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Essay Politics Economy

Are Capitalist Democracies Really Resilient?

A Response to Torben Iversen, Part II

by **Cyril Benoit**, Sciences Po, Centre d'études européennes et de politique comparée (CEE), CNRS, Paris, France

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For Torben Iversen, capitalism is not responsible for the crisis democracies are currently facing. After Jenny Andersson, Cyril Benoît underlines the limits of this optimistic interpretation.

This text, along with that of Jenny Andersson, was written in response to Torben Iversen's article, "Reinventing Capitalism. The transition to the knowledge economy", taken from aconference given for the 10 anniversary of the Centre for European Studies (Sciences Po) in June 2019. It was translated from the French with the support of the CEE.

Torben Iversen's analysis is arguably both timely, sound and original, especially when compared to the relatively pessimistic visions developed in much of the recent political economy literature. However, it is not necessarily more convincing than the theories it opposes—be it Mark Blyth's recent accounts on the transformations of capitalism, Streeck's theory on the crisis of democratic capitalism, or Thomas Piketty's on the sources of unequal income distribution. In our view, this is mainly due to the fact that Iversen's understanding of the same processes is based on a certain economism that, by downplaying or ignoring some crucial political factors and developments, yields an incomplete picture of the contemporary relationship between capitalism and democracy.

Globalization, the Nation-State and Macroeconomic Equilibriums

Let us first consider the strengthening of the Nation-State under globalization. Iversen advances this argument on the basis of a macroeconomic observation. Through promoting investment in human capital and education, advanced capitalist democracies (ACDs) immobilize the skilled workforce—the very same workforce that is chased by capital. Beyond a certain threshold of maturity of the advanced sector, each state is thus incentivized to encourage globalization, equated with a strategic complementarities game. This argument actually formalizes one of the central theses of Varieties of Capitalism, whereby there would be not just one single (Anglo-liberal) form of capitalism. Rather, a "variety" of differentiated national models would specialize in globalization, as for instance illustrated by the "coordinated" economies of Sweden and Japan. [1]

While it is true that all advanced capitalist democracies have not uniformly converged towards the Anglo-liberal model, the idea that globalization is essentially a positive-sum game for nation-states is more questionable. Indeed, Iversen's analysis tends to underestimate—as did *Varieties of Capitalism* before him—the importance of various interdependencies linking varieties of capitalism together, notably through international trade or finance. [2] Crucially, these interdependencies lead to a constant circulation of business models at the sectorial level. Overall, they generate complex hybridizations and forge national economies much less integrated than Iversen suggests. In effect, it is quite possible that capitalism's typical growth strategies are imported at the scale of an industry, starkly exposing other sectors to contagion effects over which governments will have little control. An obvious case in point is the 2007-2009 financial crisis and the multiple structural (inter-)dependencies it revealed at both national and sectoral levels. Globalization has also been accompanied by the formation of large, transnational regulatory regimes. While they do not systematically constrain the Nation-State, they significantly shape its policies and arguably limit its ability to maintain crucial comparative advantages. It is undoubtedly true that these changes have not always been detrimental to States. But the transformations they have experienced in this context have been such [3] that the conclusions Iversen draws from the differences between national economies and from broad macroeconomic equilibriums seem excessive.

Reconfiguring States Under Neo-Liberalism

Somewhat similarly, Iversen's analysis ignores other key developments in the relationship between States, capitalism and democracy at the domestic level. Once again, these blind spots are largely attributable to the structure of his reasoning, in which stable aggregate equilibriums are inferred from certain historical trajectories. This approach leads him to conclude that the essential purpose of most economic policies adopted by advanced capitalist democracies over the last thirty years has been to "reinvent capitalism through democracy". A new equilibrium is introduced for the sake of argument: at the domestic level, educated and skilled voters support parties presenting themselves as effective economic managers, as do a larger community of voters hoping to benefit from the success of advanced sectors. According to Iversen, and until the 2000s, it is precisely this coalition that purportedly supported policies encouraging competition, financialization, and the fight over inflation—and not, as Wolfgang Streeck and others argue, the "structural power" of capital that large transnational corporations and their representatives wield.

In sum, electoral politics would trump interest group politics. This interpretation may come as a surprise, especially since research has reported considerable variations over time and space, particularly with regard to the interactions between these two major predictors of institutional change. But beyond that, it is the main goal attributed to neoliberal policies that is arguably questionable here. Over the past thirty years, these measures have in effect been far from foscused, as Iversen suggests, on preparing advanced capitalist democracies for an industrial revolution. They have sometimes played this role a posteriori. But it is hard to assume that they were implemented independently of the demands and pressures of certain economic interests.

Moreover, these various policies crucially fulfilled another function that was at least equally important. Indeed, they profoundly reshaped the interdependence between the economic and the political within advanced capitalist democracies. Particularly in Europe, these developments have most often been associated with the removal of many economic issues from the direct control of elected politicians, often to the benefit of formally independent experts—through the creation of non-majoritarian regulatory agencies, the privatisation of public monopolies, and central bank independence. In other words, and as a result of these transformations, some crucial aspects of capitalist governance across all advanced capitalist democracies are now beyond the direct control of voters and their representatives.

A general-equilibrium model coupled with an aggregate-level analysis thus lead Iversen, as in the case of globalization, to identify a continuum between electoral demands, economic policy, and the role of the State—whereas the last forty years seem to be precisely an era characterized by a gradual and far-reaching dislocation of these areas from one another.

Democracy, Capitalism… and Populism

These different reflections bring us to the question of the resilience of advanced capitalist democracies', particularly in relation to the rise of populist forces—a rise likely to jeopardize the "symbiotic relationship" between capitalism and democracy. Iversen approaches this issue head-on by integrating it into his overall model. According to him, the recent upsurge of populist parties is a reaction of low-skilled workers against the middle and upper middle classes support for policies aiming at integrating the advanced sectors to the knowledge economy. Indeed, such policies fuel various sources of inequalities induced by this industrial change; as a response, those with low or obsolete skills are turning to parties that promise to maintain access to redistribution and to protect the labour market from new entrants, including (but not restricted to) immigrants. In a sense, populist parties thus fill the vacuum left by the growing support of skilled and educated workers to moderate parties, with the latter increasingly building reputations as effective economic managers to attract the median voter. As a result, the valence politics of traditional or moderate parties and the positional politics of populist parties now fight for ascendency in the political arena.

In spite of its obvious strengths, such an explanation is relatively unaware of an essential component of the populist puzzle, namely the declining appeal of valence politics to the corner of the electorate targeted by moderate parties. More precisely, what we observe in most advanced capitalist democracies is that the party strategies consisting in trying to reach broad-based support through economic and depoliticized arguments is also declining, notably as a vector of electoral mobilization. Crucially, such decline coincides with the rise, *in relative terms*, of populist forces. The vote for Brexit in 2016 is a case in point, though it is far from being isolated. If the typical Brexiteer profile is perfectly consistent with the model developed by Iversen and Soskice, the failure of the Remain campaign to mobilize affective supports—a campaign framed in purely valence terms, that essentially emphasized the economic benefits of Britain's continued membership to the EU—was a decisive factor accounting for the slim though significant victory for Brexit. [4] Thus, what is striking here is less the electoral basis that mobilized for Brexit than the lower turnout levels of those who should have turned out to back Remain. This, in our view, is largely due to the fact that the rise of the new populism is not only due to the formation of a group of "left-behind" by the new knowledge economy. Though less spectacular, there is also a slow erosion of the alignment between a fringe of the electorate and parties that compete in the electoral arena essentially as effective economic managers—and try to attract the median voters by recasting as valence a number of (previously seen as positional) issues. In our view, Iversen's demand-side thesis, it seems, overlooks crucial supply-side transformations, as well as the potential feedbacks of neoliberal measures on voting patterns.

Conclusion

The goal of this short essay was certainly not to discard Iversen's thesis and its obvious, manifold and provocative contributions to the literature. Its historical and comparative depth has been widely and, in our view, rightly emphasized. Yet we simultaneously believe that his approach overlooks too many of the political implications of the transformations considered to be completely convincing. The main problem stems from his attempt to explain the relationship between capitalism and democracy on the basis of a series of equilibriums—while the past forty years have seen the emergence of multiple sources of disequilibriums for advanced capitalist democracies. Iversen explicitly acknowledges the fact that politics is first in the relationship between capitalism and democracy. Yet it is arguably political in a much broader and more contingent sense than he asserts.

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