

# The Life and Time of the European Consolidation State

WOLFGANG STREECK INTERVIEWED BY MICHEL FEHER

Since the early 1970s, Wolfgang Streeck argues, “democratic capitalism” has been striving to disavow its oxymoronic nature.<sup>1</sup> What the author of *Buying Time* calls democratic capitalism is a political economy predicated on the conciliation of market competition with the entitlements granted by the outcome of democratic elections and collective bargaining between organized labor and capital owners. Though simultaneously beholden to two divergent guiding principles – merit measured by competitiveness and vested rights defined by social needs – this regime found a semblance of stability during the postwar period, at least in the developed countries of the Western bloc. An expanding welfare State, powerful unions and the commitment of political elites to full employment were the factors that enabled democracy and capitalism to live in relative harmony – for as long as the reconstruction of Europe and Japan generated a robust growth rate.

However, once the conditions under which postwar economies were able to grow rapidly and regularly ceased to exist, the tensions between the respective beneficiaries of capitalist meritocracy and democratic decision-making were quick to mount. Thus, to ward off a full-fledged regime crisis whereby “market justice” and “social justice” would be officially declared incompatible, Wolfgang Streeck explains that the custodians of “democratic capitalism” have endeavored to delay the day of reckoning by successively resorting to three expedients.

At first, Western governments sought to preserve full employment as their overarching macroeconomic objective without interfering with the nominal wage increases obtained by collective bargaining: consequently, they dealt with dwindling growth by letting the rate of inflation rise steadily. Insofar as wage earners kept their jobs and had their income pegged to the prices of goods and services, the stagnation of the economy largely spared them. Capital owners, on the other hand, saw the value of their assets falter. At the same time, by the mid 1970s, the dismantling of the Bretton Woods regime of fixed exchange rates and the deregulation of oil prices provided them with fresh speculative alternatives to a low-yielding “real” economy. Thus, to prompt a change of course in monetary and fiscal policy, they raised the threat of an investment strike that would have made stagflation unmanageable – at least within the framework of a capitalist democracy.

The second phase of what Wolfgang Streeck describes as the “delayed crisis of democratic capitalism” started in 1979, when Paul Volcker, the newly appointed chairman of the Fed, responded to the grievances of capital owners by pushing interest rates to unprecedented heights – thereby quelling inflation once and for all. The ensuing recession, the author of *Buying Time* explains, compounded with the responsiveness of neoliberal governments to the calls for tax relief emanating from the business and middle classes, precipitated the morphing of an increasingly disabled “tax state” into a “debt state” whose governing agencies made up for declining fiscal

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1. See in particular: Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism* (London: Verso, 2014), “The Crises of Democratic capitalism,” *New Left Review* 71 September–October (2011), available on-line at <http://newleftreview.org/II/71/wolfgang-streeck-the-crises-of-democratic-capitalism> “The Politics of Public Debt: Neoliberalism, Capitalist Development and The Restructuring of the State,” Max Planck Institute for the Study of Societies, Cologne Discussion Paper 7 (2013), available on-line at [http://www.mpifg.de/pu/mpifg\\_dp/dp13-7.pdf](http://www.mpifg.de/pu/mpifg_dp/dp13-7.pdf), “The Domestic Politics of Euroland,” with Lea Eslässer, Max Planck Institute for the Study of Societies, Cologne Discussion Paper 17 (2014), available on-line at [http://www.mpifg.de/pu/mpifg\\_dp/dp14-17](http://www.mpifg.de/pu/mpifg_dp/dp14-17).

revenues by borrowing an increasingly large share of the resources required to fulfill their missions.

The double context of globalization and financialization helped sustain the debt state for about a decade: institutional investors were eager to take in large amounts of putatively safe treasury bills issued by the richest countries, the latter's rulers used their borrowed funds to ward off social unrest – which could have resulted from stagnating wages and precarious jobs – and the propertied classes understood that a ballooning public debt shielded them from higher taxes. However, by the turn of the 1990s, the size of budget deficits was such that the confidence of financial markets in the solvency of the debt state could no longer be counted on.

Initiated, in the United States, by the Clinton administration, the third expedient put in place in order to prevent the demise of democratic capitalism still involved debt. While elected officials promised and to some extent managed to consolidate their own budgets without raising taxes – thereby restoring the trust of investors in the quality of their bonds – they also succeeded in maintaining the acquiescence of the salaried classes – by virtue of giving them an unprecedented access to commercial credit. Thanks to the prowess and deregulation of financial engineering, private citizens were enticed to acquire with borrowed money what shrinking public services no longer provided – housing, pensions, health care, higher education. Though hampered, especially in the United States, by George W. Bush's tax cuts and military expenditures, this early version of what Wolfgang Streeck designates as a "consolidation state" remained in place until the financial crisis of 2008 emphatically revealed its fault lines.

Dramatic as it turned out to be, however, the ensuing Great Recession did not act as a wake up call for the leaders of the developed world. If the return of Keynesian wisdom – and thus of a revamped tax state – was briefly evoked at the outset of the downturn, what public intervention actually entailed was a swift, albeit brief, come back of the debt state – in the form of bailouts aimed at saving the financial institutions that were deemed too big to fail. Yet, as Wolfgang Streeck further recounts, the success of this rescue operation resulted in considerable budget deficits, and freshly salvaged investors were quick to express concern about the sustainability of the public debts to which they owed their survival. Thus, by 2010, the debt state gave way, once again, to a consolidation state.

Despite claims to the contrary, fiscal responsibility is not the chief concern of consolidators. While they certainly publicize their intention of balancing budgets, the purpose of their efforts is not to render the countries they govern less dependent on debt but to make sure that creditors will continue to lend them the funds they need at a reasonable rate. In short, consolidation is about sustaining the attractiveness of the State in the eyes of investors: credit, rather than self-sufficiency, is the name of the game.

Now, to retain the creditworthiness of the territory under their administration, governments are bound to give precedence to the tastes of the lenders who ensure their solvency over the wishes of the citizens who still vote them into office: in Wolfgang Streeck's terms, the will of the "State's people" (*Staatsvolk*) must be subordinated to the exigencies of the "financial markets' people" (*Marktsvolk*). Thus, to the extent that postwar economic growth is no longer replicable, consolidation is bound

pdf, "How Will Capitalism End?" in *New Left Review* 87 June–May (2014), available on-line at <http://newleftreview.org/II/87/wolfgang-streeck-how-will-capitalism-end>, "The Rise of the European Consolidation State," Max Planck Institute for the Study of Societies, Cologne Discussion Paper 1 (2015), available online at [http://www.mpifg.de/pu/mpifg\\_dp/dp15-1.pdf](http://www.mpifg.de/pu/mpifg_dp/dp15-1.pdf), "Why the Euro Divides Europe," in *New Left Review* 95 September–October (2015), available on-online at <http://newleftreview.org/II/95/wolfgang-streeck-why-the-euro-divides-europe>.

to expose democratic capitalism to a peril that is symmetrical to, yet equally as lethal as, accelerating inflation: whereas runaway inflation amounted to a democratic corrosion of the conditions under which capital remains profitable for its private owners, consolidation gradually reduces democracy to an electoral competition between hardly distinguishable teams of consolidators.

The consolidation state, Wolfgang Streeck makes clear, is by now pervasive, at least throughout the developed world. Yet there are two notable specificities to its European variety. On the one hand, within the EU, and even more emphatically the Eurozone, the mechanisms through which democratic life is subordinated to the confidence-building measures demanded by investors are hard-wired in the institutions purported to deliver Europe's unity – be it a Central Bank unaccountable to voters and chiefly concerned with price stability or a Treaty limiting the ability of national governments to run a deficit, regardless of circumstances. To put it bluntly, unification and consolidation have become *de facto* synonyms in the European context. On the other hand, however, European citizens, except in post-communist countries, are arguably more attached to the protective and redistributive features of the erstwhile tax state than their counterparts in the rest of the developed world.

The complex and potentially explosive entwinement between the resistances to austerity politics and to supranational agencies in European societies forms the background of the questions we have addressed to Wolfgang Streeck, regarding the near future of the European consolidation state.

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**MF:** *In your recent work, you describe how liberal democracies have gradually become what you call “Consolidation States,” a regime whose representatives make it their priority to sustain the value of their public debt in the eyes of investors. The champions of consolidation like to present themselves as traditional and virtuous “fiscal hawks,” that seek to reduce the burden represented by an excessive public debt in order to free their constituents from the hold of financial markets. What you show, however, is that their actual objective is not to alleviate the pressure exercised by bondholders but to deserve their undying confidence.*

*How are we to decipher the discrepancy between what consolidators actually do and the ways in which they legitimize their actions?*

**WS:** Governments find it hard to tell their voters that the claims of financial investors must take precedence over those of citizens, for example, pensioners or patients. Appeal to old-fashioned bourgeois virtues such as thrift and financial prudence is less risky; so is the promise of fiscal autonomy that is being restored as a result of consolidation. The truth is, of course, that it is not political autonomy that is the objective of consolidation but shrinkage of the public sector, accompanied by extensive privatization of social insurance and public services, including even the military. The smaller the public sector, the more confident financial investors can be that their capital will be repayable and profitable. Typically spending cuts tend to come together with tax cuts for corporations and the rich, restoring the deficit and necessitating further spending cuts.

**MF:** *Elected officials, you explain, are aware that giving precedence to the attractiveness of their countries in the eyes of bondholders is likely to damage their popularity among voters. Thus, in order to prevent a vote of diffidence against their agenda, they endeavor to eschew the political incidence of the discontent they generate by wresting the management of “the economy” from democratic scrutiny. Now, while demonstrating how the pursuit of consolidation disables democracies throughout the developed world, you also insist on the specificities of the emerging “European Consolidation State.”*

*What are the latter’s distinctive features in your view, and how can it be compared and contrasted with the state of consolidation in the United States?*

**WS:** The European Consolidation State is vested in a supranational institution, called European Monetary Union. It comprises several national states and functions as a mutual surveillance and hierarchical enforcement machinery. Being supranational, it is even further removed from democratic control than the national governments. This is needed because the idea of a social welfare state is more deeply entrenched in Europe than in the United States. The U.S. doesn’t need supranational control to reassure “the markets” since consolidation at the expense of citizens in favor of creditors is ideologically uncontested there. Moreover, the United States, unlike European countries, commands the world’s reserve currency, which means that it can essentially print unlimited amounts of money to service its debt and creditors are happy to sit on a mountain of dollars (or can be forced to do so to the extent that their “national security” depends on American aircraft carriers). The U.S. is also the most important safe haven for global capital and can pay for its raw materials in its own currency.

**MF:** *You argue that the strictures of the Economic Monetary Union (EMU) endow the few northern European countries whose public finances are consolidated – because their economic model has long been export-driven and inflation-averse – with the power to force their own choices and practices onto their partners – in particular those whose growth model is traditionally driven by domestic demand and a sizable public sector. In other words, under the guise of European integration, the architecture of the common currency institutes both a de facto hierarchy and a cultural homogeneity, whereby the representatives of member-states running a large deficit are coerced into imitating the ways of the governments whose budgets are balanced, even if such recipes turn out to be counterproductive – as is the case for Greece, where measures meant to consolidate the Greek public finances have in fact considerably increased the country’s public debt.*

*Do you think that, in an environment where investors’ mobility is unhampered, replacing the euro by national currencies will allow for a return to the “variety of capitalisms” of yore? Under current circumstances, aren’t financial markets capable of undermining the Keynesian proclivities of a government, regardless of whether it belongs to or defects from the Eurozone?*

**WS:** There is no ideal currency regime in a capitalist world in turmoil. In my view, reform of the euro system must first and foremost provide for breathing

space for the Mediterranean countries, breaking the stranglehold of Germany and the neoliberal fanatics at the European Central Bank (ECB) over their economies. Also, no full return to national currencies would be needed, only some degree of flexibility for individual countries concerning exchange rates. Right now we have a *de facto* gold standard in Europe, and it has been well-known since the 1930s that a gold standard is incompatible with democracy. Something like the original Bretton Woods regime with fixed but adjustable exchange rates would help. The euro could continue to exist, but for some or all member countries as a reference currency against which they could revalue or devalue, in a politically agreed-upon process.<sup>2</sup> It was a shock to me that the Greeks had no Plan B when they were forced to accept their third “support package.” So they were unable to make something out of the Schäuble proposal of a temporary exit to readjust exchange rates. There is as a matter of fact no case of a country successfully restoring its competitiveness by deflating its economy without flanking by a downward adjustment of its currency. Incidentally, small and medium-sized European countries like Sweden, Denmark, Switzerland and Norway are doing a lot better than comparable EMU countries and note that they have not been attacked by speculation (the Soros robbery of the Bank of England is now almost a quarter century past).

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Though briefly disabled by the financial collapse of 2008, the European Consolidation State has successively weathered the Great Recession and regained its footing during the ensuing sovereign debt crisis. Yet, entrenched as it undeniably is, a number of recent events may prove challenging to the current regime of financial consolidation in the Eurozone. Our next questions pertain to these possible disruptions and, more generally, to the near future of the ongoing crisis of democratic capitalism in Europe.

**MF:** *The standoff between the first Syriza government and the representatives of Greece’s creditors ultimately concluded with Alexis Tsipras’ surrender to the austerity measures outlined in the “Memorandum of Understanding.” Yet, the various promoters of this outcome hardly agree on what should happen next. According to some – the IMF, the European Commission and the ECB – the second Syriza government will not be able to make good on its commitments unless it is properly sponsored – by the ECB’s “quantitative easing” program but also by a substantive “haircut.” Though equally convinced that Athens will not meet the objectives set by the Memorandum, others, such as the German finance minister and the chairman of the Bundesbank, believe that the only reasonable solution is not debt relief but Greece’s temporary or permanent exit from the Union.*

*In your view, how serious is the ostensibly growing divide between these two approaches and, to the extent that the rift persists, which line is more likely to prevail?*

**WS:** I think the situation is not that simple. There is a lot of cheap talk here, also a lot of “buying time.” Quantitative easing cannot continue forever, and will never be enough to bail out the Italian banks and the Italian state when it

2. There are now a number of quite knowledgeable proposals for a reformed, more flexible euro. See among others: Heiner Flassbeck and Costas Lapavistas, *Against the Troika. Crisis and Austerity in the Eurozone* (London: Verso, 2015).

comes to the crunch, not to mention the French banks and the French state. (Greece is tiny, and if it weren't for the potential precedents of a Greek bailout, its debt would long have been absorbed by the rest of Europe. But even the Italians and the French were in the end against a Greek bailout because Renzi and Hollande were afraid of having to tell their voters that in addition to accepting neoliberal labor market "reform," they would also have to cover the Greek debt owned by Italian and French institutions.) What the ECB is up to can only be guessed at; it is completely insulated from public control, even more than other central banks. The president of the ECB Mario Draghi, by the way, is an old Goldman Sachs hand and a member of the neoliberal Bocconi club. As I said, a Greek exit, temporary or not, if flanked by debt relief and investment programs (on which the Greeks could have insisted while the Germans could ultimately not have let the Greeks starve, or unilaterally declare insolvency), might have been a good start for a reform of a currency system that is increasingly turning out to be ungovernable. Now the misery in the Mediterranean including France will continue, the mood in Europe will sour from year to year and from crisis to crisis, and right-wing nationalist parties will continue to increase their shares in national electorates, eventually also in Germany. (I will never understand why people think the German electorate would accept the German government subsidizing the economies and the public finances of the Mediterranean countries on behalf of BMW and Audi. Most German voters don't work for them, and otherwise they are exactly like voters in other countries.)

**MF:** *At once the template and the leading component of the European Consolidation State, Germany relies on the performance of its export industry – especially in non-European markets – to maintain its symbolic and material dominance over its European partners.*

*How do you assess the significance of the considerable slowdown currently affecting the Chinese economy, but also of the recent scandals shaking the reputation of the German industry, for Germany's capacity to hold on to its time-honored economic strategy, and thus to remain the role model that the rest of the Eurozone is compelled to emulate?*

**WS:** Honestly I don't know, and I think nobody knows. Whether the Germans want to "compel" the other Europeans to become global export champions I really doubt; the same holds for "symbolic dominance" or being a "role model." For the German export industry it's enough if you buy its products. Put otherwise, in capitalism you want to make profits, not love. It is true, however, that China and the U.S. are ultimately more important than Europe for the German economy, and any slowdown or crisis in China can be a disaster for it (also any lowering of economic inequality in the United States, which would suppress demand for luxury cars). On the question of VW: we will see. Usually corruption has little influence on market shares; see Siemens, or Bank of America.

**MF:** *On August 30th of this year, Angela Merkel declared that, in light of the ongoing influx of people seeking refuge in Europe – but also in light of Europe's economic capacities and demographic needs – a more welcoming stance on immigration was*

*both morally mandatory and materially auspicious. In the subsequent weeks – and more drastically since terrorist attacks hit Paris, on November 13th – the German Chancellor’s statement has been met with a growingly fierce opposition, from her European partners and even from within her own government.*

*Insofar as living conditions in certain regions of the Middle East, Africa, and the Balkans – not to mention the most impoverished countries of the EU – are not likely to improve any time soon, how do you envision that the potential shifts in Europe’s immigration policy will impact the current European consensus on financial consolidation – especially considering that the changes could involve substantial public investments in housing and education so as to accommodate migrants, but also equally massive investments in military equipment and detention camps so as to repel them in the name of the never-ending war on terror?*

**WS:** This is another complex story. Right now the German government seems, or pretends, to believe they can shoulder the expenses for the new immigrants out of current tax receipts, or in the worst case by rededicating a tax surcharge initially devoted to rebuilding East Germany. Most other countries aren’t taking any refugees at all, or have stopped taking them, so they would have no additional expenses in the first place. Detention camps, as far as I know, are not being planned; but in any case they would be cheap. The latter applies also to additional border police; unlike what Merkel claimed, it is technically not really difficult to close Europe’s Mediterranean border. The Turks would have to do most of the dirty work, and may in return be admitted to the European Union. The military will only be used for some feel-good bombing in Syria, Libya, Iraq, wherever; this, too, will not cost much.

**MF:** *Debates among critics of austerity have centered on whether the EMU should be reformed or dismantled altogether – with either camp claiming that the other’s approach plays into the hands of extreme right nationalists. Yet, what the Greek “crisis” has revealed is twofold: on the one hand, European governing agencies are prepared to do whatever it takes to keep all member-states on the path of perpetual austerity; but on the other hand, even the people who suffer the most from the policies of the Consolidation State seem to fear that leaving the euro would render their condition even more dire.*

*In light of this apparent deadlock, how do you think anti-austerity parties and social movements will and should – not necessarily the same question – elaborate their platforms in the near future? How are they to argue convincingly that a change of majority in a single country can produce more felicitous effects than what the Syriza experiment eventually delivered?*

**WS:** Austerity is the only common economic and fiscal policy possible as long as member states insist on their economic and fiscal sovereignty. All of them do this, including Greece, and most certainly France. The only exception may be Germany, but only because Germans expect a Europe without national sovereignty to be a German Europe (which is why the governments of the other countries prefer to carry out their neoliberal “reforms” on their own). As far as anti-austerity parties are concerned, the Greek capitulation was a disaster for

them, and one of its results was the weak turnout at the recent Spanish election and the disappointing result for Podemos. Tsipras is now loved by the German government, and I can understand why: he has blown it the big way for the European Left. As I said before, as long as we still need national sovereignty in Europe as a protection against German Europeanism (in the same way as we need national sovereignty globally as a protection against American internationalism), the only way forward is a rethinking of the European monetary system, and more generally a departure from the superstate project behind European integration. The formula in the Maastricht treaty, according to which the goal is “an ever closer union among the peoples of Europe,” sounds like a threat to a rapidly growing number of Europeans. If we do not want Marine Le Pen to be President of France sooner or later, we better begin a serious debate on what used to be called the *finalité* of the European integration project, with the aim of rebuilding Europe from the bottom up as a community of democratic nations, as opposed to a one-size-fits-all Europe constructed top-down and kept together by technocratic agencies like the European Central Bank.

**MF:** *You explain that in a Consolidation State, employers are primarily accountable to their shareholders – to the detriment of other stakeholders, in particular their employees – while national governments give precedence to the demands of the bondholders in possession of their public debt over the wishes and needs of their constituents. Hence the sorry state in which labor unions and left-leaning political parties find themselves. You also signal that one of the major differences between the sovereign power granted to voters (the Staatsvolk) and the control exercised by investors (the Marktvolk) has to do with timing: people vote periodically, whereas financial markets auction bonds continually.*

*Arguably decisive in the current subordination of the Staatsvolk to the Marktvolk, this pace imbalance raises the question of the possible paths toward a re-democratization of the polity. In other words, should the critics of consolidation invest their hopes in the restoration of relatively protected nation-states – in order to re-empower the agencies of “periodic” power such as unions and political parties – or should they endeavor to invent their own techniques and institutions of “continual” rating and auctioning power – in order to challenge investors on their own turf?*

**WS:** A good question indeed, on which I have not thought enough. As an initial response, I do not find the two alternatives you mention necessarily mutually exclusive. My concept of democracy is not elitist-bourgeois but popular-proletarian: populist even, in the sense of the American reform politics in the interwar period. This means that any renewal of democratic government must be such that normal people, the famous little men and women in the streets, must be able to understand what political decisions are about and feel invited to add to the public discourse what they believe they need to say. Time-proven instruments “of ‘continual’ rating and auctioning power” that meet this criterion are strikes and demonstrations: the physical showing of political “body mass” in collective actions of protest or support. We need much more of this to break through the fabrications of the PR agencies and the technospeak of governments and central banks. From here on we will have to see.