

# Capitalism, neo-liberalism and democracy: Wolfgang Streeck

interviewed by Ben Jackson

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*The recent work of the German social scientist Wolfgang Streeck provides a powerful and salutary analysis of the recent history, and likely future trajectory, of capitalism. Building on his long-standing and highly influential writings on political economy, corporatism, and European integration, Streeck has produced a provocative series of interventions that incisively challenge the conventional wisdom about the global economic crisis and the travails of the eurozone. Streeck traces their origins to a fundamental tension between democracy and capitalism, a tension which he sees as being decisively resolved in recent years in favour of capitalism. His writings offer no quarter to those who hope to see a more egalitarian model of capitalism emerging from the crisis, but they pose fundamental questions about the left's prospects that demand the closest attention from social democrats. In this interview Streeck discusses his analysis of the financial crisis, his concerns about the neo-liberal implications of European integration, and his criticisms of the 'varieties of capitalism' school.*

## **The neo-liberal turn**

*In your new book *Buying Time* (Streeck, 2014) you take as a starting point the theories of authors such as Jürgen Habermas, Claus Offe and James O'Connor from the 1970s. Such authors wrote about an emergent crisis of legitimacy for capitalism, but their arguments were undermined by the apparent popular capitalist revival of the 1980s and 1990s. Why do you think it is worth returning to these authors and how do you want to adapt their ideas to analyse the present conjuncture?*

Failed theories can be instructive, provided they are well-structured and conceptually transparent. From the crisis theories of the 1970s we can learn that it is a mistake to under-estimate the agency of capital while over-estimating popular demands under capitalism for substantive legitimacy. With hindsight we can see that the capitalist economy, rather than having been transformed into a technocratic wealth-producing machine as the Frankfurt School had come to believe, had remained a site of class struggle from above, with highly class-conscious and profit-conscious capitalists.

And we can also see that the new consumerism that began in the 1970s went a very long way, and still does, to procure, if not legitimacy, then at least compliance with the laws of capital accumulation. Neither the re-awakening of capitalists as a class nor the rise of consumerism was on the radar screen of 'Critical Theory'.

*You suggest in *Buying Time* that the rise of 'neo-liberalism' marks a decisive shift in the history of capitalism after the 1970s. What do you mean by the term 'neo-liberalism'?*

In short, it is the idea, and the corresponding practice, that it is the duty of governments to install, impose and enforce market relations wherever possible. Political intervention in the economy must refrain from redistribution, except from the bottom to the top, to create 'incentives' for growth. The assumption is that people at the top work more if they pay lower taxes on higher incomes, whereas people at the bottom work more if you take away their social security and lower their wages. It also means that public provision should be replaced with private purchases, so people work more. Whereas under Keynesianism economic growth was expected to come from the allocation of spending power to people with low incomes, under today's neo-liberalism, or what I call Hayekianism, growth is to be the result of income flowing to the already rich.

*An important consequence of the rise of neo-liberalism on your account is a shift in the character of the state, from a tax-based to a debt-based state, and ultimately to a consolidation state dedicated to fiscal retrenchment. How did this transformation come about? Does the emergence of the debt state in effect preclude the pursuit of a more traditional social democratic politics?*

The rise of the debt state was related to several developments. First, when economic growth began to dwindle in the 1980s, unemployment became a permanent feature of advanced capitalism, resulting in high demands on the social welfare system. Second, at about the same time the middle classes began to revolt against the rising tax burden, and the rich discovered new ways of tax avoidance, mainly through the emerging international financial system. Third, tax competition was explicitly favored by governments, most conspicuously in the European Union, to free up what they thought was a potential for economic growth. Fourth, financialisation produced hitherto unknown opportunities for governments to replace taxes with credit. The result was the emergence of financial markets as a new active constituency of democratic states, competing with citizens for declining tax revenue. Consolidation comes down to a political exercise to demonstrate to financial markets that states are willing and able to give debt service precedence over public service and citizen

entitlements. This requires that the influence of popular democracy on the management of the economy and on public finances be restricted, up to a point where politics is emptied of economic content and becomes public entertainment.

*The over-arching theme of Buying Time and the associated articles you have recently contributed to the New Left Review (Streeck, 2011, 2012a, 2012b, 2014) is that the current economic crisis should be seen as the latest installment of a long-running tension between capitalism and democracy, with capitalism gaining the upper hand from the 1970s onwards. How does capitalism undermine democracy in your view?*

One important factor is the rise of financial markets as a second constituency of democratic states, as I just mentioned. The higher the accumulated debt burden – and it has continuously risen since the 1970s – the more nervous creditors tend to become, and the more they must insist on credible assurances – for example, in the form of hard austerity measures and balanced budget amendments – that their claims will have precedence over those of citizens. Equally transformative is the Hayekian turn in economic policy. If the direction of growth-driving redistribution is to be reversed, democratic politics – from popular elections to trade unions – must be cut off from economic policy-making. Put otherwise, the management of the capitalist economy and the relevant institutions must be strictly insulated against popular-democratic interference. This explains the rise of independent central banks, the growing role of international institutions like the IMF or the European Union, and the relocation of economic policy decisions into international councils of heads of governments.

## **Euro-scepticism**

*You are very critical of the recent direction of European integration, describing the EU as today presiding over an essentially Hayekian political economy. What is Hayekian about the EU?*

The European Union was from the beginning a ‘common market’ exercise. National social policies were increasingly perceived as protectionist impediments to the ‘internal market’, or alternatively as ‘state aids’ that had to be eliminated for the sake of a free play of market forces. The attempt in the early 1990s to complement the European market with a European ‘social dimension’ failed dismally; nobody speaks about the ‘social dimension’ any more. With monetary union, economic management, including national economic and fiscal policies, became subject to strict supranational regimentation. Now national parliaments have to show to the

European Commission, an unelected bureaucracy, that their budgets are in conformity with international agreements and policies imposed on them during the financial crisis. Political democracy remaining located at the national level, the European Central Bank has become the most independent central bank in the world – not even facing a corresponding treasury department – and indeed functions as the secret government of Europe. Sooner or later it will begin dictating neo-liberal ‘reforms’ to the countries that it sustains with current infusions of cheap money. The whole package is as Hayekian as it can possibly be.

*You conclude in *Buying Time* that the euro should be seen as a ‘frivolous experiment’ which strengthens capitalism at the expense of democracy. Instead you advocate a return to national currencies organised into a European Bretton Woods-style system of fixed but adjustable exchange rates, a move that you argue will strengthen democratic popular sovereignty. In response to the German edition of *Buying Time*, Jürgen Habermas argued that the left shouldn’t seek such a return to national currencies, but rather aim to create an effective European level of democracy that could constrain the transnational power of capital (Habermas, 2013). How do you reply to his argument?*

As to democracy, we are essentially talking here about a problem of scale. Democracy at the level of a European super-state, if it was possible at all, would be unable to ‘constrain the transnational power of capital’: like the US it would still lag behind the reach and the speed of ‘globalisation’. Only a global super-state would be of the same scale as the global super-market – but if we think about such a state only for a second, we know that it would be entirely illusory. I am convinced that the problem for the future is not to extend the scale of democratic rule, so that it becomes coterminous with a global economy, but to contain, or if you want: manage the spread of free markets to bring them under, inevitably territorially subdivided, democratic control. Subdividing the market into democratically manageable territorial subunits is a more realistic project than a democratic world government. I am clearly more on the side of the anti-globalisation movement than on that of ‘global governance’.

Secondly, as far as Europe is concerned, a democratic constitution for Europe as a whole (leaving open where its borders are to be – will it include Turkey, Armenia or Ukraine, for example?) cannot be of a Jacobin-majoritarian sort; for this Europe is far too diverse, culturally as well as economically and institutionally. If at all, Europe can only be what political scientists call a ‘consociational democracy’: with a great deal of national and indeed subnational and local autonomy and indeed veto power. Nobody, not even Jürgen Habermas, has any idea as to how governance is to be shared between the Union and its member states and regions. If this is discussed at

all, it is only in technocratic and never in democratic theory terms. This holds in particular for economic affairs.

In the latter respect, and thirdly, I would like to object to your reading of my book that I want a 'return' to national currencies. I use Bretton Woods as an example of a monetary regime that leaves enough flexibility for countries with very different institutions to participate in an international trading regime, without being forced to subject their way of doing things to a 'one size fits all' economic and social policy. My intention, which I might have made clearer, is not a 'return' to the past but to stimulate a debate on a future monetary regime for Europe that does not penalise the way Mediterranean countries have traditionally settled their distributional and class conflicts, while putting a premium on the German export-saving regime that thrives on foreign rather than domestic demand and is therefore highly inflation-averse.

Generally I think it is high time to think about the sort of money on which we want to run our economies and societies in the future. Monetary regimes are social and political institutions, not God-given, and there are always alternatives – see the 1920s and 1930s when there was a broad debate worldwide on 'the nature of money' (Keynes). Unlike Adam Smith, Max Weber saw the way money is institutionalised in a political economy as an outcome and an instrument of power struggles, rather than a neutral medium of exchange, or a means of symbolic communication as in Parsons and Habermas. If we are willing to explore what a humanly acceptable political economy of the future should be like, I think more than ever before that we have to put money in the centre. Who will be entitled to create money, and how? What sort of interest should be allowed? What sort of credit? Can we find a monetary regime that rules out bubbles while allowing for egalitarianism in a more stationary economy? Could alternative moneys play a role, for example local moneys, and how will local and general moneys be related? The more you think about it, continuing in Europe with a capitalist monetary regime of the sort that had almost blown up our societies in 2008 is a really bizarre project. So is, I believe, speculating about European or global democracy without reference to European and global capitalism.

## **Against the varieties of capitalism**

*The idea that there are 'varieties of capitalism', some more egalitarian and economically stable than others, has been widely discussed on the British left in the last few years. Many leading figures in the Labour Party have suggested that shifting the British economy from a*

*liberal to, crudely speaking, a more German model of capitalism should be the goal of Labour policy, since the Anglo-American version of capitalism showed itself to be far more vulnerable to financial crisis than the co-ordinated market economies in continental Europe (Weldon, 2013). You have been a sceptic of the academic literature on the varieties of capitalism, particularly of the image of the German economy projected in it (Streeck, 2009, 2010). What are your main criticisms of the varieties of capitalism approach? Would it be a mistake for Labour policy-makers to seek to learn from German policy norms?*

That the Germans are doing so well these days is less related to the policies of their governments than to the inherited structure of their economy. Up to only a few years ago Germany was seen as an international loser, due to it having more than others remained an industrial economy, certainly compared to the UK and the US. Not that German economic policy had not done its best to turn Germany into a 'service economy', quite to the contrary. That project failed, due to structural inertia, the good sense of trade unions, and an incredibly productive sector of mid-sized, often family-owned, manufacturing firms. Now Germany thrives on its global leadership in high-class automobiles, sophisticated machinery, high-tech materials and so on, at least for a while. What we are talking about here is good luck, and certainly *longue durée* – nothing, in other words, that other countries could replicate in a few years. Remember that 'learning from Germany' has been a topic of British political-economic discourse since the nineteenth century – think, for example, of vocational training or industrial trade unionism. But Britain had been on a different path for a long time, and beginning in the 1980s was much more than Germany receptive to the lures of 'financialisation'. I seem to remember that it was Robert Putnam who, when asked how one could build the same kind of manufacturing communities that had in their time made Northern Italy so competitive, suggested that one should try to 'get a different history'. I do not want to be overly fatalistic. But I am convinced that competitive advantage in global capitalism, and in particular the capacity of a national economy to carve out for itself a niche of more or less durable prosperity in the world economy, are of very long making.

Returning to Germany, what also matters is that for the first time since EMU, interest rates have been lower than the, inevitably very low, German inflation rate; that the hard currency regime the euro imposes on all of Europe is ideally suited to a low-inflation, high-export economy like Germany; that German exporters no longer have to fear other countries in their European market devaluing their currencies; and that the external exchange rate of the euro is artificially low, due to the Mediterranean crisis countries using the same currency.

*Your analysis focuses on powerful structural forces – economic, social, political – pushing the world into an ever more unstable and unequal version of capitalism. Do you think there is in fact anything that political actors on the left can realistically do to resist or reform these forces? What should in your view be the key strategic priorities for mainstream left parties such as the SPD or Labour if they want to play a role in creating a more democratic and egalitarian form of capitalism?*

I wish I could tell you. Right now I am fascinated with the coincidence of already decades-long trends toward lower growth, higher indebtedness, and rising inequality, basically across the entire world of OECD capitalism, including Germany. I also observe the global breakdown of regulatory capacity in the fields of labour, nature, and money, due to rapidly advancing 'globalisation'. Effective political counter-movements that would be up to the dimension of the problem are nowhere in sight. I do by no means want to discourage attempts to think about alternatives and mobilise for them, but in my view they are most likely to emerge if at all outside the established parties of the left. In Germany the SPD and the CDU/CSU have become basically the two wings of a national unity party, with the Greens eagerly waiting to join them as a vegetarian subdivision of the Christian Democrats.

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