

new ones in the spring of 2009. What was viewed as a modest programme proved immensely successful and this success caught policy-makers by surprise.

Germany had seven people supporting one pensioner in 1980, three today, and in 2030 will have fewer than two employed persons supporting one pensioner. If my analysis is right, then it is not liberal capitalism trying to escape the bonds of their obligation to the German state and citizens that is the problem. Indeed, capitalists in Germany have continuously worked to improve their position in the world economy and produced a large amount of merchandise for export and helped maintain the highest positive current account balance in the world on a per capita basis. The real problem is finding a way to continue to fund a highly generous set of social benefits as the demand for those benefits inexorably increases. Essentially, Professor Streeck's book tries to blame capitalism for not providing enough growth to do this. But it is hard to see what system of production could have provided more.

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**Article by an MPIfG researcher**

Wolfgang Streeck: Reply [to Wolfgang Streeck "Re-forming Capitalism: Institutional Change in the German Political Economy", Oxford, Oxford University Press, 2009]. In: *Socio-Economic Review* 8(3), 573-580 (2010). Oxford University Press  
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## Reply

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My book recounts and analyses a historical process: the liberalization of the political economy of West Germany (and later of Germany as a whole)—a country presented by a broad literature as a showcase of 'coordinated', 'organized' or 'non-liberal' capitalism. That process began in the 1970s and was part of the worldwide dismantling of what has been called the 'post-war settlement' of 'embedded liberalism'. This is why the story the book tells in its first section starts in the 1970s and not in 1945 or earlier. The book describes liberalization as a long-drawn process of gradual but nevertheless transformative change (Streeck and Thelen 2005), a process that is fundamentally endogenous, i.e. the outgrowth of forces and pressures inherent in a capitalist political economy (R-FC, Chapter 9).<sup>1</sup> It thereby discards commonplace explanations such as 'globalization', arguing that the internationalization of national capitalist systems, including those of a 'coordinated' nature, comes from the inside rather than being imposed on

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<sup>1</sup>R-FC refers to 'Re-Forming Capitalism'

them from the outside (R-FC, Chapter 14).<sup>2</sup> Moreover, the book models the social process it describes as a dialectical one: one in which the transformation of the social order that is being observed is caused by its normal functioning and reproduction (R-FC, Chapter 14).

While the book takes Germany as its empirical reference, its ambitions go beyond that of an in-depth country study. Roughly two-thirds of it undertake to explicate what one may learn from the story reconstructed in the first section for historical–institutionalist analysis and a theory of contemporary capitalism. I would like to emphasize three points in particular of which I became acutely aware when analysing my data and writing up what I believe to have found.

First, there is a lot to be said for what social scientists refer to, somewhat contemptuously, as ‘story-telling’. Not only are stories fun, but they call attention to the essential uniqueness of historical events and their, as it were, dignity as, in the Weberian sense, ‘historical individuals’. Also, when told the right way stories—‘narratives’—remind us of the crucial significance of time for social formations. Societies, I became ever more convinced when working on my material, must be conceived as processes, not as systems; they are not static but dynamic in time and over time; and it is not just chronological time that matters but also historical time: the location of social structures and events between a unique past and an unknown unique future, in a present that is irreversible as time spent can, by its very essence, not be recovered. Societies are, that is to say, always in flux, and any description of their condition at any point in time—and there is no description outside of time—must be aware that from an historical perspective, that condition can never be more than transitory: by the time we recognize it, it is likely to have already vanished.

‘Model Germany’, I show in the book, was a momentary construction, in fact very much for political purposes, of a temporarily coherent image out of a more or less continuous and orderly stream of societal, or capitalist, development (R-FC, Chapter 8). Presenting it as a static structure that one can count upon as a given is simply misrepresenting it. In the Heraclitian image of social formations that my research eventually suggested to me—‘You cannot step into the same river twice’—in which Being and Time, *Sein und Zeit*, become inseparable (Kay, 2006), nothing exists unless it is actively preserved against the dynamic forces that undermine it. A corollary is that what really matters for explaining a social structure is the trajectory on which it has moved and continues to move, rather than the differences between it and other structures at the same point in historical time. For example, that country A is less ‘market-liberal’ than country B is less important to know than the fact that both countries have

<sup>2</sup>For a similar argument, see Reich (2007).

been becoming more market-liberal over several decades, with A following B in roughly identical distance (R-FC, p. 169).

Second, in trying to make sense of my material, I became convinced that the evolution and transformation of a political economy like Germany can only be accounted for if its capitalist nature is taken seriously. By this I do not mean that we require a return to historical materialism. What we need, however, is an institutionalist theory in which both the expansion and the containment of market relations are assigned a central place. In my book I drew on a core concept of Rosa Luxemburg, to me a much underrated social theorist, who described capitalist development as a process of *Landnahme*, or land-grabbing (Luxemburg, 1913). Land here is not just territory but also the social relations through which people engage with one another and that make societies hang together. In modern parlance, capitalist *Landnahme* is a self-driven process of commodification, or monetarization of values and of the transactions through which they are exchanged. I maintain that it is inherent pressures for a continuous widening and deepening of market relations that is the main dynamic force in capitalism as an evolving social order. I also think that a theory of political economy that fails to recognize this falls into the trap of an ahistorical static functionalism that abstracts from the real world that which is essential for it.

Third, market expansion must not be modelled as linear and consensual–contractual. To the contrary, it is a contentious, conflicted and contradictory process that moves forward typically in fits and spurts. Here Karl Polanyi’s theory of the transformation of the historical capitalism of the nineteenth and twentieth century serves as an indispensable road map (Polanyi, 1957 [1944]). One must read him right, however. The ‘always embedded’ reception of his work, as represented in our discussion by Neil Fligstein, is a travesty if it denies the profound tension between the needs of social communities and the creative, or less creative, destruction of social relations through the ‘vagaries’, as Polanyi has it, of self-regulating markets, with their unpredictably fluctuating relative prices not just for goods but also for land (remember subprime mortgages?) as well as labour and capital (R-FC, pp. 246 ff.). No society, according to Polanyi, in which markets have free rein can develop the sort of stable social fabric that human beings need to live satisfying lives.<sup>3</sup> This is why market expansion calls forth counter-movements that resist it, and it is why capitalist development is not simply a linear progress to ever more efficient markets, but a ‘double movement’ of marketization followed by efforts to domesticate the commodified social relations that it brings into being.

<sup>3</sup>What form of social stability a society and its members need and how it combines with freedom is a question worth exploring? For a discussion that departs from the present context, see Streeck (2009a).

Unlike what Neil Fligstein seems to believe, Polanyi was not a business consultant advising capitalist firms of the value of soft production factors like a common culture and mutual trust. He understood that capitalist development was not just about more competitive automobiles but entailed a deep dialectic of, as it has recently been called, greed and fear (Bohle and Greskovits, 2009), or of a desire for opportunity and a need for security. It is its staunch opposition to social relations and social lifeworlds (Habermas, 1987) being put at the mercy of relentlessly dynamic free markets that makes Polanyi's thinking revolutionary as well as of lasting importance. Where markets no longer allow social relations and human beings to 'settle down', Polanyi thought of the economy as 'disembedded'. In this sort of condition, it is the mission of politics to *re-embed* the economy, not in the sense of somehow making market relations more efficient, but by containing them in a framework of social institutions *capable of protecting social life from the destructive potential of market expansion*.

In this sense, my book takes issue with a range of theoretical premises in the mainstream of more recent writings on 'varieties of capitalism' (Hall and Soskice, 2001) that I find not only normatively disturbing but also fundamentally flawed when it comes to accounting for a case as central to the theory as the German one. My core contention in the book is that institutions and social orders, including those that deal with 'the economy', are not appropriately described as rationally constructed devices to provide for the comparative advantage or the profitability of national firms. This I call economism, or economic functionalism, and I argue strongly against it on the basis of my empirical evidence (R-FC, Chapter 13). Social systems harbour a multiplicity of goals, and interests within them differ and must be continuously adjudicated through politics. I found no designing hand able to subject the social order of the country whose economic institutions I studied to a need or desire for international competitiveness: not the government, not organized business, not labour. The processes of change that I document cannot, if one looks closely enough at them, by any stretch of the imagination be narrated as progress, continuous or not, towards ever higher efficiency, in the traditional Northian way (North and Thomas, 1973). Nor can the economic system that I observed and the social welfare state that involves it be described as 'firm-centred' (Hall and Soskice, 2001). What I found and what I document is, rather, a long-drawn process of decay, or decomposition, of an institutional regime that for a while quite successfully contained the forces of the market that worked in the direction of greater inequality, less security, higher rewards for the winners, stronger pressures on the losers—a process that was and continues to be contested, conflicted, confused, sometimes moving two steps forward and one step back, but undoubtedly moving towards rising inequality and social division and exclusion (R-FC, p. 41 f.), and certainly and clearly not even resembling a collective search for ever higher economic rationality.

In the light of some of the comments, I feel a need to say also what the book is *not*.<sup>4</sup> First, I do not see how it could possibly be read as a nostalgic celebration of a golden past. I go to great lengths to show that the past bore in it the seeds of its own destruction, in line with my general contention that all social orders are subject to endogenous and often dialectical transformation. But it is true, and in saying this I am really far from alone, that we have not yet found a good replacement for the post-war institutional containment of the capitalist change machine.<sup>5</sup> The pressures for liberalization that I describe have overwhelmed the governing capacity of the nation-state of the twentieth century, certainly in Germany, but clearly in other countries as well: witness the progressive loss of social cohesion and the growing risks emanating from the economy for the lives of normal people.<sup>6</sup> The book states what we have lost and emphasizes what we have not yet been able to devise. Who in the midst of the post-2008 crisis would call an approach like this an expression of personal nostalgia or idiosyncratic pessimism?

*Nor*, as far as I can see, does the book complain about the German economy being for some reason in bad shape. As a matter of fact, I avoid speaking of ‘the economy’, and speak of capitalism instead, precisely to allow for the fact that while those at the lower end of the labour market or of society are indeed in increasingly bad shape, the firms that employ them, or others, are mostly not. My theme is that the dissolution of the post-war system of socially controlled capitalism, with quite catastrophic consequences for a growing number of citizens, is entirely compatible with German capitalism being ‘among the most successful in the world’ (Fligstein)—with the fact that it was Daimler that bought and then got rid of Chrysler, and not *vice versa*. My point is that even where German firms are doing fine, less and less of what they gain is recycled into the society at large to help keep it together and attain as a collectivity the level

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<sup>4</sup>The following is necessarily selective and I trust that those who are intrigued by what I feel are quite astonishing misrepresentations of my argument in the comments of Neil Fligstein will look at the book themselves.

<sup>5</sup>And I clearly do agree with the remark of the historian Tony Judt that, ‘Rather than seeking to restore a language of optimistic progress, we should begin by reacquainting ourselves with the recent past. The first task of radical dissenters today is to remind their audience of the achievements of the twentieth century, along with the likely consequences of our heedless rush to dismantle them’ (Judt, 2009, p. 96).

<sup>6</sup>Unlike what Werner Eichhorst and Neil Fligstein seem to believe, these risks *cannot* be reduced to the rise of the so-called service economy. There is no reason *a priori* to assume that a deindustrialized economy must by its nature like the USA have weak social protection, bad jobs, a marginalized low-wage sector and winner-takes-all inequality (Hacker and Pierson, 2010). There is more than one way to run a service economy, just as there was for running an industrial economy (Iversen and Wren, 1998). The question whether increasing marketization can come only at the price of declining conditions of marketization is a version of the general Polanyian problem of the relationship between capitalist development and the quality of social life.

of civilization that it could attain if it was still able to oblige its capital to serve public in addition to private purposes.

*Furthermore*, and *third*, unlike Neil Fligstein and Bruno Amable, I refrain from macro-economic policy advice such as ‘cut taxes (or raise taxes) and consume more and everything will be alright’. I prefer to explain why unions were unable to get higher wages, or wise enough not to get them, and what the dilemmas are that are caused by the exhaustion of public finance in a high-tax economy like Germany. I note in passing that our debate took place at a time when even in the USA doubts were increasing about the wisdom and the sustainability of debt-financed economic growth. In any case, my concern was not about prosperity as such but about the type of society that liberal capitalism seems to require and to be creating for itself, and the question the book asks is simply whether it would not be better if the line of causation was the other way around, with society adjusting the economy to its needs rather than *vice versa*.

*Fourth*, nowhere do I suggest that the re-formed capitalism of today (NOT: *reformed*; I thought the hyphen was impossible to overlook) was *not* a social order. What I do suggest is that it is a *different* order, not chaos and certainly not devoid of law. The difference between ‘organized’ and ‘disorganized’, or ‘liberal’, capitalism I try to capture with the distinction between Durkheimian and Williamsonian institutions, the former emphasizing social obligations and public accountability, preventing the strong from dictating to the weak the terms of exchange, the latter responding to private interests and economic expediency; the former imposed by tradition or democratic politics, the latter created voluntarily by contract, equal or unequal; the former restraining voluntarism, especially that of the stronger party in the market, the latter facilitating it (R-FC, pp. 154–158). The conceptual construction behind this is not really original; nor is it, I think, excessively complex. It was first developed in Durkheim’s classical critique of Spencerian liberalism (Durkheim, 1964 [1893], Chapter VII) and has since been drawn upon in different forms by a wide variety of political economists, not least Polanyi. One slight difficulty may be that, as of course Durkheim was keenly aware, even a liberal order requires an obligatory normative frame (see R-FC, p. 156 f.), although liberalism as ideology and political practice tends to downplay or deny this, not least because the weaker the public obligations imposed on the strong, the greater their advantage in the ‘free play of market forces’. While it is true that in the long run a purely voluntary, in my terms: Williamsonian, social order cannot exist, this does not mean that those who stand to benefit from it in the short run will not do their best to bring it about. (Already Marx knew that capitalism needs to be saved from itself by society resisting its full implementation; see the famous chapter in *Capital* on the working day.) Another complication, which Bruno Amable seems to have in mind, is perhaps the paradoxical fact that for a liberal order to remain liberal, i.e. voluntaristic, a powerful state is required to prevent the weak in the market from using politics to redistribute from the

strong; in other words, that the ‘frivolous experiment’ of a ‘self-regulating market’ requires a good deal of coercion for its success. None of this, I am still convinced, can invalidate the analysis of liberalization in terms of a shift in the mix of socio-economic institutions and in the nature of the social order from what I call the Durkheimian to the Williamsonian type.

*Fifth* and finally, did I blame, as Bruno Amable suggests, ‘unreasonable’ union demands? That would be far from me. What I undertake to show is that even in prosperous Germany a point was eventually reached when the political economy ceased to be able to deliver on the promises of equality and security that had once underpinned the corporatist social compact. I explain this in part by post-war capitalism having learned over time how to do without an institutional regime that imposed costly obligations on it. Moreover, I show, not that citizen demands that had been entirely ‘reasonable’ in the past had suddenly become ‘unreasonable’, but that the political means to satisfy them within the limits of the capitalist relations of production as institutionalized in Germany had with time been exhausted. Above all, these means involved bridging the gap between the demands of capital and strongly organized labour by spending future resources to secure present cooperation inside a capitalist, i.e. inherently unstable and conflict-ridden political economy (R-FC, Chapter 5). Fiscal exhaustion, I am afraid, will be exacerbated and cemented by the current crisis which has forced the German state, like most other democratic states, into a quantum leap forward in the build-up of public debt.

A last comment on where the book was obviously wrong. I wrote it before the Great Recession and it was sent to the printer in the fall of 2008. While its dust cover shows a hurricane gathering over the Caribbean and the USA, I admit I did not expect the crunch to come that fast. The book singles out progressively deteriorating public finances as a major cause of the gradual liberalization of the prototypically non-liberal, ‘coordinated’ political economy of Germany (R-FC, Chapters 5 and 7). It also describes the contribution of the transformation of the German financial system in the 1980s to the dissolution of the German company network, *Deutschland AG* (R-FC, Chapter 6). But it completely fails to anticipate the financial crisis that unfolded in the fall of 2008. Having spent my professional efforts on studying labour rather than finance, I saw the crisis coming in the intersection between work and life, especially family life, where I expected a growing gap between the demands of ever more flexible labour markets on the one hand and the conditions necessary for the physical reproduction of society on the other. (This, too, I regard as a sustainability issue, one that is perhaps even more important than climate change.)<sup>7</sup> But I believed this would need more time to mature (R-FC, pp. 266–268). Nothing did I know about what was brewing in the world financial system while I was writing, and how

<sup>7</sup>I have, in the meantime, begun to discuss these issues in several papers (Streeck 2008a, b, 2009a).



imminent its collapse was. I learned only later that others, who had wisely chosen to study capital rather than labour (Streeck, 2009b), knew much better what capitalism was really about: namely, that money moves a lot faster than people, and so do, apparently, the contradictions to which its marketization gives rise.

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