ECONOMICS AND THE ASSAULT ON THE MARKET

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

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

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The opposition between state and market is a neoliberal agenda that only became a problem this day and age insofar as, in the 1980s and '90s, neoliberalism became so hegemonic that the agenda appeared natural and legitimate. Through this opposition, two institutions that are by nature structurally complementary in modern societies were placed at the same level. Its hegemony, however, ended with the current global financial crisis to which the neoliberal ideology is directly associated insofar as promoted deregulation of financial markets. In this article, my focus is not in this crisis but in that reactionary ideology behind, and in the meta-ideology – neoclassical economics, public choice theory and new institutionalism – that was used to legitimize it.

We should distinguish the state from nation-states or countries. The state is the basic institution organizing and coordinating society within a nation-state; the nation-state or country is the political-territorial sovereign entity formed by a nation, a territory and a

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state. Modern societies are capitalistic societies that organize territorially as sovereign countries or nation-states. Today, within the framework of global capitalism, empires and areas occupied by tribes and clans have disappeared, and the entire globe is covered in nation-states that constitute a major and worldwide political system in formation. On the other hand, insofar as countries opened up to trade, globalization turned the world into one great market – a vast and increasingly integrated economic system. Within this grand political and economic system, countries are the basic political-territorial units, each made up of one nation or civil society, one state and one territory. A country that is developed in economic, social and political terms is served by a strong and capable state that regulates a reasonably efficient market. State and market, therefore, are institutions of society – its instruments for collective action, the main tools each society has to attain its objectives. The state is the fundamental instrument; and the market, socially constructed and politically regulated, is its complement. The stronger either institution, the stronger will be the other.

Neoliberalism

One cannot expect to increase the power of the market at the expense of weakening the state, as the neoliberal ideology irrationally intended. When this ideology, associated as it is with apparently scientific economic and political theories, mounted an assault on the democratic and social or welfare state that had begun to establish itself with the New Deal in the United States and consolidated chiefly in post-World War II in Europe, the market too fell under assault, because, lacking regulation, it ceased to perform its purpose in society and eventually lost legitimacy. Neoliberals and those driven by common sense will probably argue that the ideology that has been prevalent in the past 30 years – and for this very reason became common sense – did not intend to weaken the market: only to remove it from the realm of production; it wanted the state to cease being a "producing state" to become a "regulating state". True, part of its discourse did take this shape, but it was an empty discourse – classic Orwellian doublespeak, in what is said is the opposite of what is meant. The state's fundamental role is in fact to regulate, to define and establish itself as the constitutional-legal system. But it can also be protective, inductive, enabling and, at the early stages of economic development, productive. Neoliberalism, in addition to rejecting a state with these later traits – the shapes that the democratic and social state took in the "30 glorious years of capitalism"

(1945-75) –, also did not want a regulating state. The term "regulating state" that it espoused was void. The purpose was to deregulate instead of regulating. For neoliberalism, the state should become "minimal", which implied at least four things: first, that it should cease to produce certain basic goods related to the economic infrastructure; second, dismantling the social state, that is, the entire social protection system through which modern societies attempt to correct for the market's blindness to social justice; third, that the state should quit fostering productive investment and technological and scientific development, that is, to quit spearheading a national development strategy; and fourth, that it should cease to regulate the markets, and the financial markets in particular, because they would self-regulate. The proposal that the neoliberal creed most insistently repeated was market *deregulation.* How, then, to speak of a regulating state? It would be straighter to say: "deregulating state". The goal was a weak state that left national economies, both in the wealthy countries where the ideology originated and in developing ones, to become the playing field of major corporations and their top executives and financial agents, leaving them free to realize rents of all kinds, instead of moderate interest, business profits and professional fees – which are legitimate ways to reasonably compensate the capital, enterprise and knowledge the economic elites hold.

Neoliberalism was the hegemonic ideology from the early 1980s to the early 2000s. It was the ideology that American governments embraced and promoted since President Ronald Reagan. From the beginning of the present decade, however, its intrinsic irrationality, its inability to promote growth in developing countries, its effectiveness in concentrating income in the wealthiest two percent of every wealthy and developing society to adopt its ideas, and the increased macroeconomic instability manifested in the several economic crises of the 1990s – all of these were indications of its depletion. Its hegemony, however, would end with the crash of October 2008 and the present day's deep economic and financial crisis, forcing the state to intervene heavily in rescue of indebted banks, firms and households, marking the ideology's collapse. Finally, the accursed state was called upon to save the market. Neoliberalism is now a quasi-dead ideology, an embarrassing recollection that only exists in the pernicious consequences it has had on its victim societies.

For long I defined neoliberalism as radical economic liberalism, as the ideology of the minimal state and self-regulated markets. These definitions are correct, but the former has a serious flaw. After all, liberalism, both political and economic, was a social conquest – and there have been many forms of radical liberalism that were not at all neoliberal.[1] It would be better to define neoliberalism by drawing a historical comparison with liberalism. In the 18th century, liberalism was the *ideology of a bourgeois middle class* in struggle against an oligarchy of land- and warlords supported an autocratic state. To characterize liberalism it is not enough, therefore, to state that it was a radical economic liberalism because the liberal radicalism of the 18th and early 19th centuries was revolutionary. Let us then see what neoliberalism is or has been in historical terms. Neoliberalism is the *ideology of the wealthy* used since the late 20th century against the poor or workers and against a social democratic state. It is, thus, an eminently reactionary ideology. An ideology that, supported by the neoclassical economics of rational expectations, by the new institutionalism, by the public choice theory, and by the most radical streams of the school of rational choice, mounted a true political and theoretical assault on the state and on regulated markets over the past 30 years. As a consequence, comparing these three decades with the three previous ones, we see that, in wealthy countries, growth rates were lower, economic and financial instability increased, and income concentrated in the wealthiest two percent of the population, while, in the developing countries that accepted this ideology — the consensus of Washington – growth rates were insufficient to catching up.

State

The state is the *constitutional-legal system and the organization or apparatus that assures this system*; it is, therefore, the fundamental institution of every society, the cast of all other institutions, the guiding, or regulating, principle with power over all of the society and the state apparatus that executes and reforms it on an ongoing basis. It is through the law and the principle of the rule of law that social actions are coordinated; and it is public administration that assures this coordination. The market, in turn, is a more limited but equally fundamental institution: it is the state-regulated economic mechanism of competition that enables relatively automatic coordination of economic action; it is the institution that complements the more comprehensive coordination that the state performs. It makes no sense, therefore, to oppose state and the market. One

[1] The *Diccionario Enciclopédico Salvat* (Barcelona 1954), for example, defines radical liberalism as the one where the State and the Church are totally independent from one another.

may see problems with the state, and understand that certain activities might be better coordinated if the state were to limit its regulation of the market, but this is not to say that the two forms of coordination are alternative, since the state will ever regulate the markets and since the ultimate responsibility for good or bad coordination lies not with the market, which lacks will, but with society, which, through its means of political organization — civil society or the nation – constitutes its state and, in the democratic state, elects its government.

The great political construction of modern societies is the state. Hegel was the first to understand this fact, to see it as the crystallization of reason, as the acme of human rationality. We have trouble understanding the great philosopher’s statement because we regard our own state or our own political system as an imperfect normative institution in constant need of reform (the constitutional-legal system) and as an organizational institution peopled by civil servants and politicians and marked by administrative and ethical problems (state apparatus or public administration). But this is a gap between project and reality that in no way removes from the state its nature of human will, of the pursuit of rationality. While the economy and society, considered apart from the state, are the domain of necessity, politics and the state are the domain of human freedom and will.

In the economy and society thought, independent of the political system, each upholds his or her own interests and, secondarily, collaborates with others; and does either in a disorderly manner. Neither common objectives nor collective choices exist. Individuals are guided solely by their reason in an attempt to meet their interests. As a result, when self-professed liberal economists attempt to develop theories on society and the economy without taking the state and politics into consideration – just assuming the *homo economicus* –, they end up in the pitfall of determinism that appeals to conventional or mainstream economists because it makes their science appear more “scientific”, more accurate. In fact, economics and other social sciences made deterministic through oversimplification of human behavior are intrinsically misleading because in every human being lies an element of freedom and unpredictability, and because social behavior is more than just the total sum of all individual behaviors. Gathered into a society, individuals share values and beliefs, and build institutions that change the patterns of social behavior. It is through the construction of the legitimate and effective constitutional-legal system that is the state, and through the other social institutions, that citizens transform their society and build their republic according to these values.

When attempting to understand society and the economy, one must also consider the state, its government, and other institutions. As Karl Polanyi (1944: 33) wrote, "economic liberalism misread the Industrial Revolution because it insisted in analyzing social events from the economic perspective," because it believed in the "spontaneity" of social change, ignoring "the elementary truths of politics and statecraft". Although concerned with their own interests, citizens are free when, in addition, they are capable of regulating society and the economy, organizing common good, building the nation and its state; in sum, changing to improve their fate. Success in this effort is inevitably relative – but a belief in progress enables rejecting pessimism or cynicism and thinking that the reign of liberty little by little overcomes the reign of necessity and that men, through the construction of the state, gradually shape national and global societies that are more prosperous, freer, fairer and better stewards of the environment. The social, or welfare, state and the social capitalism that European societies have built, especially in Scandinavia, are far from Heaven, but still significant signs of the progress made. This, however, does not afford the citizens of those countries the luxury of self-indulgence. On the contrary, they remain engaged in the criticism of their practices and institutions because only thus can they advance along the path of this ever incomplete construction. In this respect, I recall a German social scientist who, at a seminar in a developing country whose economic and social problems were far more severe than Germany's, offered a strong critical analysis of his own country. The other attendees were surprised because they are used to criticize their own societies and regard more advanced countries as goals to be attained. In fact, however, a country and its society are only more advanced because its citizens have not lost their critical sense. Because they understand that a good society depends on each one's ability to cooperate and compromise with the others and, above all, on the ability to build a good state where social objectives and compromises are crystallized.

The state as rule of law is the concrete realization of human liberty and reason. It is our par excellence instrument for collective action. It is, however, a less-than-perfect instrument not only because we are imperfect ourselves, but chiefly because the term "our" never equates with everyone's, or even with Rousseau's general will. In every society, one must know who is the "we" that builds the state and uses it as an instrument to attain is objectives. When Marx and Engels, in the *Communist Manifesto*, wrote that the state was the executive committee of the bourgeoisie, they were denying its rationality and legitimacy. And rightly so because the state of their time was authoritarian and liberal, affirming individual freedom, but denying the political freedom to vote and be voted – to be part of the government; and because the two ways in which society was politically organized to determine the actions of the state – the nation and civil society – were themselves authoritarian and that all power was still concentrated in the hands of an emerging bourgeoisie and a decadent aristocracy. But even then – or at that stage of development – the constitution of a national state also involved the struggle of the poor or of workers because the rising bourgeoisie needed them to attain national independence or autonomy, that is, to form its own nation-state. Despite not being the main beneficiaries of the constitution of the national state, workers knew that the state was or could be their instrument for collective action. This is why they struggled for the national state and, then, for the democratic form of this state. Democracy cannot exist independently from the state; democracy is the political regime or constitutional system that is based on the people's right to take part in the government of the state. More developed countries have a democratic and social state because not only the state itself, but civil society or the nation, internalized democracy, because economic and political inequality somehow diminished, because in modern societies and their respective states workers and the poor, although still equipped with a lesser voice than the elites, already have some say in the definition of the course of collective action.

The modern state regulates the markets since its first historical manifestation as absolute state. This emerged from the alliance of landed and military oligarchies with the rising bourgeoisie. Then the liberal state establishes itself – a victory of the bourgeoisie. The liberal democracy of the United States and the European social democracy came out not of the elites, but of the people. The bourgeois elites were satisfied with the liberal state – the state that assured their civil rights. Those asking for a stake in politics – and who to some extent gained it – were the poor or workers. From this came, first, the liberal democratic state and later, after World War II, in European countries where workers amassed greater power, the social democratic state. In this process of democratic transition and consolidation, unlike the pre-capitalist oligarchic elites for whom democracy was unthinkable, the bourgeois elites did not impose an absolute veto on the democratic state because they realized that they would continue to appropriate the economic surplus even without direct control of the state (Bresser-Pereira 2007). But the democratic state that now exists, whether in its simply liberal form or the more advanced social or welfare form, is a conquest of the poor, of the working and middle classes. It continues to be essentially a bourgeois state because the capitalist class remains dominant and privileged, but is not anymore just a bourgeois or liberal state. One of its permanent roles is to regulate the markets. There is no sense, therefore, in opposing the state and the market. Neoliberalism invented this opposition because this would enable it to weaken a state that had become a social democratic state during the "30 glorious years of capitalism" (1945-75), and thereby turn capitalism into neoliberal capitalism.

Market

The market is a humbler institution than the state. It is a coordination mechanism based on competition. Therefore, it does not require the definition of goals or objectives, as patterns are defined by participants in the competitive process. More than this, the market does not require the use of direct authority, the administrative power to set goals and select means. Every firm, every individual, is a competitor making independent decisions. For all these reasons, the market is a necessary institution. In its absence, it would be impossible to coordinate the great and complex economic systems that capitalist development has produced. Only through the market and, therefore, through price competition, can a reasonably effective allocation of the human and material resources available in these complex systems be achieved. The market and the trend towards profit-rate equality satisfactorily allocate production factors. If the supply of capital, labor or knowledge in a given industry is lower than demand, prices will rise in the short run, but in the medium term production factors redirect to this greater demand and the prices and compensation of factors return to equilibrium. Classic economists already discussed the mechanism, which Alfred Marshall's partial equilibrium model made even clearer and more transparent.

Economic freedom and technical and entrepreneurial creativity, which are crucial to the development of complex societies, are only compatible in the presence of coordination by the market. At the earlier stages of economic development, state intervention is indispensable to bring about the forced savings or early accumulation required for the industrial and capitalist revolution. The industrialization of Japan, in the late 18th century, was entirely run by the state, but around 1910 the country privatized its manufacturing industry. The Soviet Union and China initially developed through state investment and their rules thought they were making a socialist revolution. In fact, they were simply fulfilling the first phase of the capitalist revolution. The Soviet Union failed in its competition against the United Sates because its state-run regime, which had been appropriate to amass the forced savings needed to implement its economic infrastructure, was no longer appropriate for a more advanced stage of economic development. In Latin America, countries like Brazil and Mexico were able to establish a comprehensive economic infrastructure through the direct actions of their states and the companies they owned, but soon opened up their economies to private enterprise and market coordination because this was the only efficient alternative.

However, this institution is at least as flawed as the state. It is, in fact, very flawed for its blindness to fundamental political and human values – freedom, justice, protection of the environment. It is even blind to the economic efficiency that justifies it. At certain times, the market becomes incredibly inefficient – particularly in times of crisis. Economic crisis is essentially the failure of the market. It is the point at which the market ceases to coordinate and starts "discoordinating", or bringing about disorder. And it could not be different, since the market is the domain of the economy and, as discussed earlier, the economy is the realm of necessity, not liberty.

Economics is the science of the market, or better put, the science of the state-regulated market; hence, it is political economics. In much the same way that a market makes no sense without a state to assure and regulate it, economics makes no sense without the state's regulation and assurance of the market. Economists have always been tempted to declare their independence from the state. In the days of Adam Smith and Thomas Malthus, this aspiration to autonomy made sense, as the mercantilist state was also autocratic often causing more distortions than corrections to the economic system. It also made sense to associate economics with liberalism because the emerging bourgeoisie needed more freedom for enterprise. However, classical economists were realistic enough to realize that their theory was not only economic, but also political. That the state and politics were not a hurdle, as neoliberalism would later argue, but integral parts of the economic system insofar as they regulate and assure the market.

The market is a competition-based economic coordination mechanism. To coordinate the actions of any social system and, above all, of an economic system intended for the production of goods and services, two mechanisms are required at all times: the administration and the market. While the administration is a hierarchical system that turns the social system into a bureaucratic organization (the business firm), defines its objectives and chooses the best means to attain them, the market coordinates individual economic actors, households and economic organizations through competition – essentially a competition for firm profits, but also for better wages and better fees for workers and professionals. The state lies above individual actors, households, organizations and markets, and coordinates them all. When it does so directly, it plans and intervenes in production. But this is not its core role. When it regulates the actions of all members of society through the Constitution, laws and public policy, and when, in the economic arena, it institutes and coordinates markets, the state is performing its core and irreplaceable role.

The theoretical assault

In the past 30 years a coalition of wealthy rentiers and brilliant middle-class financial practitioners used neoliberalism as an ideological tool for enrichment. I will not discuss how the coalition was formed, how it initially gained sway over the United States and the United Kingdom and how it later became an instrument mainly for the wealthiest two percent in rich countries and in Latin-American middle-income countries to appropriate high rents. I will not show how, in this period, finance, as necessary as it is for the proper operation of an economic system, became "financialization" – in a process of creation of fictitious financial wealth and appropriation of a significant portion of this wealth by financiers. What I am concerned with in this discussion about the state and the market, besides having established in the foregoing pages the basic complementary and hierarchical relationship that exists between these two institutions, is understanding the role played by some schools of thought – in particular neoclassical economics, new institutionalism, and public choice theory –in providing the instruments for the assault neoliberalism mounted against the state – an assault that, for its duration, successfully legitimized a deep distortion of capitalist thinking.

The most notorious episode associated with the roots of neoliberalism dates from the 1950s, with the formation, in Mont Pelerin, Switzerland, of a group of great liberal intellectuals, with Friedrich Hayek at the helm, but that also included Karl Popper, Ludwig von Mises and Milton Friedman. This chapter is a precursor to neoliberalism, but not proper neoliberalism because it was more concerned in opposing and criticizing communism and economic planning than in proposing deregulation of the economy. This is not the moment to discuss the mistakes made on either side of the playing field, or to survey the great debate between liberalism and socialism. These two fundamental ideologies of modern societies   were deemed to correspond to two alternative forms of production organization –capitalism and socialism –, when it was becoming clear, first, that the attempt to install socialism in backward countries implied its transformation in statism, and, second, that there was no economic short term alternative to capitalism. Influenced by socialist ideas, capitalism, although remaining an unjust form of organizing society, could assure social rights or become social capitalism, insofar as workers were able to become associated with the middle classes in the formation of welfare states.

Neoliberalism emerges in full in economics a while later, in the 1960s, in the United States – and will express itself clearly in four schools of thought: neoclassical economics, the new institutionalism based on transaction costs, the public choice theory, and the rational choice theory that reduces politics to a market. These four theories outline a reductionist view of the state and politics. Neoclassical economics demonstrates that the state's regulatory action is unnecessary, new institutionalism makes the state second best to the market, the theory of public, or social, choice turns the state into an intrinsically corrupt organization, and the more radical streams in rational choice reduce politics to market gains and losses.

Economists have never been able to clearly separate their science from ideology. As a result, it is not surprising that when the economists, now referred to as "neoclassical", decided to change the name of the science from "political economy" to "economics", so that the divide between economics and policy, between the market and ideology, finally became clear and *economics* became "pure science", it became mere ideology. By making this change, they meant that the economic sphere had attained a reasonable degree of independence from the rest of society that justified a science all its own, but failed to realize that this did not justify a "pure" economic science. By aspiring to this purity, they were hiding the essential political element of economics, even after the autonomy of the economic field that capitalism promoted. From its inception, with the subjective theory of value and the model of general equilibrium, neoclassical economics took a step into the darkness of ideology. The neoclassical growth theory and mainly the neoclassical macroeconomics which emerged in the second half of the 20th century, turned the general equilibrium model into an "ideal-realist" image of the capitalist system[2] and used the absurd rational expectations assumption – the assumption that economic agents act rationally according to what the theory predicts – to build useless and dangerous models that markets are self-regulated.

In this hypothetical-deductive theoretical framework, the main criterion for truth was not a fit to reality or predictive power, as expected of a natural or social substantive science, but internal consistency – the par excellence criterion of methodological sciences. To enable this, the method of choice changed from the empirical or historical-deductive method – as in Adam Smith and Karl Marx – to the hypothetical-deductive (Bresser-Pereira 2009). For this very reason, neoclassical economics became purely hypothetical, purely mathematical, the "perfect" demonstration of how markets are or tend to be self-regulated and, therefore, of why the state is almost unnecessary – and responsible only for assuring property and contracts.

In mid 20th Century, with the emergence of Keynesian macroeconomics and development economics, this insanity subsided for a while. Not by chance, Keynesian macroeconomics and development economics were prevalent between 1945 and 1975, the same period of the "30 glorious years of capitalism". In the 1970s, however, the reduced dynamism of developed economies, the drop in profit rates, and stagflation provided an opportunity for neoliberalism to mount its attack on the social state and a pretext for neoclassical economics to recover its mainstream role. With its mathematical growth models and its equally mathematical macroeconomic models based on rational expectations, neoclassical economics again provided "mathematical demonstration" of the self-regulated nature of the markets – a self-regulation hampered only by a few maneuverable market failures. Milton Friedman and Robert Lucas were the stalwarts of this struggle for the monopoly over legitimate knowledge, which was successful for two decades. On the other hand, since the model offered by Franco Modigliani and Merton Miller (1958), neoclassical economists create a financial theory according to which markets are intrinsically efficient, independent from both the state and the individual

[2] Ideal because the general equilibrium would be momentum of the perfect market; realist because intended to be a realist theory of what is an economic system.

decisions of financial managers. This radical economic determinism will reach its apex in the models of Gary Becker, where the economic sphere not only detaches itself from the state and other aspects of life, but in fact determine them imperiously.[3] As Pierre Bourdieu (2000: 17-18) noted, this detachment involves an "ethical revolution" through which "the realm of commercial exchanges separated from other domains of life... and transactions were no longer conceived of according to the model of domestic exchanges governed by familiar obligations." Gary Becker went far beyond, and reduced all personal life to economics.

The assault conducted by Ronald Coase's new institutionalism on the state was more subtle, but just as radical. Ignoring that Alfred Marshall, with its marginalist microeconomics, had not improved economics but, using the hypothetical-deductive method, had create a new and major science – the science of economic decision-making or of economic choice – he and Oliver Williamson used a very interesting methodological tool to make decisions in the market – the concept of transaction costs – to develop this new science, but also to, ideologically, say, as in the Bible but with a small change, that "in the beginning there was the market" – in the beginning, there were individuals who produced and conducted exchanges coordinated by the market. Not the mythical Adam and Eve, nor nomadic gatherer tribes, nor even the primitive communities studied by Anthropology, but competitive and rational individuals who incurred transaction costs. How did Coase come to this conclusion? From the fact that transaction costs were the origin of all social organizations including the state itself. Society was ignored; the fact that markets are social institution was ignored. There are only individuals and "organizations" – the latter understood in a much broader sense than those encompassed by the concept of bureaucratic organization generally used since Max Weber. Organizations were not born out of the need to divide labor and cooperate – out, therefore, of a complex historical process –, but out of transaction costs. The ancient state was not the historical result of increased productivity, which allowed the production of economic surplus and its appropriation by stringer groups capable of imposing their rule on others and thereby coordinate all of social action to their own benefit, but simply an organization made up of bureaucrats and politicians that was needed for the costs of making exchanges in the market to be internalize and partly reduced. The modern state arises not from the historical formation of nations and

[3] Foucault (1978 [2004]) was a pioneer in the critique on this aspect of neoliberalism.

nation-states, or even from a social contract, but from the need to reduce transaction costs. For the new institutionalism, therefore, the state or organizations became a second best. The optimum – the original, "natural" – way of organizing society and the economy is the market – the source of all things. The state is therefore subordinated to the market, among other reasons because this reductionist view understands the state not as the constitutional-legal system, not as the rule of law and the organization that assures it, but merely as an organization with special powers to legislate and tax.

The most radical assault on the state, however, was the one mounted by the public choice theory. It is Orwellian even in name, insofar as it rejects the very notion of public ethics. For its leading representatives – James Buchanan and Gordon Tullock – the state is also seen in a reductionist light as an organization. Only so can they separate this state from something they certainly value, such as the American Constitution. But this was just the first step that led to the second one in their assault on the state. The state is not merely an organization. Nor is a merely an inefficient organization. It is also a criminal organization – an organization whose members (which excludes citizens) are only concerned with rent seeking.

Finally, we have the political scientists of rational choice. This is a broader and sometimes contradictory arena where generalizations can be dangerous. The general assumption is that the collective action of large groups is inefficient and essentially hampered by free riders. Because there is no collective action broader and more general in a society than its state, the state is necessarily limited, inefficient and ineffective. No matter that history points in a different reaction. The reasoning, in this case, is also essentially hypothetical-deductive. What matters is the logic of social action, not its reality. On the other hand, the state and politics may be regarded as a market. Based on the work of Anthony Downs (1957), the more radical streams of the rational choice theory attempted to reduce the logic of politics to that of the market. The assumption of the *homo economicus* as used by economists is not absurd when considering the action of economic actors who, in capitalist societies, attempt to maximize their gains. What is absurd in the neoclassical theory is to use this assumption to build models detached from reality – strictly hypothetical-deductive models where the criterion for truth is not a fit to reality and predictive power, but logical consistency. Using the term *homo economicus* in politics is unacceptable because the assumption goes against the very grain of politics and the public sphere. While the logic of the market is profit, the logic of politics is public interest or the common good. While an economic actor is not expected to do anything but defend its interests within the boundaries of the Law, far more is expected of republic's citizens and officials. The members of the state are not only civil servants and elected officials, but also the citizens of the nation-state, and, in addition to pursuing their own interests, all are also committed to national interest. Of course the trade offs public officials make are not only between personal and public interest. To make this illustration more analytical, one might consider two kinds of public officials: "rational" ones that make trade offs between rent-seeking and the desire to be elected, and "republicans", whose trade offs are between the desire to be elected and public interest. Public choice theory and the more radical version of rational choice theory do not even admit the former trade off: rent-seeking the only goal; the state organization is, therefore, criminal. However, more moderate streams exist in rational choice theory that accept the first tradeoff and even the second one; at this point, however, they are ceasing to be truly affiliated with rational choice.

Are all of the actors neoliberals in the intellectual drama above? The question is senseless because in every ideology lies a fundamental unconscious or false conscience element that is greater the more hegemonic the ideology becomes. The historical definition of neoliberalism I gave in the beginning of this article by comparing it with liberalism is a radical definition that, for most people, only applies insofar as it is unconscious. While liberalism was the revolutionary ideology of a bourgeois middle class that struggled against oligarchy and an autocratic state, neoliberalism was a reactionary ideology of the wealthy against the poor and a social democratic state. Even if Marx and Engels made the ideology more conscious by uncovering it, this change was not great enough for us to deem cynical those who associated themselves with neoliberalism. Many of the intellectuals who identified with these theories had no such objective and did nor benefit from neoliberalism. They thought they were making science. A science that, by assuming a simple man, enabled building beautiful, precise, mathematical models. Models that might be used to clearly drive political economy. And many also thought they were upholding morality by denouncing the rent-seeking behavior of public officials – a corruption that is not as generalized as they claim, but is ever present in officials and, mainly, in the capitalists who corrupt them. In fact, however, by adopting the assumptions of neoclassical economics and public choice, they contributed to reducing the moral standards of economists, as confirmed in the studies of Robert Frank, Thomas Gilovich and Dennis Regan (1993 and 1996) published in the *Journal of Economic Perspectives* and which showed that economics doctorate candidates in the United States embrace significantly lower ethical standards than those of other doctorate students in that country. With the rule of neoclassical economics, transparency and policy reliability became more frequent topics than ever, and never was corruption so criticized (the World Bank, for example, became an anti-corruption agency of sorts), but the moral standards of economists and administrators were never as low. Not by chance was the latest book by John Kenneth Galbraith (2004) called *The Economics of Innocent Fraud.*

Since the beginning of the 1980s these theories and neoliberalism became dominant. The state was regarded as an obstacle. Politics was identified with corruption, or dishonest rent seeking, or economic populism. Neoclassical economics with its general equilibrium model, the macroeconomics of rational expectations, and growth models became a meta-ideology, the central justification of the fundamental statement of neoliberalism – the affirmation of self-regulated markets. This ideological character of neoclassical economics becomes even clearer in the light of the fact that its macroeconomic and economic growth theories were useless in the practical lives of countries – they failed to drive macroeconomic policy and economic development policy. All they drive was the ideological proposition of deregulation. The deposition of Gregory Mankiw (2006), one of its most representative macroeconomists, is definitive. After two years as chairman of the US Presidency's Council of Economic Advisers, he let us know that Washington's policymakers do not use neoclassical economics; instead, they rely on "an engineering of sorts" inspired in Keynes. The more general ideas on deregulation, however, were "useful" because they legitimized the deregulation of financial markets, leading to financialization, to huge income concentration and, ultimately, to the great economic crisis of 2008.

On the other hand, public choice theory, by reducing the state and its officials to rent-seeking and citizens to mere economic actors defending their interests, might have contributed to improved political ethics standards, but had the opposite effect, as discussed earlier. By denying men and women the possibility of republican behavior beyond the defense of self-interest, this and other theories discussed here legitimize the exclusive pursuit of self-interest, which within the boundaries of the law, would allegedly become general interest through the invisible hand of the market. Thus, in addition to being scientifically wrong, since moral and republican values are also powerful motivators of human behavior, they affirmed the uselessness of civic education, and cast into the background the citizenry's moral and civic values, which – as we well know – do not prevent trespass, but, when shared by a society, strengthen the institutions established according to these values and stand as a priceless legacy of society.

The attack that neoliberalism launched against the state and the market can be regarded in cyclic terms, as in the late 1980s, when the new ideological wave was at its peak; this enabled me to predict its coming exhaustion (Bresser-Pereira 1993). In this case, the liberalization process was only correcting distortions caused by a previous cycle where excessive state intervention in the economy occurred. However, despite a cyclic element to the economic and political process that culminated in the current crisis, I do not think it is legitimate to reduce the problem to a cyclic matter. The 30 glorious years of capitalism were not statizing and the neoliberal reaction was far more radical than a simple cyclic process would enable foreseeing. In that period, there was heavy state interference in Latin America, but this corresponded to the affected countries' stage of development, not to statism. On the other hand, the neoliberal violence against the state was not only against the producing state, but also against the state as an inducer of development and against the state as enabler and protector of people. It was, in sum, an ideology opposed against the most advanced form of state mankind has been able to build thus far: the social democratic state. It was not, therefore, a cyclic correction, nor does it correspond to a necessary trait of capitalism; rather, it was a perversion of capitalism. Through politics and state building, societies have been attempting to regulate and shape capitalism based on their values, their political objectives. They developed a combined system of state and market regulation that is far from ideal, that requires constant correction, but has proven in the recent past its ability to be instrumental in assuring increased safety, increased liberty, increased prosperity, increased equality, and better protection of the environment. This process of political construction has been interrupted and reversed, but nothing prevents resuming it now.

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