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THE END OF DEMOCRATIC CAPITALISM?

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For Pieter, in memory of my daughter Ruth

There is not and never has been an intrinsic relationship between capitalism and democracy. Capitalism as an historically specific mode of production coexisted in many varieties and in various combinations with political regimes ranging from absolute and constitutional monarchy via elitist (drastically limited) representative democracy, thin liberal democracy, multi-party parliamentary or presidential democracies to old and new authoritarian and dictatorial regimes (old fascist ones such as in Italy, Germany, Spain, Portugal, Greece, Chile and Argentina as well as recent ones such as in Russia and China). Today, as a consequence of the global victory of neo-liberal economic policies and the Grand Crisis of (Financial) Capitalism (GCFC), we finally seem to witness the emergence of a new and rather uniform type of regime: 'expertocratic' capitalism.

In this text I briefly summarize the inherent tensions between capitalism and democracy, the conditions of their cohabitation and the stages of the crisis of democratic capitalism (section 1). In section 2 I give a brutally brief sketch of the GCFC and its economic and political fallout. In section 3 I sketch normative theories of justification of the prevailing varieties of democratic capitalism and address the consequences of the drastically changed conditions for democratic decision-making and legitimacy: inescapable expertocratic governance? The last section discusses the 'strange non-death' of a theoretically, empirically and politically completely discredited neo-liberalism and its conditions of There Is No Alternative (TINA); the weakness of realist-utopian institutional and policy alternatives; and the huge demands on informed critical institutional political economy and political theory. Are there credible alternatives to capitalism?

Capitalism and democracy, the conditions for cohabitation and the stages of the crisis of democratic capitalism

There are *three deep tensions* between democracy (broadly understood) and capitalism. First, the tension already noted by conservatives (Talleyrand), liberals (Hamilton) and socialists (Marx) between a socio-economic regime that guarantees *consolidated private property rights* and a regime of *political democracy* based on universal suffrage, in which non-owners might use their voting rights to drastically limit or discard the rights and uses of private property.[1] Secondly, the tension between a socio-economic regime that reproduces deep inequalities and *structural asymmetries of political resources,* and *the claim of political equality: fairly equal political chances* for all. Thirdly, the tension between *authority/domination of private owners* of the larger means of production over the organization of work and services, and *democracy as self-determination*, broadly understood.

Given these basic tensions, it is evident that the combination of capitalism and *political democracy* is neither structurally nor historically quasi-natural. Rather, it has been shaky right from the start. Two facts may illustrate this: first, the long list of capitalist economies combined with clearly undemocratic political regimes (from Bonapartism and Fascism, to military dictatorship of all sorts and authoritarian capitalisms); secondly, the extensive and extended struggles to overcome all varieties of census restrictions of active and passive voting rights (‘*Zensus für aktive und passive Wählbarkeit*’ (Marx, MEW 1: 354), based on property, income, education and on the list of ascriptive criteria (gender, for one) so characteristic of classical-liberal restrictions on political democracy. Far from being historically inevitable, making *democratic capitalism possible* required at least three processes. First, the formal restrictions on active and passive voting rights had to be overcome. Secondly, *democracy* was limited to mainly political and representative democracy and excluded or seriously curtailed or banned other forms of political democracy and, particularly, stronger social and/or economic democracy (thereby reducing democracy to “thin liberal, elitist or realist” democracy). Thirdly, the reign of *capitalism* was hemmed in by the long and connected struggles for (a) workers’ and trade-union rights (employment law, labor law), for (b) social security and subsistence rights and all the other rights and services covered by (varieties of) *welfare-capitalism*, and for (c) co-decision laws and regulations and by forms of regulation of all kinds of markets and economic decisions. These processes have not been restricted to European countries such as Sweden, Germany, and the Netherlands but are, to a lesser degree, also characterizing Anglo-American capitalism. The story, again, is so often narrated (by Korpi, Esping-Andersen, Streeck, Crouch and many others) that I need not repeat it here. The “*cohabitation” of democracy and capitalism* has been the fairly *unlikely result of many historical coalitions*, of classes (working class, sometimes peasants, small proprietors), of organizations (unions, sometimes employer organizations, Churches) and of political parties, particularly social democratic parties (from the Second and 2.5 International via *Godesberg* to modern social democracy)[2] and/or Christian democratic parties.

In terms of *economic policies,* the *three golden decades of post-World War II democratic capitalism* amounted to something like: price-stability, full employment, economic growth and balanced state budget, equilibrium in the balance of trade and payment (the four famous goals of the German *Stabilitätspakt).* However, the suggestion that these goals could be secured simultaneously and durably has been undermined since the ‘Crises of Democratic Capitalism’ of the 1970s and after (quoting and paraphrasing Streeck 2011), that unfolded in four stages: (i) *inflation* or *stagflation* (and the struggle about labor markets and industrial relations), (ii) *rising public debts* (and the struggle about the politics of public spending), (iii) ‘Privatized Keynesianism’ or *replacement of public by private debt* (and the struggle about financial and monetary restraint or leniency, illustrated by the massive provision of credit – mortgages included – to private households), (iv) *Grand Financial Crisis* (the ongoing struggle in the arena of international fiscal diplomacy). Seen in this light, ‘the “financial crisis” and its sequel, the current sovereign debt crisis, demonstrate recent permutations of an old conflict between capitalism and democracy, a conflict that forcefully reasserted itself after the end of the postwar growth period.’ In each stage ‘governments were faced with popular demands for prosperity and security that were incompatible with market allocation. Inflation, deficits and financial under-regulation should not be understood as results of faulty economic management but rather as temporary stopgaps to simultaneously satisfy democratic-political claims for social justice and economic claims for profitability. As the site of distributional conflict moved with time […] it became increasingly insulated against popular democratic pressures. At the same time, the political and economic risks associated with the contradictions of democratic capitalism have increased with potentially disruptive consequences for the social integration of democratic polities as well as for the system integration of advanced market economies’ (Streeck 2011: iii). ‘Toleration of inflation, acceptance of public debt, and deregulation of private credit […] worked for a while until they began to cause more problems than they solved, indicating that a lasting reconciliation of social and economic stability in capitalist democracies is no more than a utopian project’ (ibid. 18).

While suspending our judgment on whether all varieties of democratic capitalism are damaged beyond repair by the GCFG, some conclusions seem uncontroversial. First, *existing regimes did not survive the onslaught of neo-liberal politics of deregulation* generally, and of neo-liberal globalization particularly. This was partly due also to the devastating impact of neo-liberal policies of transnational institutions such as the EU, the IMF, the World Bank, G8 or G20. It led, eventually, to the erosion of the main institutions of ‘domesticated’ or regulated welfare-capitalism everywhere, though to different degrees and with different speed. From the late 1970s onwards both the social-democratic and the Christian-Democratic parties – the main political defenders of welfare-capitalisms in Europe –

came increasingly under the spell of neo-liberal theories and policies. Secondly, under these conditions the promise that non-Anglo-Saxon varieties of capitalism (including South-East Asian ones; see Whitley 2000) would not only be more fair or just, but also more efficient and innovative did not hold out (even if that claim could still be theoretically sound – given appropriate conditions). Empirically 'domesticated capitalism' got wild again and for those who believe in alternative models of a tamed and yet a competitive capitalism the main explanatory puzzle still is 'Why, if we are so smart, did we lose'? Thirdly, demolishing institutions is much easier than reforming or rebuilding institutions and building new ones, both because of the required and unlikely historical coalitions and the usually short-lived openings of windows of opportunity (*kairos*). One could expect the GCFC to offer new opportunities to think of alternatives, but this has not been the case, or so it seems.

The implications for democracy of the Grand Crisis of Financial Capitalism (GCFC)

From 2007 on, the claim that deregulated capitalist market economies guarantee an optimal allocation of all productive resources and hence would be superior to all varieties of politically regulated capitalisms – the credo of neo-classical economics and neo-liberal politics – has increasingly been discredited not only theoretically – as it has been for a long time by criticism from both institutional economics and critical political economists – but also by empirical evidence. At present, these largely oligopolistic and opportunistically protectionist 'market' economies are characterized by the waste of resources in terms of losses of global GDP (more than 3%), massive unemployment, particularly youth unemployment, losses of capital, fictitious 'wealth' (more than 30 trillion US Dollars) and of pension-funds, devaluation of sovereign debts etcetera. (See Stiglitz, Engelen 2011).

To me it is evident that (i) the GCFC is *not an ordinary crisis*. Even if only seen as a financial crisis (GFC), it hardly has any precedents (it is the second world financial crisis, after 1931/32). (ii) It is *not only a financial crisis* (crisis of international banking and credit systems) but one that affects the so-called 'real economy' in all aspects: it is a *crisis of world industrial production* (of core world market industries), of *world trade, transport and communication,* of export-oriented *service industries, of agriculture and of natural resources*. (iii) It is *not* a so-called 'normal' *cyclical crisis* which has characterized capitalism since 1815 or, as world economic crises, since 1857/58 *but* the latest or fourth of the Grand Crises of Capitalism, the famous '*Great Depressions*' (1873 – 1895; 1929 till WWII; from the mid-seventies to late 1980s). (iv) It is connected to serious *hunger in parts of the world and to global ecological crises*. (v) It is *not* just a *coincidence or the consequence of irrational or immoral behavior* (of managers, bankers, City-boys, speculation-sharks) but the consequence of *overlapping and mutually reinforcing long-term causes* like *structural overaccumulation* since the 1970s (bubbles); the *end of a long Kondratieff-cycle*; the flight of capital into finance and speculation and thus the *extreme growth of the financial sector, structural (over) speculation and 'financialization'*; *structural under-consumption* and *deepening global inequalities*; *structural changes in the international distribution of labor and increasing global competition* between emerging countries (NICs, NACs), BRIC-states, China and the TRIAD.[3]

The widely documented and analyzed *social consequences of neo-liberal policies* – to name only the most important ones: deepening international inequalities, serious increase of inequalities of income and wealth in the capitalist centers, rapid increase of poverty and of youth unemployment, rapid precarization of all kinds of work, erosion of pension schemes, erosion of public social services (education, health and other types of care) – are dramatically sharpened by the GCFC. The same holds for its equally well-known *political fall-out*: as a consequence of neo-liberal national, supra-national and international deregulation, *politics in general increasingly no longer matters.* To put it briefly and strongly: the 'age of neo-liberalism' together with the GCFC directly lead into, or at least dramatically sharpen, a *deep crisis of (democratic) politics and representative democracy* and its tendential replacement by an expertocratic regime (see Bader 2013b).[4]

Normative justifications of democratic capitalisms in trouble

There have been two predominant 'practical' theories and normative justifications of the 'operation of democratic capitalism', i.e. on ways of combining a capitalist market economy and a democratic and (minimally) decent/just state (I summarize Offe 2012).

First, there is the *social-democratic theory* (including Neo-Keynesianism of all sorts). It combines a concept of 'civic/ political equity' and, as a separate but permeable sphere, an unequal distribution of socioeconomic resources and vice versa. This is the normative bedrock of 'social-democratic' or 'social market economy': the social and institutional embeddedness of markets and market-regulations + worker-citizens' participation and voice, in order to cumulatively limit socioeconomic inequalities (policies to reduce inequality and thus provide for political stability). CMEs are more efficient and innovative, more just and clearly more democratic compared with its main rival.

Second, we find *market-liberal theory* (Neo-liberalism of all sorts). There is a 'strictly symmetrical separation of markets and politics' (obviously only in ideal theory) and neither of the two has any primacy. 'Excessive mobilization and political participation' is a vice and the passive or indifferent citizen is praised. There is a deep and legitimate divide between political elites and non-elites. Markets are not only the most effective and innovative institutional devices; their outcomes are seen as justified, and any political regulation is detrimental, bureaucratic and undemocratic. In short, capitalist markets and a minimally democratic regime presuppose each other.

Both theories 'are now largely obsolete matter of the past in both their analytical and normative aspects' (Offe 2012) (expiry dates around the second half of the 1970s and after 1989). Any return to (neo-) Keynesianism, the first one, is theoretically and politically completely inappropriate, as is made clear by Roberto Unger (2011, 2012) amongst many others. The second one should be in all regards, as I already claimed, completely discredited after the GCFC: conceptually, theoretically, and empirically. The hard thing is to explain the 'strange non-death of neoliberalism' (Crouch 2011), not so much inside academia as in politics.

Instead we are confronted with a second-and-a-half theory of '*global financial market-driven post-democracy*' which is unable to theoretically or normatively justify 'why these realities are justified, universally beneficial, or even sustainable' (Offe 2012). Lacking is 'a theory or normative justification of the current realities when economic resources do determine the agenda and decision-making of the political process, while the owners of those resources themselves, and the distributional outcomes caused by markets, are not being significantly constrained by social rights and political interventions' (Idem.).

Instead of a plausibly worked out positive normative justification we find a negative one: TINA. There is no alternative to the 'logic of pervasive preponderance of accumulation, profit, efficiency, competitiveness, austerity', all presumably guaranteed by the mythical 'market'.

It 'is sufficiently powerful and uncontested, it seems, to prevail through its sheer facticity and in the absence of any supporting normative theory – as a stark reality, naked of any shred of justification' (Offe 2012).

This logic categorically denies any tension between rights of people and rights of property owners. Also, other voices are deafened by the overpowering and ubiquitous 'noise' of the austerity imperative, determined by three factors: (i) need to bail out (too big to fail), (ii) governments cannot manage their financial trouble by raising taxes (disincentive to domestic investment, capital flight), and (iii) expenses cannot be cut because increasing parts of social security and pensions need to be covered out of general revenues. In this 'triangle of constraints' the state undergoes a creeping permutation from a classical (Schumpeterian) 'tax state' to a 'borrowing state', resulting in 'emaciated state capacity', 'attrition of its disposable resources' and no 'democratic choice'. As a consequence, politics and democracy (party competition, elections, parliamentary representation and legislation) do not matter, and we see moves towards a concentration of executive, uncontrolled and uncontrollable, powers (commissions and fiduciary institutions inside states combined with executive federalism in the EU), a move from liberal-democratic capitalism to what I have called an expertocratic regime of economic and political governance.

There is no alternative (TINA) to Financial-Market-Driven Expertocracy (FMDE)? The Weakness of Realist-Utopian Alternatives: TATA or Democratic-Socialist Market Economies?

Grand Crises have often stimulated great transformations but, as far as one can see today, the GCFC has been wasted in this regard. Following Krätke (2011) one can discern four ways out of GCFC: first, a refurbished version of Neoliberalism's FMDE, second, a protectionist Nationalism or Regionalism, third, a rebirth of Social-democratic Capitalism or rethinking and re-inventing democratic capitalism, and, fourth, alternative economic and social orders.[5] The first three are old varieties of capitalism in new clothes and are likely to reproduce the structural conditions of the GCFC. Only the fourth alternative promises real ways out. Yet its possibility is bleak due to quite a number of facts (the first two are taken from Krätke):

(i) It requires *radical reforms* such as re-regulating financial markets,[6] re-establishing the public sector, repairing the welfare state, redistributing wealth and income, restructuring world industries and world trade.

(ii) It has to go beyond traditional social-democratic reform and has to include answers to the Ecological Crisis (debate on possibilities and limits of Green Capitalism or Eco-Socialism), to the world energy crisis and the famine crisis under conditions of a shrinking time frame for these urgent issues.

(iii) The state of the art in 'radical', 'Leftist', 'socialist' or 'Marxist' theoretical traditions is hugely disappointing when it comes to spell out the requirements of Democratic Socialism after the failure of State-Socialism and Chinese 'Market-Socialism'. Simply proclaiming that 'There are Thousands of Alternatives' (Susan George's TATA) will not do and there is a terrible lack of plausible institutional and policy alternatives.

(iv) Social-democratic, radical, socialist, and particularly communist *parties of the Left* are in a desperate state and this partly explains the paradoxical situation that huge and spontaneous protests (by Occupy, the Indignados and so on) in many countries are not connected to political parties and lack any clear institutional and policy alternatives. FMDE continues for sheer lack of plausible alternatives.[7]

(v) The tension and time trade-offs between mid- and long-term institutional change and short-term policies and strategies are huge and it is obvious that without minimally appropriate short-term policies to tackle austerity-policies all alternative democratic-socialist institutional designs and policies are rather pointless.

This is clearly not the place to go into any detail but all this poses demanding and urgent tasks for radical critical political theorists, institutional economists, critical-political economists, legal theorists etc. In addition, the task of *Rethinking Democratic Socialism* is clearly connected to the other, huge and demanding task of *Rethinking Representative Democracy* under conditions of 'politics doesn't matter', the evident failure of existing democratic institutions, the deep crisis of political parties etc. My own project focuses on the democratic horn of 'democratic capitalism' or 'democratic socialism'[8] in order to counter the grim skepticism of theorists of 'post-democracy' such as Crouch, Streeck and Offe.

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[1] See my interpretation of Marx and the Marxist tradition in Bader et al. (1976, chapter 36).

[2] Before the neo-liberal turn by Blair's 'New Labour' and Schröder's *Agenda* 2010.

[3] This is a brief summary of Krätke's analysis, see also Gerd Junne's valedictory lecture 2012: 'fasten your seatbelts'.

[4] See Crouch (2005) and Offe (2012) for four perceivable developments of 'what citizens are likely to do instead': (i) non-institutional do-it-yourself politics within civil society, (ii) ephemeral eruption of mass violence in metropolitan cities, (iii) growth of Right-Wing populism, (iv) search for new institutional and procedural opportunities for raising their voice.

[5] Options one and three correspond with Offe's two models of normative justification referred to above.

[6] Such as: restructuring financial markets and speculative transactions; a general transaction tax; Closing tax havens and off shore centres; closing down the shadow banking sector; increasing capital buffers for banks considerably. See Krätke, Engelen.

[7] For a possible class-base of such alternatives under recent, increasingly precarious, conditions see Crouch (2004 chapter 3): 'the Rest' against 'finance capital'.

[8] Bader 2013a and 2013b for first two parts.