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The Theory of the Capitalist State and the Problem of Policy Formation
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State interventionism is the key concept that has been at the center of contributions to the theory of the state, and it has been used as such by both liberal and Marxist authors. The fact, in other words, that the state is an *interventionist* one in advanced capitalist societies, has been and is undisputed. The only controversy that one could think of in this respect is not as to whether the state is *interventionist* or not, but as to whether it has always been so in the history of capitalist society, that is, whether state interventionism is a relatively new fact (say, fully emerging only after World War II) or something that, as a regular case, can be traced back to the earliest stages of capitalist society. The latter is usually admitted. It is argued, however, that the quantity and scope of state interventionist strategies has increased to an extent that makes it justifiable to speak of a new phase of capitalist development in recent decades.

In order to put this "quantitative increase leads to new quality" argument on more stable grounds, we want to develop a model that can be applied in the historical study of the functions of the capitalist state, and of capitalist societies in general, and that tries to avoid the related though opposite mistakes of describing change of state functions as either nonexistent or irrelevant (the orthodox Marxist version) or as total and pervasive (the postindustrial, social democratic version). By concentrating on the latter, that is, the theoretical purpose of the model (no attempt at a historical test of the model is undertaken here), we explore a way in which both continuity and change of the functions of the capitalist state, as well as the contradictions of its mode of operation, can be understood.

The Concept of the Capitalist State

Before we speak of a *capitalist* state, or the state in capitalist societies, we should specify which characteristics we postulate for such a state. This is not done in institutional terms (that is, for example, by reference to parliament, bureaucracy, guaranteed property rights, etc.) although those elements may be present in all or most capitalist states that we find in history. The criterion of definition will rather be taken from the relationship between the state and the accumulation process. Central to our definition are therefore not structural attributes to a sector of society (the state), but the way it is functionally related to and dependent upon the accumulation process. The elements of the definition are four:

1. The state has no authority *to order production* or *to control* it. Production/accumulation takes place in *enterprises* that are said to be *free* in the sense of "*exempt from state control*." The basic prerogative of *free enterprises* is a negative one: the right not to produce unless production is at the same time accumulative, that is, not only production of useful things but simultaneously production of surplus value, or profit. The first and most important element in the definition of the capitalist state is thus: The state cannot *initiate* production within private enterprises that is thought to be *not* accumulative by the private accumulating unit, and it cannot, conversely, *stop* production that is considered accumulative (profitable) by the accumulating unit. The state is no capitalist itself, and accumulation takes place only in private accumulating units. State and accumulation *are* divorced, so that production and accumulation *cannot* be divorced.

2. However, the state does not only have the authority, but the *mandate* to create and sustain *conditions* of accumulation. There are different levels of specificity in which the function of creating and maintaining conditions of accumulation can be performed, for example, individual accumulating units, categories of accumulating units (industries, regions), and capital as a whole. There are also different categories of *threats* that cause *problems* of accumulation, that is, threats coming from other accumulating units (interfirm, inter-industry, and international competition) and threats coming from noncapitalists, that is, the working class, but also from actors engaging in *deviant, criminal*, or other kinds of behavior that are considered incompatible with the orderly pursuit of surplus-value production. Having mentioned these various sources and levels of potential threat, we can also say that the function to "create and maintain" conditions of accumulation is equivalent to establishing control over these destructive possibilities and events.

3. The third element of the definition of a capitalist state is this: Its power relationships, its very decision-making power *depends* (like every other social relationship in capitalist society) upon the presence and continuity of the accumulation process. In the absence of accumulation, everything, and especially the power of the state, tends to disintegrate. If we think of the budgetary obligations of the state in advanced capitalist societies, its extensive reliance on resources created in the accumulation process and derived through taxation from wages and profits, this becomes immediately clear. Thus, every interest the state (or the personnel of the state apparatus, its various branches and agencies) may have in their own stability and development can only be pursued if it is in accordance with the imperative of maintaining accumulation; this fundamental dependency upon accumulation functions as a selective principle upon state policies. The criterion of the stability of accumulation is thus incorporated in the pursuit of interests and policies that, considered by themselves, may have little or nothing to do with accumulation. Accumulation, in other words, acts as the most powerful constraint criterion, but not necessarily as the determinant of content, of the policy-making process.

We can call these three elements of the concept of the capitalist state the principles of "*exclusion, maintenance and dependency*," respectively. *Exclusion* means, as we have pointed out, that the state is not a capitalist itself, that is, something that has its existence outside the accumulation process. *Maintenance* implies that this process cannot perpetuate itself in the absence of this external being, that there are threats and possible disturbances to the process of accumulation that require some state-organized protection of the process. And *dependency* means that this protective device itself would be threatened if it engaged in policies inconsistent with its protective functions. The question now becomes: How is such a highly precarious combination of conditions at all possible? How is it possible that, at the same time, the state *gains* power, *applies* this power in a way conducive to and maintaining the conditions of accumulation, *without* thereby *subverting* its own existence as a capitalist state by adopting policies that would transcend the reciprocity relationship between state and accumulation? The above definition spells out under what conditions we speak of the state as a capitalist state; now we talk about what is responsible for the coincidence and harmonious coexistence of these conditions (or, conversely, the absence of what would destabilize this harmonious coexistence).

The answer to this question, which cannot be explored in detail here, is *legitimation*. Legitimation, or the need for legitimacy, adds an important *fourth* element to the concept of the capitalist state. The idea is that only if (and only as long as) the capitalist state manages, through a variety of institutional mechanisms, to convey the image of an organization of power that pursues common and general interests of society as a whole, allows equal access to power and is responsive to justified demands, the state can function in its specific relationship to accumulation. This is equivalent to saying that the state can only *function as* a capitalist state by appealing to symbols and sources of support that *conceal* its nature as a capitalist state; the *existence* of a capitalist state presupposes the systematic *denial* of its nature as a *capitalist* state. (This, incidentally, comes fairly close to a reformulation of the Marxian concept of ideology.)

Allocation Versus Production

We now want to leave the purely conceptual level of discussion and try to deal with some long-term trends of developments that can be generalized from the history of capitalist societies. In specific, we are interested in the causes and consequences of the change in the functions of the state that have been observed by many authors, Marxists and liberals. *State interventionism* is the label usually applied to describe the state in advanced capitalist societies, whereas, by contrast, nineteenth-century capitalism is described as *liberal capitalism* in which the role of the state was of minor and almost

negligible importance. Social historians, however, emphasize that the image of a purely market-regulated capitalist economy is highly "ideal-typical" and has never and in no place been an accurate description of historical fact. An adequate account of real changes and developments (rather than of deviations from an idealized model that never existed in reality) would therefore have to address itself to the question of qualitative rather than quantitative changes. The argument of historical changes of the capitalist state would have to be based on the *extent* to which the state created and maintained the conditions of accumulation, but on a concrete description of what these *conditions* themselves were, the maintenance of which required state intervention, and in which *ways* their creation and maintenance was undertaken by the state. Two modes of state intervention are therefore discussed in the following analysis (allocation and production); they are linked to a changing pattern of *threats*, or structural problems, that emerge out of the accumulation process and to which these modes of state activity can be seen as responses.

Allocation is a mode of activity of the capitalist state that creates and maintains the conditions of accumulation in a purely authoritative way. Resources and powers that intrinsically *belong* to the state and are at the disposal of the state are allocated. Certain industries received protective tariffs. Money and money lending are determined by certain rules issued by the state. The repressive apparatus (military, police, courts) is employed according to certain legal rules and decisions. Roads and bridges are built, land is given to railway lines, and attendance in schools is made compulsory for certain age groups. What do these examples of state activity have in common? All of them can be said to be *interventionist*, in so far as they impose a certain order created by the state on an area of social and economic activity. But this does not distinguish them from activities like manpower training, antiinflationary or R&D policies. What distinguishes the former from the latter is the *method* by which state activity is designed. The method in the former case is authority—whether the authority is based on constitution, on a system of legal norms, or on consideration of political majorities and political affiliations. From the point of view of the particular actor in such a state activity, there is no criterion for the goodness of such activity other than his own interests, the interests of his respective constituency and the legal norms that support or prohibit the pursuit of such norms and interests. A "good" decision, from the point of view of the decision maker, is a decision that coincides with his legal or political power. There is no alternative or additional criterion for decision making. What characterizes *allocative* policies, then, is that politics and policies are not differentiated: Policies are congruent with politics. This is due to the fact that, in all of the above mentioned decisions, the state creates and maintains the conditions of accumulation by measures that require simply the allocation of resources (land, taxes, repressive force) which are already under the control of the state. In a way they can be described as "state property," and the question of political

decision making that goes on internal to the state apparatus is to whom or to what purpose these already available resources should be allocated. This question can be resolved by the method of power struggle over the resources of the state, that is, through politics.

The distinctive features of allocative mode of state action is thus: (1) economic conditions under which a suitable environment for accumulation can be created and maintained merely by authoritative allocation of resources and “things” that are already “state property”; (2) the elements of this environment do *not* have to be produced themselves, but merely have to be *allocated*; and (3) political power, or power in and over the state apparatus and its parts is the sole criterion and determinant of allocation, that is, there is no method of policy making other than politics needed. The importance of these features of allocative decision making will become better understood after we have contrasted allocative mode of state action to the other type, *productive* state action. It should be noted at this point, however, that the notion of a allocative method of state action is by no means restricted to the earliest stages of development of the capitalist state. For instance, Keynesian economic policies belong to this category, too. The creation of autonomous demand as measure to stimulate economic growth essentially makes use of a state-owned resource, namely, the power of government to vary the level of taxation and expenditures; at what phase of the business cycle, to what extent, and in what combination these powers of government are utilized is a decision that emerges from political conflict and consensus, and one that does not require additional criteria.

The second major type of state activity is *productive* as opposed to allocative. The *productive* mode of activity of the capitalist state becomes preeminent under—and corresponds to—certain situations of the accumulation process. This situation is made up of the following elements:

1. In order to keep the accumulation process alive (either on a firm, industry, regional, or national level), there is more and something *different* required than the allocation of resources and things that the state has already under its control. In order to create and maintain the conditions of accumulation, the allocative means of state action (allocating state owned resources, taxation, state demand, tariffs, repression, subsidies etc.) is insufficient. In addition to the state-organized *framework* of production/accumulation, some physical input into production is required in order to maintain accumulation.

2. Of course, physical input is always needed—either in the form of human labor power or raw materials or fixed investment for production/accumulation. Under normal circumstances, those inputs are provided by markets on which they appear as commodities: Labor, or variable capital, is to be found on the labor market, and raw materials and machinery, or constant capital, is to be found on the market of investment goods, produced for this market by capitalists who specialize in investment goods industries. In the particular situation that we are describing, and to which the *productive* mode of state

activity is to be seen in correspondence, the quantitatively and qualitatively sufficient supply of variable and constant capital fails to appear on the market. Why? Because for both the supply of variable and constant capital that is required, an investment would have to be made that is not considered profitable from the point of view of any accumulating units. Why is it not considered profitable to make such investment? Because the accumulating units that could produce such supply have reason to believe that for the potential buyers of their supply the supply would be too costly to buy at a price that is profitable for the supplier. The resulting situation would be the *failure* of some capitalists to *produce input commodities* on which the accumulation of other capitalists depend.

3. This failure can be due to either of three facts: Either the input commodities are so *costly* that the accumulating units who need them for the purpose of their own accumulation cannot afford to buy them; or there are *risks and uncertainties* involved in the buying of such input commodities, and because the individual accumulating unit cannot be reasonably sure that the use of such input commodities will prove to be profitable for itself, it refrains from buying them; or the technical nature of the input commodities involves *externalities*, that is, it prohibits the buyer of the input commodity from making exclusive use of the usefulness (use-value) of the input good. All of these possibilities, or any combination thereof, would be sufficient to explain why there is an actual lack of demand for, and hence absence of incentive for accumulating units to supply, such input commodities.

4. So far, however, we have not given any indication as to why this theoretically imaginable situation of insufficient supply of input commodities should be a likely case in the real world. Why should it not be possible either to avoid this unfortunate situation altogether or to correct it through the automatic forces of the marketplace once it occurs. In other words, why should the accumulating units permanently depend upon input commodities that permanently tend to be too costly for them, too costly either in relation to their *absolute financial capacities*, to their ability to *absorb risks and uncertainties*, or *relative to the internalized portion* of total benefits derived from the input commodities? In order to fill this apparent gap in the course of our argument, we remind ourselves of the competitive nature of capitalist accumulation. That is to say, accumulation can only take place if and to the extent that individual accumulating units find ways to protect themselves against the *constant competitive pressure* coming from other accumulating units. Only those who are sufficiently immune against the competitive pressure of the market (more specifically: the competitive pressure exercised on them by other accumulating units on goods markets, labor markets, and capital markets) have a chance to continue their production/accumulation. If accumulation in an individual enterprise is going to continue at any given point in time, there must be certain *defensive mechanisms* available to the enterprise that allow it to protect itself.

Examples of such protective mechanisms, which are employed in order to minimize the threat of others to accumulation, are productivity increases through introduction of labor-saving technology, price competition, advertising, limitation of market access, advertisement, product differentiation, market research, cartelization. A history of capitalist industrialization could be written as a process in which those—and many other—defensive mechanisms are developed by individual capital units. The never-ending and self-propelling process in which new defensive mechanisms are evolving is due to the fact that a defensive mechanism, say advertising, becomes a dull and ineffective weapon as soon as it is diffused and universalized. The relative competitive advantage and the relative security of the “creative entrepreneur” (as Joseph Schumpeter described the process in 1910) tends to destroy itself in the process of universalization of a defensive measure, and the process starts anew.

In this sequence: competitive pressure—defensive mechanism—universalization—competitive pressure, two levels must be distinguished. On one of these logical levels, the dimension of countercompetitive, or defensive, mechanisms remains the *same* throughout the spiral. Take process innovation, product innovation, or the opening up of new markets as examples of such dimensions: The events change, but the *strategic dimensions* by which the accumulating units keep themselves in the market remain identical over time. Innovation takes place *within* dimensions, (the dimension being, for example, the opening up of new markets, and the successive innovations being that one country after the other is made accessible to the market of a firm). The other level is, logically speaking, a “meta-level.” Here, the innovation does *not* take place as an innovation *within* a dimension of competition and countercompetitive strategies, but as an innovation *of* the strategies by which accumulating units gain a relatively superior position vis-à-vis other accumulating units. For example, assume that in a given industry competitive relations and strategies between individual firms take place in the framework of price competition, process innovation and product differentiation. Each advance of one of the competitors in one of these three dimensions means both a relative protection of accumulation of the one and a new competitive pressure on all others. So far, only the first level of competitive relations is concerned. But now, one of the firms in the industry does not invent a new manufacturing process, but a new *dimension* of competition; for instance, it opens a branch plant in a low-wage country, gets the government of its region to build a transportation system that is suited to its needs, engages in industry espionage, bribes a union leader or finds some other way to getting ahead of the others. In other words, it changes the rules of the game by incorporating new means, or new dimensions, of competition. Using the distinction between the two levels—innovation *within* established dimensions and innovation *of* these

dimensions—we can hypothesize that whenever the potential of one dimension is exhausted, accumulation will be continued by opening up new dimensions of competition and defensive mechanisms.

If we think of the dynamics of competitive accumulation that is to say, of the pattern of development of capitalist industrialization in terms of these defensive strategies in the course of which each accumulating unit protects itself from threats coming from others (thereby in turn posing threats to others), we can foresee a point in this development at which the ability of accumulating units to create new protective mechanisms by and for themselves becomes exhausted. At what point in time, to what extent, and in what particular industries this happens is an empirical question. Analytically, at this point accumulation can only go on if productivity gains and other advantages by which an individual accumulating unit protects itself from the competitive pressure of others can be derived from sources other than the accumulation process itself. In other words, at this point some or all accumulating units become, for the sake of their continued accumulation, dependent upon “help” in their strategy of competition; they become dependent upon means that the accumulation process itself cannot supply. At this point, *productive* state activities, in addition to the allocative ones, emerge, since the state is the only organization in capitalist society that could provide such *inputs* that are required in order to sustain accumulation and production.

In state productive activity the state fulfills its function as a capitalist state (to create and maintain the conditions of accumulation) not only on a broader scope, but in a *new way*. By such activity the state responds to situations in which labor and/or capital fail to operate in the accumulation process by producing material conditions that allow the continuation of accumulation. By its material production the state creates conditions that are essential for the accumulating units but that cannot be achieved by their own activity. Such productive state activity is initiated by the actual or anticipated, sectoral or general absence of accumulation (or disturbances in the accumulation process). The rationale is to restore accumulation or to avoid or eliminate perceived threats to accumulation.

We now want to concentrate on the following question: What are the decision rules by which the state operates in such a situation? As we have seen before, the decision rules for allocative state activities can be said to be directly derived from politics. Here the problem is relatively simple, because the conditions of accumulation can be created and maintained by state-owned resources (like police power, law making capacity, tax money, etc.). Seen from the point of view of the state (or one of its agencies or branches) as an actor, the decision problem is a minor one because directives as to what use is to be made of these state-owned resources can be directly derived from manifest interests and power relationships that become apparent in the process of politics and political conflict. This is different in a situation

where the state does not respond to demands, but, as it were, to *negative events*, namely, the absence or disturbance of an accumulation process. It is always easier to respond to positive demands: They can either be rejected or accepted. In a situation where one wants to *avoid* something, that is, where one *reacts to a manifest or anticipated danger*, there is no clear-cut course of action that could either be followed or rejected. Even though it is unlikely that the state as an actor is the only one who wants to avoid a certain condition, the state cannot afford to rely on the directions of action recommended or demanded by the most powerful (or politically dominant) groups in society; for to satisfy the interests of one group is one thing, and to restore the accumulation process as a whole is another thing, and it is by no means certain that the two will coincide. Consequently, the state has to devise decision rules of its own in a situation where the primary concern is to avoid disturbances of the overall accumulation process. The rules and laws that govern *politics* are not sufficient to solve this problem. An additional set of decision rules is required that determines *policies*.

Schema

A general definition of the activities of the capitalist state is the creation and maintenance of the conditions of production/accumulation.

Types of activity

1. Allocative
 - a) Allocation of state-owned resources
 - b) In response to demands and laws ("politics")
 - c) Demands are positive and specific in regard to time, space, group, type, and amount of state resources
 - d) Decision reached by politics

2. Productive
 - a) Production of inputs of accumulation (organized production process required) in response to perceived threats to accumulation
 - b) There are no demands, or conflicting or incompletely articulated demands, that cannot be expected to eliminate threats to overall accumulation
 - c) Decision reached by policies based on state-generated decision rules.

State activity takes on the form of policy making when the process of competitive accumulation becomes too fragile to regenerate itself within the framework of allocative state activities and when the state is required to produce (rather than merely decide upon) the conditions of continued accumulation. The basis for productive state activities in the form of policies (i.e., separated from the process of politics) is a twofold weakness of competitive accumulation itself: first, the economic weakness of being unable to produce the necessary inputs of accumulation through accumulation itself; and, second, the weakness that the ruling class, being made up of essentially *competitive* accumulating units, is unable to develop a class consciousness containing consented and workable directives as to how the state should operate. This twofold deficiency (both sides of which are based on competition) is attempted to overcome by (a) the development of productive state activity, supplementing the material input that is needed for accumulation, and (b) state activity in the form of policies (or decision rules about state activity), substituting for the lack of class consensus within the ruling class.

The state produces education, skills, technological change, control over raw materials, health, transportation, housing, a structure of cities, physical environment, energy, and communication services. The emphasis on the productive character of these state activities is because all of them differ sharply from the allocative ones since what is needed in a given situation is not already at the disposal of the state but must be *produced* by the state in the first place. The state-owned resources (like money and legal and repressive powers) are, so to speak, merely the raw materials out of which certain outputs have to be manufactured according to decision rules (or "production rules") that the state cannot take from its environment but has to generate for itself. The institutionalized production rules of public policy, their determinants and dynamics, are the key problems in the study of policy formation.

Production Rules of Public Policy—Form Versus Content

In order to explore the problem of policy formation in the capitalist state more fully, a distinction of form and content might be useful. Most studies of public policy in the area of "productive" state policies have been dealing with the content aspects of such policies. These *content* aspects can be divided into three complexes of questions that lead to (1) the analysis of processes in the environment of the political system that lead to the recognition of certain "problems" as a matter of public policy and hence to the expansion of the agenda of the political system, (2) the analysis of the interests that determine the process of policy formation, and (3) the material outcomes and the distribution of tangible benefits that result from policies and their implementation.

In contrast to this set of questions, we postulate here that public policy cannot be understood fully by these content-related questions, but that, in addition, the formal procedures, or the institutionalized method processing problematic states of affairs of the environment, are equally important determinants of state activity. The usual conceptualization of state activity visualizes the state as a "problem solver": Problems are recognized, and more or less adequate solutions are produced. This image is not wrong, but one-sided and incomplete. For what the state does if it works on a problem is a *dual* process: It organizes certain activities and measures directed toward the *environment* and it adopts for *itself* a certain organizational procedure from which the production and implementation of policies emerges. Every time a state deals with a problem in its environment, it deals with a problem of itself, that is, its internal mode of operation. It seems obvious that both processes of problem solving are interconnected in a circular way: Social and economic problems, as items on the state agenda, may trigger off changes in the formal strategies according to which the state operates, and conversely these formal strategies may substantially determine both the ability of the state to perceive problems and the nature of the ensuing policies.

It is important to note that the relationship between the two types of strategic rules is strictly a *symmetrical* one. That is to say, the formal rules that give structure and continuity to the operation of the state apparatus are not merely instrumental procedures designed to carry out or implement political goals or to solve social problems. They rather do determine themselves, in a hidden and unexplicit way, what potential goals are and what problems have the chance to come up on the agenda of the political system. Thus, it is not only true that the emergence of a social problem puts into motion the procedural dynamics of policy formation, program design, and implementation, but also, conversely, the institutionalized formal mode of operation of political institutions determines what potential issues are, how they are defined, what solutions are proposed, and so on.

After having discussed now (1) the general characteristics (or functional requirements) of a capitalist state, (2) the distinction between "allocative" and "productive" activities of the state, and (3) the distinction between form and content rules of operation of state institutions, we now turn to the question: How can the formal rules of policy production be described that determine the activities of the capitalist state in the area of "productive" activities? Our aim in asking and discussing this question is to explore potential discrepancies between the functions attributed to the state as a *capitalist* state and its internal structure, that is, its institutionalized mode of operation. To put it in the most formal way, our problem is the balance or imbalance in the relationship between internal production rules and functions referring to the accumulating process. Is there a "fit" between these internal and external aspects of the state's activity? If so, what kind

of mechanisms reproduce this functional congruence? If not, what are the systemic causes of this failure of reciprocity?

The basic types of formal decision rules according to which public administrations can operate seem to be limited to three: These three "logics" of policy production are bureaucracy, purposive action, and consensus. In the case of *bureaucracy* sequences of action are informed and determined by those structural elements that are, in an idealized form, described in the Weberian type of bureaucracy. In the case of *purposive action* technical rationality inspires the mode of operation. Finally, in the case of *consensus* the main determinant of administrative action is the conflict over interests or the agreement on common interests that exists either among the members of an administrative body or in their environment (internal versus external consensus).

For both empirical and theoretical reasons it seems reasonable to assume a close correlation between a bureaucratic mode of operation of the state apparatus and what we have called "allocative" activities of the capitalist state. As long as the required functions of the capitalist state were predominantly allocative, its internal structure, or institutionalized mode of operation, was predominantly bureaucratic. The reason for this assumption is that in *allocative* activities, in which state-owned resources are distributed, the bureaucratic mode is both best suited and sufficient to administer the allocation process in accordance with the functional requirements of the capitalist state.

The bureaucratic mode of operation, however, fails to operate sufficiently and adequately (according to the requirements of the capitalist state) as soon as *productive* state activities appear on the agenda of the state. The problem is that application of predetermined rules through a hierarchical structure of "neutral" officials is simply insufficient to absorb the decision load that is implied by productive state activities. In other words, the administration of productive state activities requires more than the routinized allocation of state resources like money and justice. Additional questions have to be answered in order for productive state activity to begin, for example: What is the final product, or purpose, of state production? How much of it is needed in a particular situation? What is the most efficient way of producing it? Who should receive it? At what point in time and for what length of time? How should it be financed, and what priorities should be followed in case of cost increases and/or revenue decreases? All of these questions are beyond the scope and the responsibility of a bureaucracy in the strict sense. A bureaucracy is controlled by *inputs*—be it the will of a ruler or the law. This input is to be applied strictly, faithfully, and without exception, and the result is supposed to be "order." In contrast, what productive state activity presupposes is control by *output*: An activity is "adequate" not if it conforms to certain established rules and procedures, but mainly if it leads to certain results.

In various policy areas one could easily investigate the change from merely

allocative to additional productive types of the state activity. In the case of health, for example, allocative health measures would consist in laws that make a certain *behavior mandatory* (for landlords to provide water and sanitary installations in their buildings; for doctors to register the incidence of contagious diseases with a department of health; for employers to install protective devices for industrial accidents, and so on) or in regulations that make certain *claims legal* (e.g., a claim of certain categories of people to receive public health insurance, or of certain private hospitals to receive state subsidies). On the opposite polar point there are purely productive state activities, or health policies in the proper sense, such as the management of public hospitals, a medical training system, or state-directed medical research. Although in most cases the actual health policy will consist of a combination of both, the preponderance of one of the types, and a historical development from the first type toward the second one will be recognized. In the first case, the state regulates behavior through the administration of negative or positive sanctions on a routinized basis, and it is exactly this that bureaucracies are so perfectly suited to do. In the second case the state pursues a concrete production, which in the case of our example includes the organization of physical investment and equipment, the qualification of manpower, and the production of the required knowledge. It seems obvious that, in the second case, the scope of data and events that take place outside the administrative structure and must be taken into consideration is relatively much broader. This is the reason why the procedures of an organization of the second type cannot be standardized, routinized, and channelled through rigid hierarchies in the same way as this is possible in bureaucracies in the strict sense that deal with the peculiarities of their environment on a much narrower and much more abstracted basis.

Bureaucratic structure seems inadequate as the basis for the productive type of state activity. This, incidentally, is the major result of numerous theoretical works pointing out that what is held to be the hypothesis in Weber, namely, the superior efficiency of bureaucratic structure, is wrong: Bureaucracy is inefficient and ineffective, and effective structures of government are nonbureaucratic. This point of view also has inspired numerous critiques of bureaucracy as well as proposals for its reform that aim at a stricter control of state activity by output and objectives, rather than inputs and rules. The critique of the "spending-service-cliche" inherent in bureaucratic structures is a case in point.

If we now look at the alternatives, the two possible structures seem to be the purposive-rational one and the one based in democratic conflict and consensus. In the history of sociopolitical doctrines, both of these solutions have been advocated under the phrase "from the rule over men to the administration of things," a formula that Saint-Simon first coined in order to demand the replacement of officials by experts and scientists, and that

later was used by Engels as a description of what the mode of operation in a classless and democratic society would be. Let us first consider the purposive-rational or technocratic mode of operation of productive state activity. To what extent is it applicable as a viable solution to the problem that is posed to the capitalist state by the fact of discrepancy between the predominantly bureaucratic structure of the state apparatus and its function as required by the accumulation process?

To substitute bureaucratic rules of policy production by purposive-rational ones would make the state apparatus—in its internal procedures—similar to what goes on in production of commodities in industry. However, while the choice of ends in *industrial commodity* production, namely, a certain quantity and kind of commodities, is (pre)determined by market forces, there is no such mechanism in the case of the state that sets and corrects the goals of *state* production equally automatically. This difference is most important. Only if the goals of purposive rationality can be taken for granted in a given situation, can purposive rationality become the organizing principle of the structure of an organization. An individual accumulating unit derives its goals from its environment, or at least it derives very stringent criteria from its environment as to what its range of decision making about goals is. So its main problem remains to implement these goals efficiently and effectively, that is through instrumental rationality. This is something the state cannot do: It does not have unequivocal, uncontroversial, and operational cues as to what the goals of its productive state activities should be; at least it is unable to derive such definitions of goals and goal related criteria from its environment. For the state there is no calculus that allows it to interpret data from the environment and transform them into strategy. The state is, in other words, not itself a capitalist accumulating unit, and therefore the problem of its internal decision-making structure is much more complicated to solve than in the case of a capitalist firm. The variety of needs, interests, demands, crises, etc. that appear in the environment of state activity are of a contradictory nature, especially under conditions of advanced forms of competition discussed before, to allow the derivation of operational goals. Conversely, the state in its specific capitalist form is unable to impose on its environment its *own* definition of a set of goals that it then could pursue according to instrumental rationality.

The lack of operational political goals that could be implemented in a purposive manner is not the only obstacle to the adoption of a purposive mode of operation. In addition to clear-cut goals there must be two additional conditions in order for this mode to be applicable: First, there must be a relative stability of conditions at least for the length of the production cycle. If a dramatic change of cost and price, or means and end, is to be expected during the course of production of a commodity, its production can hardly be organized in a rational instrumental way. While for the individual firm the relevant segment of the environment is relatively small and the fact, direction, and rate of

change in relevant variables can relatively easily be anticipated, the state's relevant environment is broad and hence less predictable. This greater turbulence of the environment is aggravated in its effects by the fact that production cycles of productive state activity are often very long, so that the implementation of goals (even if they are sufficiently operational) is likely to be a process that is affected by changes in the relevant environment that escape rational instrumental calculation. The familiar phenomenon that long-term programs are blocked by short-term fluctuations of the business cycle is a case in point. Second, the purposive-rational type of action is applicable only where side-effects of the production process itself can be safely ignored (or compensated for) by the organization. To treat the elements of a situation as means and ends is simply to ignore all aspects of the "means" except those specific ones that can be utilized as instruments for the "end." The question of what happens to the *means* except and after being utilized can be *externalized*. This is, at any rate, easier for a private capitalist organization to do than for a capitalist state, especially as far as the need to legitimize its power and conceal its real functions is concerned. Finally, there is the well-known problem of finding a common denominator for means and ends, a task that can only be solved in a more or less arbitrary way as soon as reforms of state production cannot be calculated in monetary terms since they are not sold on a market. For this reason it is always easier to achieve *technical* rationality, or effectiveness, than economic rationality or efficiency in productive state activities. But it is exactly this possibility of achieving benefits regardless of cost considerations that is made most unreal (with the relative exception of defense) by fiscal constraints that in turn are aggravated by the number and costs of productive state activities. We conclude from this brief summary of the obstacles to instrumental rationality as the organizing principle of productive state activity that the adoption of this principle cannot be considered as an adequate and viable solution to the structural problems of the capitalist state and its internal organization except under very limited and unlikely conditions such as: clear-cut, uncontroversial and operational goals; stability of the environment and/or short production cycle; ignorable externalities; no fiscal constraints; and others.

The third principal method for organizing the decision-making process in the area of productive state activity is to allow for a highly decentralized process of political conflict and consensus to determine the production process. By this method production would not be made dependent upon a set of rules generated at the top of a hierarchical structure, or by a preconceived goal that is to be achieved by rules of technical effectiveness and economic efficiency, but by a *simultaneous determination of inputs and outputs* by the clients of state administration or the recipients of its benefits. Such a model of decision making, at least in its pure form, would mean that not only the logical and institutional distinction between politics and administration, but also the basic distinction between state and society, becomes negated: The

authority to organize and decide upon productive state activity would reside in its clientele. The difficulties that such a loss of differentiation would entail for the ability of the state to function as a *capitalist* state are rather obvious. First, the permanent interference of conflict of interest and the dynamics of consensus formation into administrative action would probably make it incapable of planning and long-term action. Second, even if the time horizons of demands and planning would coincide, it remains highly questionable whether a policy process that is directly dependent upon democratic pressures could any longer converge in a policy that is consistent with the functions of the state that are required in a capitalist society. In other words, too much responsiveness towards its clientele would almost necessarily push administrations beyond the limits of what they can do and are required to do within the framework of a capitalist organization of the economy. At least, such responsiveness would not only *reflect* conflicts most directly, but also *create* conflicts in case its pretended reliance upon democratic decision making is not paralleled by its ability to act according to the emerging decisions of its clientele. In other words, conflict is created by the fact that the adoption of social conflict and consensus as the basis for policy production does *invite* more demands and interests to articulate themselves than can be *satisfied* under the fiscal and institutional constraints that the capitalist state is unable to escape.

Policy Analysis and Public Administration

We have argued that the study of policy formation is fundamentally incomplete as long as its main emphasis is on matters of policy content. The formal structure, or method, of policy making is of equal significance, especially since it predetermines what can and does become the content of a policy. We have further argued that there are three principal methods by which the administration of productive state activities can be undertaken. Checking each of them, we have found, as it seems, that each might be viable as a structure of decision making, but that none of them is adequate for solving the specific problem of the capitalist state, which is, as we have argued, to establish a balance between its *required functions*, which result from a certain state of the accumulation process, and its dynamics on the one side and its *internal structure* on the other side. It thus seems that the problem of the capitalist state is *not* how to solve certain problems that are brought by the accumulation process, like how to control inflation or unemployment or how to produce technological change and education. The problem of the capitalist state is rather one that has to be solved before any of those changing problems can be dealt with, namely, how to establish and institutionalize a method of policy production that constitutes a *balance* (or reciprocity) between required state activities and the internal structure of the state.

Liberal policy research and policy analysis tends to ignore this problem altogether, because it assumes that the right course of action relating to a specific social problem is what is most urgently needed, and not what mode of operation is adequate for a capitalist state. These branches of social science deal with ways to cure what are seen as the ills and deficiencies—rather than the nature—of advanced capitalist society. In most cases these perceived problems fall into one of the three categories that constitute the framework for the *liberal* critique of capitalism: (1) failure of the market-controlled accumulation process to take into account externalities and social costs; (2) failure of the accumulation process to produce staple levels of income and employment over time, and (3) failure of the accumulation process to produce a distribution of income that is in conformity with standards of social justice and the requirement of social peace. Implicitly, in such perspective of policy research the state is seen as a *neutral* actor who lacks knowledge as to what to do at what time. Conversely, another branch of liberal political science, namely public administration, is concerned exclusively with the most “rational” or “responsive”, or “efficient”) mode of organizing and managing public organizations. In this view the *environment* of state activity, namely a capitalist society in which the accumulation process poses certain problems and requires certain state activities, is neutralized. In both fields of study, policy research and public administration, the problem of reciprocity versus discrepancy between external function and internal structure is ignored due to its respective specialized and one-sided point of view. This is why both disciplines tend to become normative, abstract, and voluntaristic in their recommendations: the problem-solving approach of policy analysis to the extent that it fails to take into consideration the problem of the internal mode of operation of the state, and the public administration approach because it ignores the functional aspects of the state as a capitalist state.

We have argued before that none of the three principal modes of organization and decision making can be said to provide the adequate structural basis for the performance of those functions that characterize the capitalist state. In the rest of this chapter I discuss the questions: (1) how the problem of this structural discrepancy between structure and function can be observed empirically, and (2) the observable responses to this problem by which an attempt is made to reconcile or minimize the structure/function discrepancy.

If we look at the major doctrines of administrative reform and reorganization, it is interesting to note that they do correspond closely to the three main modes of operation. The bureaucratic mode of operation is the model after which all these recommendations are designed that call for a stronger centralization of administrative structures. Centralization aims at a stricter enforcement of rules for a broader range of units and administrative subsystems so that rules, directives, and informations are accepted more reliably by more actors. Second, the purposive-rational mode of operation is the model that inspires all those suggestions that call for stricter control by objectives, outputs, and outcomes

by such techniques as program budgeting, cost benefit analysis, and social indicators. Finally, there is a school of reformers of administration who seek to improve responsiveness, equity, and the consideration of democratic values of meaningful participation. The guideline in these proposals is obviously the conflict/consensus model that is either meant to imply greater participation on the part of the lower ranks *within* the organization and/or on the part of the *clientele*.

If we are right to assume that all of these modes of operation are in specific ways inadequate to solve the structure/function problem of the capitalist state under conditions where the state's function can only be performed through productive state activities, then the pursuit of such nonsolutions on the level of internal modes of operation should lead to empirical phenomena of friction or to failures in the performance of state functions. In other words, if it is true that each of the three models of internal structure are inadequate as the organizational form for the functions required by a capitalist state, such inadequacy must be demonstrable on the level of empirical phenomena.

This seems to be most easy to do in the case of the purely bureaucratic mode of operation and its marginal extension through stricter centralization, etc. Bureaucracy means hierarchy, fixed division of labor, input orientation, abstraction of concrete events occurring in the environment into "cases", and the routinization of procedures. While one could argue that this arrangement is perfectly suited for the purpose of allocating state-owned resources to certain categories of receivers, it has often been observed that it does not work in the area of productive state activities, that is, in all those cases where resources have not only been handed out to legally specified recipients, but where those resources have to be combined into a production process of, for instance, health, defense, education, or industrial innovation. For such state activities, the pure type of bureaucratic organization is either altogether ineffective or, at least, highly inefficient. The strategic alternatives that remain in this situation are *either* to reduce drastically the quantity and scope of state organized productive activities (a solution that is typically advocated by conservatives who believe in "incrementalism" as one of the organizational forms that emphasizes input orientation), *or* to innovate and transform bureaucratic structures in a way that makes them more rational for their productive task. Since the incrementalist solution is inconsistent with our basic assumptions, namely, that extensive productive inputs organized by the state are an indispensable prerequisite for the accumulation process in advanced capitalist societies to take place, the adequacy of this solution can be dismissed as irrelevant within our present framework of assumptions. The second solution contains itself a critique of the bureaucratic mode of operation, which can be summarized as follows: to the extent that bureaucracies are employed as organizational structures dealing with the performance of productive state activities, they are neither effective nor efficient and hence produce outcomes that are insufficient in quality and quantity, relative to the functional requirements of the accumulation process in advanced capitalism.

Second, the rational-purposive mode of operation (commonly associated with the concept of planning) seems to cause disturbances of the capitalist accumulation process for opposite reasons: It is not, as in the case of bureaucracy, insufficient to perform productive state activities; rather, it seems, if applied rigorously and comprehensively, to be most adequate for the design and implementation of productive state activities. However, such an instrumental-rational mode of operation presupposes, as we have seen before, a degree of control over relevant variables that is atypical for the capitalist state. The typical case, rather, is that the amount of state power required for comprehensive planning of the production process is denied to the state by the accumulating units themselves. Planning thus seems to be inherently impossible to the capitalist state as an internal mode of operation—impossible not in itself, but because of the acts of retaliation that planning provokes on the part of capital as a whole or individual accumulating units. Such acts of retaliation (the major forms of which are *absolute* disinvestment, or investment strikes, and *relative* disinvestment, or displacement of investment in time and space) tend to make the cure worse than the disease under capitalism, and are thus self-paralyzing in regard to state activity.

Third, the contradiction inherent in any attempt to base state productive activities on democratic consensus-building and immediate political conflict (either within state agencies or between them and their clientele) tends to exacerbate the problem rather than to create solutions. Participation and unfiltered conflict tends to interfere with the institutional constraints, under which state agencies have to operate, and, as could be demonstrated in the cases of participation-based welfare policies, urban policies, and education policies, lead to a highly unstable situation. Participatory models of the organization of state productive activities that aim at increasing administrative responsiveness are as inadequate as the two others because they tend to crystallize conflict and protest and can thus easily become *subversive* of the balance between the state and the accumulation process.

Each of the three sets of institutionalized decision rules that we have discussed contain a specific contradiction: the bureaucratic mode of operation is wasteful at best and ineffective at worst and thus *insufficient* as a structural model for productive state activity. The purposive rational model may be both efficient and effective in itself, but its application requires interference with the prerogatives of the private accumulation process, the resistance to which on the part of the accumulating units makes its application impossible (except where it is almost congruent with private investment decisions in the first place). The main reason for this impossibility is the resistance of the accumulating units and their power to retaliate. Resistance, protest, and political conflict on the part of the working class (and other groups that are deprived of control over investment decisions) are the major reason for the subversive effects of participatory structures.

This line of argument seems to suggest that, among the three major strategies of establishing a balance between the structure of decision rules and the functions of the state for the accumulation process, there is none that has the potential for success. Whichever is pursued, it tends to violate rather than to establish the balance of the state and the accumulation process. Moreover, since all three of these strategies, which aim at the adaption of structure to function, seem to be followed by current proposals for administrative reform simultaneously in different branches of the state apparatus, the occurrence of second-order contradictions, namely between those strategies among each other, can be hypothesized. No agency can simultaneously open itself to directives that come from the top of the bureaucratic hierarchy, from the experts, and from its clientele.

Conclusion

A better understanding of these structural problems of the capitalist state, its inability to reconcile, without paralyzing side effects, its functions as a capitalist state, and its internal mode of operation, may oblige us to redefine the concept of the capitalist state itself. In the beginning of this chapter we said that a capitalist state is defined (a) by its exclusion from accumulation, (b) by its necessary function for accumulation, (c) by its dependence upon accumulation, and (d) by its function to conceal and deny (a), (b), and (c). If the analytical propositions we have developed are at least partially valid, it is hard to imagine that any state in capitalist society could succeed to perform the functions that are part of this definition simultaneously and successfully for any length of time. If this is true, what entitles us to talk about the capitalist state as if it were part of social reality? What is real about it is the constant attempt to reconcile and make compatible these various functions with its internal structure, or mode of operation. But what is equally real is the fact that there is neither visible nor to be anticipated a strategy that actually *does* reconcile these functions and thus achieve a balanced integration of the state and the accumulation process, that is, a reliable and workable strategy of "systems maintenance" (as many radicals believe).

The reality of the capitalist state can thus best be described as the reality (and dominance) of an unrealistic attempt. [There is no method of policy formation available that could make this attempt more realistic, at least if it is true that element (b) in the above definition spells—under conditions of *advanced* capitalism—the need for productive state activities.]