of this debt is made up of all the spending which, along with private spending, enables the maintenance or improvement of the 'life capital' of the population, and thereby its capacity for lifetime employment and the market value of the labour force. Once the value of the 'life capital' distributed to individuals as counterpart to the public debt to them, through expenditure dedicated to life protection and composed of a collective investment in health, education, etc., is recognised on the labour market, it is an element in the value of the work force. While public investments are the source of productivity increases, for wage earners they can be reflected in an increase in the reservation wage and wage differentials based on the different official 'statuses' by which they are recognised, according to their ability to appropriate public resources to themselves. In return, this market validation of public spending is the source of an endogenous growth dynamic for the welfare state since it is self-financed. Its extended reproduction is ensured by the increase in public revenue generated through its effects on production and the wage bill. This is the virtuous cycle that explains how, during the Fordist period, strong economic growth was allied with a high level of public spending and taxation.

Just as the political *régulation* of liberal states was destabilised by the tendency for real interest rates to fall, causing them to reach a crisis point when the power structure between creditors and debtors was reversed, the welfare state is in a crisis when its self-financing circuit is challenged and the value of 'life capital' that it produces is no longer considered equal to its cost in the economic sphere. Hence the return to a competitive *régulation* of the labour market in the 1980s, which tended to make public investment a write-off from an economic point of view, and the restoring of a nearly fixed monetary regime. This led to an increasing public financial debt in competition with social debt, reflecting a profound crisis in the welfare state through the crisis in the regime of capital accumulation. But this strong return of private finance in the state and this loss of efficiency in the fiscal metamorphoses of capital occur in an entirely different context from the one that enabled the 'limited' liberal state to stabilise itself on these premises (Delorme and André, 1983). Also, it is less the actual type of welfare state associated with the wage norms of socialisation that is in crisis than the national space in which the welfare state has been deployed until now (Théret, 1994c, 1997).