

THE *LONGUE DURÉE* OF A TEMPESTUOUS MARRIAGE:

The Multi-Faceted Crisis of Democratic Capitalism

Diego Giannone

Seconda Università di Napoli

Are democracy and capitalism incompatible? In the end, this is the crucial question of *Buying Time: The Delayed Crisis of Democratic Capitalism*¹ by Wolfgang Streeck. According to the author, the present economic, financial, and public debt crisis is just the last chapter of the intricate relationship between democracy and capitalism. Starting from the end of World War II, the book reconstructs three consecutive phases of such relationship: the phase of “tax State”, spanning the so-called “Golden Age” (1945-75); the phase of “debtor State”, emerged over the seventies and eighties as the new institutional regime after the crisis of the tax State; and the present phase of budgetary “consolidation State”, a multilevel international regime based on fiscal austerity, de-politicization of economics and de-democratization of politics.

Based on a perspective of *longue durée*, the book suggests that the present crisis can be interpreted as a further step in the neoliberalization of European states started since the seventies. The key variable in Streeck’s analysis is time. Indeed, as crisis seems to be an inevitable outcome of the tempestuous marriage between democracy and capitalism,² crisis is just a matter of time. Hence the only thing State can do is to delay the crisis by buying time. The author shows how over the last seven decades democratic capitalistic states have been able to buy time by introducing new strategic variations, in terms of institutional devices and social and financial settlements, aimed at rebalancing the relationship between democracy and capitalism. Consistently with the critical theory of the Frankfurt School, Streeck argues that the crisis is first and foremost a legitimation crisis.³ Yet, his analysis differentiates itself in two points.

1. W. Streeck, *Buying Time. The Delayed Crisis of Democratic Capitalism*, Verso, London, 2014.

2. R. A. Dahl, *On Democracy*, Yale University Press, New Haven and London, 1998.

3. J. Habermas, *Legitimation Crisis*, Polity Press, Cambridge, 1976.

The first relates to the inevitability of the crisis, which is not due to the existence of an abstract “iron law” linked to the inherent contradictions of capitalism, but is the consequence of human agency. The second point is that the delegitimation of the State doesn’t come from its citizens, as supposed by the members of the Frankfurt School, but is the result of the withdrawal of capitalism from the commitments it entered into. Democratic capitalism is an institutional formula involving three main players: State, capital and “wage-dependent” people. Its crisis is due to the lack of confidence by profit-dependent class in State’s capacity to perform actions that are beneficial to capital. In order to delay the crisis, the State has to regain such confidence by resorting to social and financial devices which are both attractive to capitalists and able to keep social peace. The only way to fulfill such conflicting aims is to resort to devices which are able to quickly create virtual wealth. As to the crisis of the first institutional regime of democratic capitalism, the tax State, inflation was the device to create a new satisfactory settlement between democracy and capitalism. Through inflation, the State – while downsizing itself – was able to address the need of the new consumer society. But this was possible only for a limited time. With stagflation and central banks’ decision to rise interest rate, in the early eighties the State had to find ways alternative to taxation and inflation for funding its own policies. The new device was the resort to public debt, which turned the tax State into the new institutional regime of debtor State. As Streeck demonstrates, the rise of debtor State was not due to an alleged excess of democracy, that is an increase in public spending caused by new participants and demands on democratic government. In fact it was due to the decrease of State’s revenues linked to the lowering of fiscal pressure for the wealthiest income brackets. Indeed, with neoliberal globalization and financial liberalization, State was even more compelled to run after capital by leveraging fiscal and regulatory systems.⁴ However, the resort to public debt led to the rapid increase of sovereign debt, which made financial markets even more skeptical about State’s capacity to repay its debt. For this reason, this device could be used for a limited time too. Therefore, the debtor State had to turn into an austerity or consolidation State, defined by balanced budgets and a gradual decline in public indebtedness. The new financial device of consolidation State is private debt, that is a debt regime of extreme generosity, allowing (or better compelling) individual citizens to take out loans at their own risk with which to pay for the education, housing, and social services, that the consolidation State is no more able

4. L. Gallino, *Il colpo di Stato di banche e governi. L’attacco alla democrazia in Europa*, Einaudi, Torino, 2013.

to fund. Unlike its predecessors, the consolidation State is a multilevel international regime fully embedded into the European integration process. Indeed, the institutional transformation from the Keynesian national mixed economy to the Hayekian transnational free economy sees the EU as the ‘liberalization machine’ for fulfilling the Hayekian utopia of an international regime based on free market. By the same token, the Economic and Monetary Union (EMU) and the introduction of the euro as a single currency constitute the supranational governance regime in which member states commit themselves to strict fiscal discipline as well as to renounce to currency devaluation as a tool of monetary and economic policy. Such an institutional transformation is coupled with the twofold process of de-democratization of politics and de-politicization of economics. In the first place, the onward disempowerment of democratic institutions, such as national and European parliaments, coupled with low turnout and growing populism, also reveals citizens’ dissatisfaction for the actual operation of representative democracy. In the second place, the shared understanding, provided by the guiding principles of the EMU, that economic and monetary policies constitute a “special” and privileged domain,⁵ led to an increasing role of unelected bodies, such as the European Central Bank, European Commission and International Monetary Fund, in imposing a radical change in domestic policy agendas towards the privatization of public services, de-structuring of welfare state, and cuts to public expenditure. Moreover, the recent ratification of important treaties, such as the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (also known as “Fiscal Compact”), tightened this process by providing both a legal basis for states’ commitment to strict fiscal policies, and automatic sanctions for those deviating from stated macroeconomic objectives.

In Streeck’s view, the EU and euro constitute a kind of supranational “cage” which favours the neoliberalization of European states and undermines democracy. In order to guarantee just rough social justice and democracy, he proposes to stop the EMU process and come back to national sovereignty. His proposal of an “European Bretton Woods” is based on the reintroduction of national currencies into a system of flexible exchange rate with the euro acting as a reference virtual currency. Before discussing such controversial recommendations, other points are worth considering.

The first one relates to the methods introduced by the State to delay the crisis, which share some characteristics. Firstly, each method can be used as far as it doesn’t

5. K. Dyson, “Economy and Monetary Union in Europe. A Transformation of Governance”, in B. Kohler Koch, R. Eising (eds.), *The Transformation of Governance in the European Union*, Routledge, London 1999, pp. 97-118.

endanger capital accumulation. Secondly, the creation of merely virtual wealth by the three methods explains their intimate fragility in coping the crisis in the long run. Lastly, the new social settlement following the delegitimation of the previous method is always based on deeper liberalization, further defeat of wage-dependent people and increasing inequality.

In fact, the end of inflation was linked to the defeat of unions and the end of full employment as a public macroeconomic objective. The end of public debt regime coincided with the privatization of public services and retrenchment of social rights. The crisis of private debt has been followed by mass unemployment, drop of income and further cuts to social spending. These effects are not fortuitous or mishaps. There is a rationale behind them, named neoliberalism, that, from the seventies onwards, has pushed for the “great transformation” of democratic capitalism. The encrusted welfare State turned into neoliberalized State based on a paradigm shift from “Keynesianism” to “Hayekism” that realized in a few years.

Although Streeck’s account of the historical reasons of the crisis is a convincing one, his focus on the economic aspects of the process is only in part able to explain the quickness of such paradigm shift. Furthermore, his class-based analysis is rather ineffective in reasoning out the universal diffusion and success of neoliberalism as the new “hegemonic worldview”.⁶ As to the quickness of the paradigm shift, it can be better reasoned by giving consideration to the climate of general disrepute of welfare State, which was delegitimized both in its normative foundation and practical operation by different perspectives. On the one hand, theorists of legitimation crisis, such as Habermas (1976) and Offe (1984), emphasized the inherent contradictions of democratic capitalism based on welfare State; on the other hand, overload theorists, such as Huntington (1975) and Brittan (1975), underlined the dysfunctions of democracy caused by the delegitimation of authority and overloading of government. Both these theories claimed that State power had been eroded in the face of growing demands emerged over the sixties. These were regarded as the result of an “excess of democracy” in the case of overload theorists, or as the inevitable result of the contradictions within which the State was enmeshed, in the case of legitimation crisis theorists. Nonetheless, while the solutions proposed by the latter remained by and large the province of a few political analysts and academic circles, overload theories were influential in party political circles and much discussed in general ways in the

6. D. Harvey, *A Brief History of Neoliberalism*, Oxford University Press, Oxford, 2005.

media.⁷ Their proposals of downsizing government, reducing the excess of democracy, and reconstituting authority based on expertise rather than democracy, were key points of neoliberal perspective too. In this sense, the role of overload theories in paving the way to neoliberalism has to be emphasized. Yet, neoliberal discourse distinguishes itself by some special elements. Firstly, downsizing government coincides with less interventionist State only during the early phase of “creative destruction” of neoliberalism, based on privatization, deregulation and dismantling of welfare State. From the nineties onwards, the phase of “roll-out” neoliberalism is a process of positive construction which coincides with the neoliberalization of the State based on its active role in constructing new markets or re-regulating the existing ones.⁸ Hence State has to provide the legal, regulatory, and institutional framework for the implementation of market principles. The neoliberal transformation of the State is a never-ending restructuring process, that is a radical and continuous change in State’s scope, objectives, norms, values, and constituency. The State becomes “neoliberal State” by a process of continuous adjustment involving economic, as well as political, juridical, cultural and social aspects. Neoliberalism’s ability to become hegemonic as a mode of discourse, as well as to have pervasive effects on ways of thought and become incorporated into the common-sense way many people interpret, live in, and understand the world, can only be reasoned by taking into account all these facets. It is not just an institutional transformation, but an anthropological one. Based on the golden value of competitiveness and the rhetorical celebration of individual freedom, neoliberalism is not just an economic doctrine or the new ideology of the dominant class. It is not just false class consciousness for wage-dependent people. Neoliberalism is a rationality which uses economics as “a method to change the soul”, as Margaret Thatcher clearly put it. As “the new way of the world”,⁹ its discourse involves the neoliberalization of economy, as well as politics, society, and individual psychology. Such an all-encompassing pervasivity makes it very difficult even to imagine an alternative way of the world. It is no coincidence that pervasivity is also the distinctive feature of technology. Based on competition and the logic of enterprise, neoliberalism can be described as the technology of government for disciplining states and individuals. On the one hand, such an interpretation of neoliberalism makes Streeck’s analysis of “consolidation State” as an international governance regime even more impressive,

7. D. Held, *Models of Democracy. Third Edition*, Polity Press, Cambridge, 2006.

8. J. Peck – A. Tickell, “Neoliberalizing Space”, in *Antipode*, 34, n. 3, 2002, pp. 380-404.

9. P. Dardot, C. Laval, *The New Way of the World. On Neoliberal Society*, Verso, London, 2014.

since the EU and EMU, with their regulatory system and treaties, can be conceived as the distinguishing technology of government created by member states to better realize market principles, competitiveness and liberalization, after financial and economic globalization emerged.¹⁰ On the other hand, such an all-encompassing conception of neoliberalism calls into question Streeck's proposal to return to national sovereignty. In fact, in this process the State cannot be considered just as an empty box, filled with policies imposed by neoliberal capitalists. Nor the State is just the submissive agent of decisions taken elsewhere. The neoliberal restructuring of the State has been made through the active role of the State. The transformation of State's polity has been performed by State's policies proposed by State's politics. If a "coup" occurred, then it cannot be depicted as the result of international finance conspiracy against national government. Rather, this process sees the full and witting participation of national politics.¹¹

States are at the core of EU integration. They agreed to the transfer of authority from national to European level, and most of them signed European treaties which provided for more liberalization, as well as more constraints on national macroeconomic autonomy. Therefore, the proposal to stop neoliberalization by returning to national sovereignty is at least contradictory. The State Streeck asks to come back to is the neoliberal State: hence it is rather problematic to overcome the present phase of neoliberalization by relying on states whose politics and policies most contributed to the present situation. Change needs time. And the neoliberal State is likely no more willing to buy more time for creating virtual wealth for its citizens. Actually, its new device to face the crisis appears to be stealing time from its citizens, by worsening the quality of their life, reshaping their expectations, reducing their democratic participation, as well as job opportunities, and social services. Probably, even this device can be used for a limited time. But it will not be the existing State to put an end to this situation, as Streeck seems to hope for. It will likely be up to a revised version of the third (and rather neglected) player of democratic capitalism formula, including all those people hit by the neoliberal restructuring crisis, to reverse the process. How this will take place is currently not predictable. In fact, if these people will feel to be bound by their nationality, and strive for a "national solution" to the crisis, then an easy way-out will probably be the emergence of populism, as a national response fully

10. S. Gill, "Constitutionalizing Capital: EMU and Disciplinary Neo-Liberalism", in A. Bieler, D. Morton (eds.), *Social Forces in the Making of the New Europe*, Palgrave, New York, 2001, pp. 47-69.

11. L. Gallino, *Il colpo di Stato di banche e governi. L'attacco alla democrazia in Europa*.

consistent with the neoliberal understanding of State. Otherwise, the hardest way-out consists of counteracting neoliberalization at the transnational level. It is a process with an uncertain outcome, involving an all-encompassing understanding, that is a new way of the world able to act as a counter-hegemonic alternative to the neoliberal one. It is a time-consuming way, but it is likely the only one to regain the stolen time.

