

The Chimera of a Reformed Capitalism

Prabhat Patnaik

Progressive Liberals, and Social Democrats in general, have this common belief that capitalism can be “reformed” to become more humane and acceptable to society, and that this can be done by the use of state power which can be acquired through elections in a political democracy; this state of reformed capitalism can be institutionalized for ever, which makes any struggle for socialism unnecessary.

The theoretical basis for this belief was provided by the economics of J. M. Keynes (who himself had drawn upon the reformist intellectual tradition of the Cambridge School of economics). Keynes had called his philosophy “new liberalism”, the pre-fix “new” being added because it advocated not the *absence* of state intervention as liberalism traditionally had done, but, on the contrary, effective state intervention to achieve full employment and greater equality in income distribution. In post-war Europe, the Keynesian agenda had been adopted by several Social Democratic governments that came into being in order to usher in high levels of employment and welfare state measures; their idea was to build “capitalism with a human face”.

Yet, within a few years of this post-war experiment, neo-liberalism had overtaken Europe. State expenditure for increasing employment, which, to be successful, had to be financed either by a fiscal deficit or by taxes on the rich, had become impossible because of the opposition of finance; and the welfare state measures that had been put in place, though not exactly withdrawn, had been run down. A clear inkling of this changed scenario was provided when Francois Mitterrand was elected President of France against the background of rising unemployment, and adopted standard Keynesian measures to increase employment; but instead of employment rising, finance flowed out of France, the French franc fell on the foreign exchange market, and Mitterrand had to withdraw his Keynesian measures in order to restore the “confidence of the investors”, which is just a euphemism for appeasing a bunch of speculators. Instead of the state intervening to “improve” capitalism, the state itself had become a prisoner of globalized finance capital, willy-nilly doing its bidding. “Reformed” capitalism had proved to be a chimera, belying the high hopes reposed in it by the liberal-social democratic intellectual-political circles.

The vision of a controlled capitalism however was not confined only to the advanced countries in the post-war period. In many countries of the Global South, where the national, patriotic (as distinct from comprador) bourgeoisie had been sizeable, and had been a part of the anti-colonial front, the economic policy regime that came into being after decolonization envisaged a role for the capitalists even as the country was embarking on a public sector-led “socialist”-oriented development path. In India for instance the objective of development was described as the building of a “socialistic pattern of society” and the presumption was that the island of capitalism that remained within the economy as it was moving towards this goal, would help in developing the productive forces, while being amenable to control so that the achievement of this ultimate goal would not be sabotaged.

And yet today India has a level of income inequality higher than at any time in the previous one hundred years, and one of the highest in the world. What is more, this sharp rise in inequality represents a reversal of the trend that existed till the early eighties: the top 1 percent of the population that had around 12 percent of the national income at the time of independence, had seen a decline in its share to 6 percent by 1982; since then this share has climbed to 22.6 percent by 2022-23 under the regime of neo-liberalism (these figures are taken from the World Inequality Database).

The question arises: why has the vision of a controlled, and by implication reformed, capitalism turned out to be a chimera? Even if in countries of the Global South, the re-assertion of spontaneous capitalism became unavoidable once such re-assertion had already occurred in the metropolitan economies, the question still remains: why did the latter see such re-assertion? The answer to this question lies in the very nature of capitalism.

Keynes had only half understood the nature of capitalism. What he had seen clearly was that the aggregation of individual decisions in this system, even when each such decision is taken on the basis of some “rational” calculations, does not add up to a “rational” outcome. Put differently, the system is subject to anarchy; Keynes recognized this anarchy and wanted the state to intervene to overcome this anarchy.

Anarchy however is only one of the features of capitalism. There is an additional property of capitalism, apart of course from its exploitative nature; and that is its being a spontaneous or self-driven system. Individual agents act in the ways they do because they are compelled by competition to do so, and the overall functioning of the system which is independent of the will and consciousness of the individual economic agents, is characterized by a set of spontaneous tendencies.

One such tendency that Marx had talked about was the tendency towards centralization of capital, that is, the formation over time of larger and larger blocks of capital. But an immanent tendency of capital that is not much discussed, is that capital seeks to overcome or by-pass whatever *constraints* are placed upon it. This is exactly akin to the tendency of capital to introduce new processes and new products. In one case the drive is to overcome state-imposed constraints, for whoever does so first gets an extra profit; in the other case the drive is to overcome the technologically-given production constraints, for whoever does so first earns an extra profit.

Capital may not succeed, of course in by-passing the constraint placed upon it by the state at any given time. But *over time* since centralization keeps increasing the size of capital, the ability of capital to overcome or by-pass this constraint also increases, as larger capital is better able to overcome such a constraint than smaller capital. Hence even though some constraints upon capital may be binding in any given period, or over a succession of periods, these same apparently binding constraints of today would tend to get by-passed tomorrow as centralization occurs over time.

Controlled capitalism, it follows, is unlikely ever to be a permanent state of affairs. Even if controls hold for a time, and controlled capitalism appears to have become a frozen state of affairs for a time, the centralization occurring all the time acts to undermine it over time.

This is not just speculative talk. The undermining of Keynesianism occurred exactly in this manner. Among advanced capitalist countries, those needing temporary balance of payments support, found it convenient to accept short-term funds from other countries. Such short-term funds in the beginning did not interfere with the ability of the state to intervene in the economy to maintain high levels of employment and the tempo of welfare expenditure. But as centralization of capital occurred and the short-term funds coming into an economy increasingly belonged to large agglomerations, such as pension funds, whose withdrawals too would be on a much larger scale, state policy became geared towards preventing such withdrawals; and it did so by pursuing policies approved by globalized finance.

Put differently, the *autonomy* of the nation-state to pursue policies that it considers to be in social interest, an autonomy that Keynesianism had assumed, which was not off the mark in the beginning, got subverted over time. This was not accidental; it was immanent in the nature of capitalism.

If capitalism, unlike what is taught in text-books, does not meekly accept whatever constraints are placed upon it, if it forever attempts to overcome such constraints and becomes more and more capable of doing so over time because of centralization of capital, then any vision of a reformed capitalism, or welfare capitalism, becomes a chimera. Any such vision must entail a degree of control over capital by the state; and if such control by the state, exercised by placing constraints upon capital gets subverted over time, then such a vision obviously becomes untenable.

It is this simple truth which also underlies the current crisis of social democracy, why it is increasingly losing ground to neo-fascism. Its political crisis in other words is the expression in the sphere of politics of its theoretical crisis, arising from the undermining of Keynesianism.

Welfare capitalism being a chimera, there is no alternative to socialism; and if *in the transition to socialism*, small capitalist enterprises are allowed to exist, care must be taken to ensure that immanent tendencies of capital, such as centralization that produces ever larger blocks of capital, are kept under strict check.

* This article was published in *The People's Democracy* on 14 June 2026.