Interview with Wolfgang Streeck

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Continuing our series of interviews, today we publish an interview with Wolfgang Streeck. A guest contributor to The Current Moment, Professor Streeck is Director of the Max Planck Institute for the Study of Societies (MPIfG), based in Cologne, Germany. The author of many books and articles on comparative political economy, he recently published ‘The Crises of Democratic Capitalism‘ in the New Left Review.

What are the stories right now that you think people either aren’t paying enough attention to, or about which we have the wrong view?

Generally the historical and political-economic continuities between the global inflation crisis of the 1970s, the widespread public debt crisis of the 1980s, the internationally agreed consolidation and financial deregulation policies of the 1990s, and the worldwide private debt crisis of the 2000s, with its commutation into another public debt crisis.

Turning to the Eurozone debt problem, a dominant view is that Greeks and Italians are corrupt, inefficient and lazy, and that is why they find themselves in this mess. What is your view of what is going on?

The Mediterranean version of the debt problem reflects a specific relationship between modern states and societies on the periphery of Europe that have become stuck, partly or wholly, in pre-modern social structures and lifeways. In Italy and Spain in particular, this relationship is furthermore complicated by deep divisions between advanced regions such as Lombardy and Catalonia, and backward regions like the Mezzogiorno and the Spanish South. In quasi-feudal areas, or in an entire country such as Greece, huge concentrations of old wealth coexist with widespread rural poverty and stagnation. Vacationers from the North romanticize this as an easy-going way of life and tend to be envious about it. They also notice that there is corruption, and clearly a lot more than, say, in Sweden or Finland. What they don’t see is that there is also a lot of oppression by local elites with more or less close connections to the legal and illegal markets offered by modern capitalism, not to mention the political parties of the modern state. To be able to catch up with capitalist modernity, these societies would in the past have needed social revolutions to expropriate the old money and clear the way for the new money of middle-class industrial entrepreneurs. But this happened in Italy only in parts of the country, and in the post-fascist democracies of Portugal, Spain and Greece in the 1970s a revolutionary response to backwardness was prevented not least by the containment policies of Northern Europe and the United States. One of the tools of that policy was admission of Greece, Portugal and Spain, first into the European Union, and then into Monetary Union.

The standard recipe for the recovery from the Eurozone crisis is austerity and structural reforms in the peripheries, plus some recapitalization of banks. Do you think this is the right way to go?

I really don’t know what the solution is. Perhaps austerity is politically sustainable for the two decades that are claimed to be required for fiscal “consolidation” in debtor countries, perhaps
not. In any case it will have to be accompanied by some form of, very likely hidden, transfer payments from the North, which also may or may not be politically sustainable, in this case with Northern electorates. “Structural reforms”, in the language of ruling economists, are not much more than union-breaking and the creation of tax-free economic development zones. But nobody tells us what the sectors are where growth is to take place, in countries squeezed between high-technology competition like Germany and low-wage competition like Thailand. Structural development policies that go beyond supply-siderism are not only expensive but are likely not to work when imposed from above or from the outside on a traditional social structure; see Southern Italy where fifty years of Cassa di Mezzogiorno were by and large an unqualified disaster. There is no reason to believe that Brussels or Berlin will in a decade be more successful in Greece than Rome was in Sicily for half a century.

What do you think would address the trade and debt imbalances between Northern and Southern Europe? Do you think it can be done within the European monetary union or does it require a fundamental change or dismantling of that union?

The problem is: there will be no such dismantling. The middle classes in the Mediterranean consider EMU as the lesser evil compared to a return to national currencies, because their savings are denominated in Euros and full membership in the European Union harbors vague promises of individual mobility and collective support, however meager. In the North, the common currency ensures export industries against competitive devaluation and guarantees a favorable external exchange rate. This is why German industry, including industrial trade unions, are strongly in favor of “European solidarity,” meaning that Mediterranean countries must by all means be prevented from getting out of the monetary trap in which they have moved themselves when joining the common currency. Some sort of competitiveness tax to be paid out of public budgets or in the form of some sort of “Eurobonds” is accepted as the price for unlimited access to Southern markets, especially if it is paid by taxpayers at large and not by industry itself. Here I see an unholy alliance between Southern middle classes and state elites on the one hand, and Northern export industries on the other. It will, however, be an unhappy alliance as Southern countries will inevitably be disappointed by the benefits they will receive from the North, while Northern electorates will resent such benefits regardless how small they may be, at a time when they themselves have to accept spending cuts of all sorts. Like in Italy, the South will hate the North and vice versa. Northern clichés of lazy Southerners will be complemented by Southern clichés of Northern, in particular German, imperialism. Europe will grow together at the price of rising nationalist resentment.

The hegemony of the demand for austerity is striking. It is offered as the solution to the Eurozone crisis, as well as to the American situation – the US Congress even created a supercommittee to find savings. It seems odd to have such agreement around austerity in the midst of a potential double dip recession. Why is there such agreement on this point and what do you think of the demand for austerity?

There seems to be no way to close the gap between public expenditures and public revenue by higher taxes, in no country. This being so, what remains to reassure creditors are spending cuts. Financial liberalization has made it easy for owners of significant wealth to move abroad; right now the London real estate market, in places like Chelsea, Kensington, Hampstead and Belgravia, is booming from rich Greek families putting their money in new homes. Tax increases are resented even by the middle classes who would more than the rich benefit from a functioning welfare state; one reason seems to be that for a long time higher public revenues will have to pay for goods already consumed. Those who would have to pay increased taxes because they cannot move their money or themselves out of their country may
even prefer continuing public deficits to fiscal consolidation as long as austerity is firmly institutionalized and creditors can as a result be sure to get their money back. This is because, rather than having their savings confiscated, they could keep them and lend them to the state, drawing interest on them and eventually passing them on to their children. As I said, this presupposes a “credible commitment” of public policy to giving priority to servicing the public debt over keeping the political promises inherent in social citizenship. In practice this means a suspension of democracy to the extent that it is linked to social citizenship.

How optimistic/pessimistic are you about the ability of national democratic procedures to provide solutions to the current economic crises in Europe and in the US? What do you think of the recent proliferation of technocratic governments in Greece and Italy? Does the current crisis expose some basic tensions between capitalism and democracy? If so, how exactly?

I have written about these tensions, caused by ultimately incompatible demands for “market justice” and “social justice” having to be balanced against each other. Democracy is more than democratic procedures; it also expresses itself through social movements and general strikes. Even so, in present circumstances it lacks power and the capacity for collective action on the relevant battlefield, which has become the international monetary system. Today, states and their governments are facing two sovereigns at the same time: their peoples, organized nationally, and “the markets,” organized on a global scale. The latter clearly prevail over the former: see the replacement “from above” of the elected political leaders of Greece and Italy by representatives of the “economic reason” vested in the international money industry, shifting the political economy from social to market justice as the latter is deprived of its democratic empowerment.

What has perhaps not been said clearly enough is how the postwar settlement between the two kinds of justice came to be revised after the end of the “Golden Age.” When postwar growth ended in the late 1960s, the functional needs of capital accumulation began gradually to push aside the social needs whose institutionalized recognition had been the condition for workers being prepared to live with capitalism. More and more “capital controls,” in a broad sense, were removed while one promise after the other that had been made to buy labor in after 1945 was withdrawn. Such promises included a steady increase in living standards, progressive de-commodification of labor through an expanding welfare state, politically guaranteed full employment, “industrial democracy,” an encompassing regime of collective bargaining and trade union rights, a broad public sector providing citizens with social services as well as with stable employment, equal access to education and social advancement, a moderate and certainly not growing level of social and economic inequality, and the like. All of these disappeared or were “reformed,” often beyond recognition. The almost four decades since the end of postwar prosperity were a long series of defeats for labor, and of successful attempts on the part of capital gradually to re-establish its hegemony, with market justice pushing social justice to the sidelines of the political economy. It was not the logic of democratic claim-making or social citizenship or even democratic political opportunism that undercut the postwar social compact, but the historical reassertion of the logic of capital accumulation that had for a limited period been contained and overruled by democratic politics – just as the fiscal crisis of today was not caused by ordinary people demanding more than they were entitled to, but by the winners of the market first refusing to pay for their social license to enrich themselves, and later blackmailing governments to save them from the fallout of their own recklessness.

Right now it is democracy itself that is about to be rescinded – at the national level, which is where it came to be located under democratic capitalism, without replacement at the
supranational level, where it should today move but nobody knows how. Increasingly democracy is turning into an empty shell, a formal ritual, not just in the United States but also in Europe. In the camp of the Indignados at the Puerta del Sol in July 2011, I saw a hand-painted sign saying: *Como se puede hablar de democracia si no se puede cambiar el sistema económico en las urnas*? (How can one speak of democracy if one cannot change the economic system at the ballot box?)

*What are your views of the nascent protests (Occupy Wall Street, Indignados) developing in response to the introduction of austerity packages in Europe and the US? Are these movements a continuation of or a break with the anti-globalization movements of the past? Are they likely to fundamentally change public perceptions and government policy or will they have only a small lasting impact?*

I know too little about such movements. I am looking for signs of an impending cultural break with possessive individualism, competitive greed, hedonistic consumerism. This is a tall order indeed, but I feel nothing less would do. Beyond “protest” or calls for “reform,” what would be interesting to see are actual changes in people’s ways of life, some kind of separatism and recapturing of local autonomy, with people cutting themselves loose from the capitalist mainstream and becoming less dependent on it, materially and mentally: a way of life where time matters more than money, ideal goods more than material ones, and social bonds more than individual property. That may not be available without a measure of neo-romanticism or even insurrectionism. What one might hope for is a sort of cultural change that, unlike 1968 and its aftermath, would not lend itself to being transformed into a “new spirit of capitalism,” as described by Chiapello and Boltanski. At the intellectual level, I find the growing literature on low-growth, no-growth and de-growth capitalism (or perhaps post-capitalism?) intriguing and I wish one could find good reasons for believing that working for this politically would not necessarily be futile.

*What, finally, do you think the appropriate political response is to both these crises and their aftermath?*

What is “appropriate,” and in what sense? What I see coming in Europe seems far from “appropriate” to me but it will probably come anyway. Clearly, the United States and the UK will continue to depend economically on an overblown international financial system that happens to reside mainly on their territories, and that they regulate in their national interest rather than the interest of all. The question is: is there anything on the horizon that could break the trend of the past three decades toward an ever more unstable, unpredictable, uncontrollable – in other words, ever more capitalist – global capitalism, with an ever more unequal distribution in the historically rich countries of wealth and risks and opportunities and life chances? I see nothing.