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MARKETS AND PEOPLES

Democratic Capitalism and European Integration

Hopes that the resolutions of European heads of state would stabilize the financial markets and solve the Eurozone debt crisis, once and for all, have risen with each new summit over the past two years, only to be dashed again once the fine print comes to light. Would investors really join in on the 'voluntary haircut'? Was the bazooka, after all, not more of a water pistol? No one could say with any degree of certainty what should be done to repair the crashed global financial system. Some demand strict austerity, others growth; everybody knows that both are necessary, but cannot be had at the same time. The technocrats' rescue packages alternate between the horns of ever-new dilemmas; ingenious patent remedies are offered by the score, but have an ever-shorter life span. If, the British veto notwithstanding, European leaders were able to sleep free of nightmares after December 2011's summit agreement on a 26-nation treaty, and the ECB's long-term loans of half a trillion euros to the banks at 1 per cent, soon after it was back to business as usual. One thing is for sure: 'the markets' will calm down when they calm down; but they remain silent about when that will be and what they will next demand. Will they attack France? If need be, of course. They will only be satisfied once they are guaranteed to get their money back, through national austerity packages, international deposit-protection agreements or, ideally, both.

A few months ago I argued in these pages that post-war 'democratic capitalism' involved a fundamental contradiction between the interests of capital markets and those of voters; a tension that had been successively displaced by an unsustainable process of 'borrowing from the future', decade by decade: from the inflation of the 1970s, through the public debt of the 1980s, to the private debt of the 1990s and early 2000s, finally exploding in the financial crisis of 2008.[1] Since then, the dialectic of democracy and capitalism has been unfolding at breathtaking speed. Only a few months ago, reports of jokes in Brussels's corridors regarding the desirability of a military putsch after Papandreou's suggestion of a referendum were followed by the replacement of first the Greek and then the Italian government. Accompanied by collective sighs of relief, power was passed to highly regarded economist-technocrats, who, it is now hoped, will finally enforce the logic of 'the markets'. Such confidence is, at face value, not unwarranted. Mario Monti, Italy's new Prime Minister, was the EU Commissioner for Competition who broke up the German state banking system (whereupon it attempted a fruitless restructuring exercise, through the purchase of American junk bonds). When his Brussels tenure came to an end Monti earned his living as an advisor to, amongst others, Goldman Sachs, the greatest junk-bond producer of them all. Lukas Papademos, now Prime Minister of Greece, was president of the Greek Central Bank when the country secured, through falsified statistics, its access to the monetary union and thus to unlimited credit at German rates of interest. Help with the creative accounting of the Greek national balance sheet was provided by the European division of none other than Goldman Sachs—to be headed shortly thereafter by Mario Draghi, who is now of course President of the European Central Bank. The three of them should get along well.

Continental imbalances

Meanwhile, it is now quite clear that the democratic states of the capitalist world have not one sovereign, but two: their people, below, and the international 'markets' above. Globalization, financialization and European integration have weakened the former and strengthened the latter. The balance of power is now rapidly shifting towards the top. Formerly, leaders were required who understood and spoke the language of the people; today it is the language of money that they have to master. 'People whisperers' are succeeded by 'capital whisperers' who, it is hoped, know the secret tricks needed to ensure that investors receive their money back

[1] Streeck, 'The Crises of Democratic Capitalism', NLR 71, Sept–Oct 2011. The present text was written as an epilogue to the German translation of that essay; lightly updated, it is published by kind permission of *Lettre Internationale*. See 'Völker und Märkte: Demokratischer Kapitalismus und Europäische Integration. Ein Epilog', LI, Winter 2011.

with compound interest. Since investor confidence is more important now than voter confidence, the ongoing takeover of power by the confidants of capital is seen by centre left and right alike not as a problem, but as the solution. In northern Europe, exotic anecdotal accounts of Greece and Italy's endemic clientelism make it easier to retreat into platitudes about how democracy cannot entail the right to live beyond one's means or not repay one's debts, all the more so when it involves 'our' money.

Things are not so simple, though. It is not 'our' money but that of the banks which is at stake, and not solidarity with the Greeks but with 'the markets'. As we know, the latter had virtually thrust their money at the former, in anticipation of being paid back, if not by them, then by other Eurozone states, if necessary by means of the 'too big to fail' blackmail of 2008. Governments have not contradicted these expectations, even though the giant surveillance apparatuses of the large nation-states and international organizations cannot have failed to notice how countries like Greece saturated themselves with cheap credit after their accession to the Eurozone. Indeed it seems in retrospect that this outcome—shoring up the money supply of the southern states with private credit, to substitute for the dwindling subsidies from strained EU regional and structural funds, in an era of worldwide budget consolidation—was one of the chief reasons for letting the Mediterranean latecomers to democratic capitalism join the European Monetary Union. That way, not only did banks make profitable, seemingly secure deals, but the export industries of the northern states could profit from the steadily renewed purchasing power of their southern customers, without having to fear that countries such as Portugal, Spain, Italy and Greece would protect themselves from the higher productivity of the northern economies through periodic currency devaluations.

The feigned astonishment of the North's political elites at their Mediterranean neighbours' use of loans and subsidies for fuelling speculation and corruption—rather than 'honest' Anglo-Saxon growth—must count as one of the most brazen feats of political PR-history. Anyone halfway informed knew about the impossibly large Greek olive harvests subsidized twice by the EU: first for their production and then for their equally virtual transformation into machine oil—just as the intimate connections in post-war Italy between Christian Democracy and the mafia, with a figure such as Giulio Andreotti acting as the nerve centre of a powerful network connecting state apparatus, political parties, armed forces, organized crime, and intelligence services were anything but a state secret. As far as Greece is concerned, European politicians were well aware of the outstanding historical bills that had accrued since the end of the military dictatorship: a distribution of wealth reminiscent of Latin America; a practically tax-exempt upper class; and a democratic state that had no choice but to borrow the resources that its rich citizens had stashed abroad from 'the markets' or other states, so that the 'old money' could peacefully remain 'old money', and the new money could be used to buy the support of a growing middle class with its increasingly northern-oriented consumption norms.

That no one took exception to this at the time may be due to the fact that the sole alternative, after the end of military rule in 1974, would have been a radical remodelling of Greek society, perhaps along the lines of Emilia–Romagna, then under Eurocommunist rule. However, no one in northern Europe nor the US was prepared to risk this, any more than in Portugal after the Carnation Revolution, in Spain after Franco, and least of all in 1970s Italy, where the Communist Party under Enrico Berlinguer abstained from participating in the government so as not to provoke a military coup like in Chile. And so the EU admitted anything resembling a post-fascist democracy, in the hope that economic growth would eliminate the archaic social and class structures which had been responsible for both military dictatorships and stalled capitalist modernization.

Convergence, Italian-style?

As for organized Europe, today torn between the North and the South, we may have to brace ourselves for another round of integration. This may seem astonishing, given the commonly diagnosed deterioration of a 'European consciousness'. But the new drive will once more operate through the proven neo-functionalist model, without the participation—and possibly even against the will—of the populace. Neo-functionalist integration relies on a 'spill-over' from already integrated fields into other, functionally associated areas, set off by causal connections which present themselves politically as factual constraints (*Sachzwänge*) that merely require ratification. This was how Jean Monnet envisaged the European integration process, and how a whole generation of political scientists wrote it on the blackboards. By the 1990s, however, this mechanism appeared to be exhausted. As integration advanced into core areas of the nation-states and their social orders it became commensurately 'politicized' and ground to a halt. New steps towards integration became more difficult and could only be achieved, if at all, through the European Court of Justice. A spectre was haunting Brussels's Europe: would the disempowerment of the nation-states henceforth have to depend upon the 'European consciousness' of its peoples—or even upon the mobilization of a *democratic* European consciousness?

The Eurozone crisis has resolved this question by once again sundering the integration process from the will of the people. Monetary union, initially conceived as a technocratic exercise—therefore excluding the fundamental questions of national sovereignty and democracy that political union would entail—is now rapidly transforming the EU into a federal entity, in which the sovereignty and thereby democracy of the nation-states, above all in the Mediterranean, exists only on paper. Integration now 'spills over' from monetary to fiscal policy. The *Sachzwänge* of the international markets—actually the historically unprecedented empowerment of the profit and security needs of financial-asset owners—is forging an integration that has never been willed by political-democratic means and is today probably wanted less than ever. The legal forms within which this takes place are secondary: whatever happens, the European Central Bank will buy endless quantities of bonds that private investors no longer want; and Frankfurt, Brussels, Berlin, maybe also Paris, will 'clamp down' (Angela Merkel) on the households of debtor nations for decades, with or without treaty change. Unlike the farce over the 2005 'Constitutional Treaty', there will be no referenda this time. The North will pay for the South so that the South can pay the banks and the North does not have to. The power of European institutions immune to democratic pressure, especially the ECB, is reaching heights previously unimaginable, backed and buttressed by a directorate of two hegemonic nation-states—which would long since have become a directorate of one, if the new supreme power were not obliged for historical reasons to obscure the true circumstances as much as possible.

True, the 'ever-closer union' this entails will be anything but an idyll; it will have come to pass in the style of a shotgun wedding, necessitated by an unplanned pregnancy and enforced by parental authority—not usually a recipe for happiness. The 'transfer union' currently emerging may best be compared to unified Italy, whose rich northern regions have subsidized the backward south throughout the post-war period, without much effect. What began as a way of completing national unity quickly turned into a system of institutionalized corruption. The aid money of the Cassa del Mezzogiorno flowed not to dynamic local entrepreneurs—who barely existed and in any case lacked any breathing space—but to the entrenched post-feudal upper class, which in return delivered the votes of the rural population it controlled to Christian Democracy; whereupon the national government abstained from any attempt to disturb their domain. And so, true to the ways of *The Leopard*, things could stay the same.

Nationalism—and European regional funds—have helped to make the burden of the South bearable for the Italian state, and hence to keep it together. Since the 1990s, however, with capitalist development of the South still remote and money from Brussels having to be shared with Eastern Europe, a growing fraction of the northern Italian electorate has become increasingly secessionist. For a while, as in Greece, the cheap credit instantly available after entry into the monetary union helped the central government to sedate the Mezzogiorno without having to tax the North. But these loans are no longer available. No one today expects an economic upswing in southern Italy, whether of its own making or through some EU magic. The malaise under Berlusconi was due not only to his peculiar use of his spare time, but also to the fact that no one could answer the question of how Italy should safeguard its national unity in face of the gaping inequalities between a rich North and a stagnant South, which seem insurmountable without deep social upheaval.

If Lombardy has not succeeded in generating the capitalist modernization of the Mezzogiorno over the course of half a century, what hope is there that northern Europe's transfer payments to the Mediterranean will ever be anything more than a levy on northern tax-payers for the higher productivity of their countries' corporations? Greeks and Finns do not have a joint memory of a shared national revolution; nor is there any prospect of regional development subsidies being paid for by a third party. Why then should northern Europeans be more patient with southern Europe than northern Italians with southern Italy? An often overlooked yet ominous parallel exists since the introduction of the euro, which in Europe, as in Italy, has blocked the possibility of devaluation for the economically weak regions of the South. The result could be the same: permanent backwardness, insurmountable dependency on transfer payments, and growing disenchantment amongst both recipients and providers of economic assistance.

Northern Europe allowing Greece to remain in the currency union appears like something of a Trojan Horse—this time the Greeks not bearing gifts but receiving them. The Greek state and parts of the Greek bourgeoisie still seem to prefer a bird in the hand—in the form of occasional European subsidies—to two in the bush: self-determined economic and social development after a return to a national currency. The nexus of interests at stake is extremely complex and cannot be disentangled here in detail. But it is worth noting that IG Metall, the German trade union, bluntly justifies its support for 'international solidarity' with Greece in terms of securing German exports to the Mediterranean on a long-term basis.[2] Since 'solidarity' could not be a 'one-way street', however, Greece's fiscal and social policies would have to be placed under supervision, not least to make the price the North has to pay for the cohesion of the Union more palatable to a general public that is itself suffering from intensified austerity policies. Monetary union thus 'spills over' into a form of political union, at the cost of democracy in the South—where the budget-making power of parliaments is transferred to the supervisory apparatus of the EU and the IMF—as well as in the North, where the people and their parliamentary representatives can read almost daily in the newspapers which bailout fund has once again been leveraged overnight in what way.

Meanwhile, governments and public opinion in northern Europe impress upon the debtor nations their self-righteous utopia of a

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[2] See IG Metall, *10 Gründe für den Euro und die Währungsunion* (10 Reasons for the Euro and the Currency Union), August 19, 2011. 'The German economy lives like no other national economy from exports. Our customers abroad account for millions of jobs in Germany. The most important buyers of German products are the Europeans . . . the joint currency has enormously contributed to the competitiveness of German products. If the debtor countries are thrown out of the common currency, they will devalue their currencies to increase their competitiveness. The remaining Euro, which will be the currency only of the economically strongest European Union countries, will then come under massive pressure to revalue. A return to the deutschemark would mean a revaluation of no less than 40% . . . eurobonds, rescue funds and other support for the deficit countries should be tied to conditions aimed at reducing debt . . . debts and surpluses of individual countries should be monitored by a European Currency Fund. Excessive debts or surpluses should result in proceedings for the correction of imbalances.'

market-conforming life, notwithstanding that they themselves have become addicted to what Ralf Dahrendorf dubbed *Pumpkapitalismus*—capitalism on tick—based on cheap money provided by financial markets running amok. It might be more productive to ask how the social contract of democratic capitalism should be rewritten, in order to dispense with the increasingly dangerous habit of conflict-pacification through advance payments. How should we imagine a capitalism which is not dependent, for the sake of social cohesion, on a bloated credit system that promises to underwrite unlimited consumption standards of which everybody knows by now that they are not generalizable? A credit system, for that matter, whose promises seem increasingly irredeemable and that ever fewer creditors believe in. These questions have been addressed in various ways by conservatives, like Meinhard Miegel, or progressives such as Amartya Sen and Jean-Paul Fitoussi. But we know—or ought to—that a break with the self-destructive mass consumerism that currently has the world in its grip will only be possible if greater sacrifices can be extracted from those who have profited most from the recent transformations of the capitalist economy, as opposed to those who have seen their life chances decline during decades of liberalization and globalization.

A democratic departure from the life-threatening sedation provided by cheap-money capitalism would require new solutions to the problems which the latter has only worsened. Consumer credit as compensation for stagnating wages and a growing gap between top and bottom could become superfluous if all earned a decent wage. Better living and working conditions for the great majority would alleviate the need for yet more consumer toys to compensate for status anxiety, competitive pressure and increasing insecurity. This will not be possible without a revitalized trade-union movement that would help to end the ever more destructive exploitation of the human capacity to work and nurture families. At the same time, debt financing of public expenditure would have to be replaced by more effective taxation of the incomes and assets of liberalization's winners. States should no longer have to carry out the tasks mandated by their citizens for society as a whole with borrowed money, which then has to be repaid with interest to the lenders, who in turn bequeath what has remained their wealth to their children. Only if the trend towards deepening social division—the signature of capitalism in the late twentieth and early twenty-first centuries—were reversed would it be conceivable that modern society could free itself from the compulsion to assure domestic peace through the unchecked production of toxic assets to engineer synthetic growth.

This theme is anything but new. What should worry us is not the fact that it suddenly occurred—or recurred—but that its democratic solution appears so impossible today that we shy away even from naming it, so as not to seem stuck in the past. 'Just as ancient peoples had above all need of a common faith to live by, we have need of justice', Emile Durkheim wrote in his seminal work on the division of labour.[3] Since the end of the post-war era, it is all water under the bridge, much of which has flowed down the Hudson River, past the southern tip of Manhattan from where the world is governed these days. Trade unions are disappearing, capital listens only to presidents of central banks, not to political parties; and the money of the rich is everywhere and nowhere, gone in an instant when strapped tax-states reach for it. We can only wonder what form of opiate of the people the profiteers of late capitalism will come up with, once the credit doping of the globalization era stops working and a stable dictatorship of the 'money people' has yet to be established. Or may we hope they will have run out of ideas?

Translated by Tessa Hauswedell

[3] Emile Durkheim, *The Division of Labour in Society* [1893], Houndmills 1984, p. 322.