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The review is written under the
auspices of the project 179052
supported by the Ministry of Education,
Science and Technological
Development, Government of the
Republic of Serbia.

Buying Time: The Delayed Crisis of Democratic Capitalism

by **Wolfgang Streeck**

Verso, London, 2014.

Wolfgang Streeck is the Emeritus Director of the Max-Planck Institute for the Study of Societies. He has published or edited several outstanding books such as *Re-Forming Capitalism: Institutional Change in the German Political Economy*, Oxford and NY: Oxford University Press, 2009, or *Politics in the Age of Austerity*, (ed. Armin Schäfer and Wolfgang Streeck), Cambridge: Polity Press, 2013. Lately, he has been drawing attention to himself by strong interpretations, in various journals, of the still existing crisis (*Socio-Economic Review*, *German Economic Review*, etc.).

As shown in *Buying Time: The Delayed Crisis of Democratic Capitalism*, Streeck represents thinking from the *social-democratic* orientation. Although many people lament over this orientation as a part of an irreversible past, Streeck considers the possibility of internal corrections of capitalism. He focuses particularly on the fact that many theorists from the beginning of the 20th century believed that there existed homology between civilization dynamics and growth of the public sector. Such evocation as well as the intention to point to the decrepit public sector that is marketized confirms the social democratic belief of this author. At the same time, this indication should not be understood in a way that Streeck's analyses reflect optimism regarding possibilities of mentioned corrections. It could be said instead that one might notice a certain pessimism in his thinking, which resulted in criticism by some interpreters. In conclusion, this is a book full of criticism of the present landscape of capitalism, and the main message of the book is certainly disastrous. Namely, it recognizes the intensified contradiction between capitalism and democracy, establishing a critique of many orthodox theories in this domain.

Buying Time: The Delayed Crisis of Democratic Capitalism actually deals with two main topics that are, of course, related. The first topic deals with epochal forms of capitalism crises by means of an examination of the relationship between capitalism and democracy, beginning from the 1970s. The second topic relates to crises which affect the European Union (EU) and also investigates the potential for further crises within the EU.

First, one should observe Streeck's methodology that he develops in several different parts. It should be noted that he promotes capitalism as *a research program* which has to be understood in a way that, only through an analytical procedure, one

may realize what Streeck wants, which is a political-economic reflexion sensitive enough to analyze capitalism as a “*specific type of social order*”. Of course, the attempt to revoke the political economy is not new. Quite the opposite, in fact, as lamentations and attempts related to fading of former political-economic sensitivity could easily be noted throughout history. However, the inflaming of crisis obviously moved some epistemological frames. Heterodox, post-Keynesian, economists as representatives of the French school of regulation, programmatically uphold the preference to treat capitalism in a similar way that Streeck does. One may even be surprised that Streeck did not take them into consideration (see, for example, Robert Boyer 2007, “Capitalism Strikes Back: Why and What Consequences for Social Sciences?”, <http://regulation.revues.org/2142>; Robert Boyer 2013, “The Present Crisis. A Trump for a Renewed Political Economy”, *Review of Political Economy*, 25(1): 1-38, <http://dx.doi.org/10.1080/09538259.2013.736262>).

When Streeck refers to capitalism as a “*specific type of social order*”, his references include scientists like Joseph Alois Schumpeter, Max Weber and Karl Marx. However, Streeck has also submitted to an institutional theory i.e. institutionalist political economy. To summarize, this research program does not thematize capitalism as a field for manifesting objective (economic) rules but as a determined context for manifestation of interrelated social institutions. This way, he wants to grasp “desirable historical concreteness” and “political-economical historical change”. Undoubtedly, Streeck could refer to certain trends of heterodox institutionalism in economic theory, although he does not. Regardless, he is critical towards orthodox (economic) theories of institutionalism (Oliver Williamson) which do not deal with the issue of what is capitalistic in institutions and their participants, so that they do not manage to envisage the interrelatedness of institutions, but stay within the frames of one atomistic theory of isolated institutions. We shall only mention that Streeck gives one list of “parametric specifications” of capitalism, on the basis of which he builds the heuristics of joining micro and macro aspects. It should also be noted that, in his argumentations, Streeck also brings in a moment that may be attached to Schumpeter: capitalism can live only with the existence of elements of non-capitalism. The fact that capitalism undermines itself and pushes itself into crisis situations may be attributed to its constant erosion of its non-capitalistic constitutive ingredients. (In a guessing manner, Geoff Hodgson said that capitalism may dominate only in the case it is not “totally” capitalistic: nowadays, the problem is that capitalism becomes purified i.e. becomes “totally” capitalistic. This is why its victory is a “Pyrrhic” one.) This is how the cultural resources of traditionalism, which enable the existences of moral infrastructure of capitalism, have been destroyed by “institutionalized cynicism”: this is even declared as a basic contradiction of capitalism.

It is also good to indicate that despite emphasizing the epistemological importance of concreteness, Streeck thinks that there is also capitalism *tout court*. Although here and there he indicates certain specific features of capitalism in different countries, he is a trend critic who was very popular in the first decade of the new millennium, especially within the frames of “varieties of capitalism”. Such orientation ran into, as Streeck says, a dogmatic of non-convergence of various capitalisms. Therefore, an epistemological frame is suggested since it takes into consideration the

convergence and complementarity between the existing capitalisms, even admitting the prejudice that those types of research which take the other side of “varieties of capitalism” will prevail in the near future.

Streeck certainly belongs to the pleiad of theorists who persistently treat the relationships between capitalism and democracy (this is, again, a topic that was somehow inherited from Schumpeter). One needs to think about such reflexive performances of theorists who move within mainstream frames like Mancur Olson (relation between democracy, dictatorship and development, democratic opportunism), Daren Acemoglu and James Robinson (for example, democracy, redistribution and income). Streeck is most critical towards theories which he calls “democratic failure”. The mentioned theories *à la* James Buchanan claim that democracies are inherently prone to spending too much money because of the opportunism of politicians and myopia of voters. He also critiques the late Hayek who came to a binary conclusion: economic freedoms *versus* democracy. If one wants to find certain analogies to Streeck’s argument, then one may find it with Albert Hirschman: why does capitalism erode the phenomenon of “voice”? Streeck tends to comprise the current crisis: narration about democracy and capitalism is the means which lead to articulation of crises. Mainstream theories, such as new classical macroeconomics (which offered the seeing of regularities of stochastic processes), degrade the crisis to an incidental deviation and not as an outgrowth of political and economic configuration.

There is, therefore, inherently conflicting structures of democratic capitalism; actually, the genuine antinomy of different regimes and allocation of resources. While democracy implies collective activities/elections and social justice, capitalism is based on principles of marginal productivity (this indication on marginal productivity is somewhat less clearly articulated; let us simply call it a market allocation). Democratic policy leans towards egalitarian corrections, and the market (which Streeck occasionally equalizes with capitalism) functions with stabilization of different inequalities. Streeck also raises the question of trust, which became a relatively often treated phenomenon in the context of crisis (Robert Schiller and George Akerlof, for example); however, it is important to note that Streeck returns to heterodox economist Michal Kalecki and his renowned studies in the 1940s. For the Polish economist, the investor’s trust is of key importance. However, diffusion of democratic norms, especially in the field of employment, brings into question the power of investors: this way, the crises will be the manifestations of “Kaleckian” relations.

The claims about the incompatibility between capitalism and democracy are not new. However, it is true that after World War II capitalist systems accepted and practiced democracy principles due to fear from the democratic potentials of the working class; in return, the organized working class entities like trade unions accepted the logic of capitalist markets in constellation which implied that the cumulative economic growth is a democratic right related to mass participation of labourers in governing a society. At the same time, it is of crucial importance that the labourers were not bound by fear of possible unemployment (we may add: although Streeck does not have an articulated theory of fear, he talks about it very often, so fear is one of the most significant “parametrical specificities” of capitalism; anyhow, although rare but existing references to fear require further research) because they were prom-

ised that the state would intervene in order to harmonize heterogeneous dynamics of capitalism. Streeck is very sensitive about the “hollowing of western democracy” (P. Mair) as well as about the phenomenon of “consumerisation of political commitment”.

The trinity of growth/welfare state/egalitarian democracy provided the contours of democratic capitalism in post-war orders. The “neoliberal revolution” related to the late 60’s and early 70’s, devastated the aforementioned situation: it is good to remember that it was an epoch that was already qualified as a growth crisis. Coexistence of full employment and mass participation was being maintained, first by permissive monetary policy which mediated robust inflationary pressures. There was even a belief that inflation was an integral part of democratic capitalism: just like other phenomena with conflicting ideas, Streeck always considers inflation as distributive conflicts. One may again initiate Kalecki’s argument: in a situation when distrust grows among capital holders, inflation produces unemployment, sanctioning the labourers. Thus, neoliberal capitalism must reach a politically mediated monetary discipline. Normally, politics of debt has to be understood in the context of distributive conflicts: it is a distributional debt between citizens and creditors. Finally, the politics of austerity, as well, needs to be comprehended in a specific way, namely, as movement in the context of political-economical configuration, and not as necessary adjustment to postulated objective patterns.

The Neoliberal era implied decreasing inflation, but at the same time, the increase in public debt (and the existence of the debt state). To this issue, namely the problem of public finance, Streeck gives full attention, and notes not to forget that here we may again pick up on Schumpeter and the project of fiscal sociology i.e. his indications of “tax state”. For Streeck, public finance is both the indicator and cause regarding political and economic dynamics. The situation in the public finance sector actually expresses the structure of neoliberalism that is being determined as: (a) a situation of the state that is forced to take care of pushing through and promoting market relations; (b) restoring the economy as the sphere of coercion, although only selectively.

Here one should stop for a moment. The problem of growth in the case of debt accumulation occurs in many places (see, for example Carmen Reinhart and Kenneth Rogoff 2011, “A Decade of Debt”, Centre for Economic Policy Research Discussion Paper 8310). It is important that Streeck differentiates proximate causes and ultimate causes in relation to understanding the present condition of capitalism. Thus, dynamics and forms of public debt, tax resistance, forms of the financial crisis in 2008, represent approximate causes of the crisis. However, the ultimate cause of the crisis emerges as the secular decline in economic growth starting from 70’s as a reaction of corresponding political and economic participants to the aforementioned secular trend (here, Streeck encounters the claim of Robert J. Gordon who re-established the old claim of Alvin Hansen about secular stagnation, although only compared to American economy. See the book relating to it, *Secular Stagnation: Facts, Causes, and Cures*, ed. by Coen Teulings and Richard Baldwin, Centre for Economic Policy Research Press, 2014). At the same time, it is important to see that growth is not just

an economic and technical category but a certain outcome of political and economic configuration within distributive spheres.

As one can see, Streeck thinks in the long run. There are three relevant instances in terms of the present crisis to note: (i) inflation in the 1970's; (ii) state debt following the inflation; (iii) indebtedness of economic and non-economic entities with financial and quasi-financial entities. Streeck also identifies symptoms of the present crisis (intensification of inequality, debt accumulation, a decline in the growth rate). Moreover, he claims that tendencies mutually corroborate and strengthen the vicious cycle, but he treats these moments in long time sequences as outcomes of inherent contradictions. Undoubtedly, the present crisis is of a structural character, but it could be understood by contextualisation of structural antinomies of democratic capitalism. "Buying time" as a policy that has been administered in capitalism may be understood only in the long run: that is a policy which postpones the crisis and which is no longer of explosive character but an implosive one because it spreads in time. Postponing the crisis is not a solution to crises but its displacement to new frames. This is how one may narrate the dynamics of capitalism from the 1970s to the present time.

Public debt in neoliberalism was treated as an equivalent of inflation for much of history. However, as such time is limited; the accumulation of public debt faces obstacles which press capitalism for consolidation and fiscal discipline. In neoliberalism, antinomy of democratic capitalism is being pacified through extreme indebtedness: Streeck gladly accepts the term "privatised Keynesianism" which represents a new mutation that leads us from the sphere of public to private debts. Subprime is now a replacement for the missing social policy of democratic capitalism. And the state is no longer a debt state but a consolidation state.

In many places, Streeck operates with binary pairs (for example, market *versus* social justice). Thus, Streeck understands the consolidation state in the light of one new binary pair, namely, as an expression of division between "state-people" and "market-people". "State-people" are organized on national level, they are loyal to their country, and cyclically go to elections. "Market-people" are trans-nationally integrated. They appear only as investors or as consumers. Some of Streeck's interpreters complained about such a division: however, one should see that Streeck (see his explanations, Wolfgang Streeck 2014, "Politische Ökonomie als Soziologie: Kann das gutgehen?", *Zeitschrift für Theoretische Soziologie*, 3(1): 147-165) develops this distinction analytically and not for the purpose of a value hierarchy. One may notice that this binary pair is used for analysing rentiers where they appear on both sides.

One point is sure: the increase of public debt, pace theory of public choice, is not the outcome of democracy but capitalism. Therefore, it would be great not talking about the excessive nature of democracy which opportunistically leans towards unreasonable redistribution and corruption that never stops. Streeck's multiple references to the theory of public choice shows the fact that in the respective theory he sees a certain pattern and that facing the aforementioned theory is a really important aspect of his approach. Finally, discourses against democracy nowadays really refer to crises of public finance more often than not. The theory of public choice actually

neglects the following facts: (1) that the public debt is only a specific part of aggregate debt; (2) that in neoliberalism there are regressive tax systems; (3) that the declining level of taxation has been constantly recorded; (4) that the policy of replacing tax revenue by debt subsists.

For Streeck, this indication occurs again in the context of the long run. Presently, neoliberal capitalism provides immunity in relation to democratic interference, but at the same time, it democratised capitalism. Determining institutions are out of democratic legitimation because they do not render accounts compared to citizens. Democratic interferences are cut off from the growth policy.

Here one also needs to realize Streeck's critical attitude towards the EU. It is understandable that in a situation when the crisis in Europe perpetuates, and in last three years, many significant books have been published about the EU. Some of them offer a New Deal (M. Aglietta, T. Brand), some write about the German Europe and about certain contradictions (U. Beck), some are saying farewell to Europe because Britain will possibly leave the EU (D. Chartier), some write manifests for Europe (D. C. Bendit, G. Verhofstadt), and some speak about the stabilization of two Europes with double speed (J.-C. Piris). This way an influential theorist, like Jürgen Habermas, who has always been advocating strong European unity, who has also been praising Streeck for the sharpness of certain insights, found it appropriate to criticize him for the elements of (alleged) nostalgia in relation to the national country. Habermas particularly attacked Streeck's proposal because the concept of the euro intensifies capitalism at the expense of democracy: part of this argumentation is the proposal to create some new type of European Breton Woods with fixed, but at the same time, adjustable exchange rates. However, the doyen of continental social sciences, Habermas, in this orientation sees a certain danger of "small-statism" that should be avoided.

Beyond a reasonable doubt, Streeck emphasizes the growing difficulties for national states in mediating between imperatives regarding fiscal consolidation and citizens' rights. However, Streeck's analyses of the EU are only a part of his dealing with the present crisis situation of democratic capitalism; actually, we cannot separate his really strong critical dealing with Europe and neglect general insights at the same time. He criticizes deficits in terms of social sensitivity. This fact also explains permanent democratic deficits. For Streeck, the EU, in a pragmatic way, shows new forms of contradictions between democracy and capitalism, as well as the antinomy between "technocratic hubris" and the "functioning of national economies". Streeck reiterates that Europe has actually never been so disunited as it is now, after the attempt of unification *via* common currency i.e. "centralized *fiat* money". For him, it is an illusion which aims to show that a political community is at the same time a monetary community as well. The European Central Bank became completely independent from democratic procedures, and it also acts as a secret place of EU management. Streeck could be, in a certain way, linked to the above mentioned Aglietta, a significant monetary theorist who thinks that money can exist only next to a coherent social agreement, and that the euro, with its regimes of fixed exchange rates is experienced as a certain type of "foreign body" i.e. as a foreign currency. Thus, the EU becomes the prisoner of wrongly set up inflation targets. Actually, for Streeck, the

EU carries a hallmark of capitalism mutation from the phase determined by egalitarian democracy and Keynesianism to the policy which is inspired by Friedrich Hayek. Although Streeck appreciates certain contributions of Hayek, present crisis troubles in Europe may be derived from Hayek's considerations. Finally, only by criticizing Hayek, one may understand that the neoliberalised democracy is possible only with the price of democracy sterilization.

As was already mentioned, Streeck's pessimism was confirmed several times, for example, in his lectures at the British Academy or LSE in January 2014. Vicious cycles that are inherent in relation to the functioning of present capitalism imply the following tendencies: (a) increasing inequality (Th. Piketty, etc.) heat up the explosion of crisis moments, even represents one of the causes of growth increase, and also the crisis (Streeck here actually confirms post-Keynesianistic understanding of crisis causes); (b) poor growth intensifies distribution conflicts; (c) debt increase joins the attempts to compensate inequalities for pervert financialization.

Nowadays, both democracy and the economy are liable to crisis processes. Contradictions between capital and democracy became irretrievably international in the meantime. Also, it is not possible to see a serious political possibility on either left or right wing that could stop these interrelated tendencies. This is also a difference compared to the 1930's. At the same time, the question emerges as whether these tendencies may endlessly repeat themselves or if they shall, in due time, produce crises that cannot be postponed. In his considerations, Streeck takes into account both Minsky and Polanyi's moment. Minsky's moment talks about the inherent instability and fragility of the financial sphere ("finance is an 'industry where innovation is hard to distinguish from rule-bending or rule-breaking'"); and Polanyi's moment refers to necessity of the existence of a certain deep cultural and moral infrastructure so that the market can operate. As we have seen, Streeck is trying to apply Schumpeter's thinking about the possibility of existing capitalism infrastructure and in contrast to other theorists, he seriously confronts even the prediction of a famous economist regarding the final disappearance of capitalism. Paradoxically, capitalism may exist only if an opposition develops against it: it has always managed to transform itself based on absorption of opposing impulses. For that reason, expansion of capitalism is a double-edged sword: this is how its vital impulses are being destroyed. However, Streeck is completely right: against all opinions, Marx was not the theorist who predicted the end of capitalism as much as Schumpeter, Werner Sombart or Weber; so, non-Marxist theorists. Accordingly, his references to possible capitalism breakdowns are of a pronouncedly non-Marxistic character. For the "end of capitalism" one may only know that it is not about an event but about a process. Streeck is actually worried about the fact that capitalism could reach its end, and that it does not have an alternative, which is a present fact that cannot be questioned. Capitalism suffers from global anarchy and oligarchic distribution, and from "corrosions of the iron cage". The latter means that one must question the expectation of Weber - cultural values of capitalism will be transformed into the matter of bureaucratic regulation. However, in a situation "where the pay-offs from semi-legal and illegal activities are particularly high" such a prediction is worthless.

In conclusion, Streeck is obviously most subtle when diagnosing the existing situation. Regarding forecasts, he intentionally remains ill-defined. Of course, forward-looking dramaturgy is not a part of his contemplations. Furthermore, Streeck's book is one of the most thought provoking and comprehensive achievements about the crisis. His arguments are supported by empiric details and age-long research. These virtues require careful reading of the book and correspondence dealing with its diagnoses.