

# Efil Journal

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## Taking Back Control? The Future of Western Democratic Capitalism\*

Wolfgang Streeck\*\*

### Abstract

The international state system is in turmoil, due to pressures on its architecture that emanate from capitalist-economic globalization. Large states in particular seem to be losing the capacity to hold their societies together through economic redistribution from prospering to lagging sectors and regions. The results are centrifugal tendencies toward decentralization and secession, as well as toward exit from international organizations. To defend centralized rule, governments of large political units tend to turn authoritarian. Experimentation with small-scale units of governance seems attractive in many places, given the example of successful small countries that have preserved their national sovereignty, like Denmark, Norway, and Switzerland. Small states tend to be more homogeneous, more suitable for democratic self-government, and more capable of specializing on niches in the global economy where they are comparatively safe from head-on competition.

**Keywords:** *State, International Relations, Globalization, Democracy, Federalism, Secessionism, Decentralization, European Union, European Monetary Union*

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## Kontrolü Geri Almak mı? Demokratik Batı Kapitalizminin Geleceği

### Özet

Uluslararası devlet yapısı, kapitalist ekonomik küreselleşmenin, yapısı üzerine yaptığı baskı yüzünden karmaşa içindedir. Özellikle büyük devletler, refah sahibi bölgeler ve sektörlerden, geri kalan bölgelere ve sektörler ekonomik paylaşım sağlayarak toplumlarını bir arada tutabilme yeteneklerini kaybetmektedirler. Sonuç ise, özerkleştirmeciliğe ve ayrılıkçılığa olduğu kadar uluslararası organizasyonlardan ayrılmaya doğru savrulan eğilimlerdir. Merkezci hakimiyeti savunma amacı ile geniş politik birimlere sahip olan devletler, otoriterleşmeye yönelirler. Düşük çaplı kamu birimleri ile yapılabilecek yönetim deneyleri, Danimarka, Norveç ve İsviçre gibi, ulusal egemenliklerini koruyan, başarılı ve küçük ülkeler göz önünde bulundurulduğu zaman, ilk başta çekici gelmektedir. Ağırılıkta, küçük devletler daha homojendirler, demokratik halk idaresi için daha uygundur ve başa baş rekabetten göreceli olarak güvende oldukları küresel ekonomideki nişlerde daha kolay uzmanlaşırlar.

**Anahtar Kelimeler:** *Devlet, Uluslararası İlişkiler, Küreselleşme, Demokrasi, Federalizm, Ayrılıkçılık, Adem-i Merkeziyetçilik, Avrupa Birliği, Avrupa Parasal Birliği*

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## **1. Introduction**

More than a quarter century after the end of the Cold War, the international state system is in turmoil, both within and between states. The fundamental cause of the growing disorder is the rapid progress of capitalist “globalization”, outpacing the capacity of national societies and international organizations to build effective institutions of political-economic governance. Increasing debt, rising inequality and unstable growth, especially but not exclusively in capitalism’s core countries, indicate a general crisis of governability. As states have become embedded in markets, rather than the other way around, they are governed more by politically unaccountable “market forces” than by their citizens and governments. Global markets and corporations, on their part, are governed only weakly if at all by improvised and often non-governmental institutions of so-called “global governance”. New problems – political conflicts over interests, values and identities, as well as technocratic puzzles and dilemmas, in national and international politics – are appearing almost by the day. Systemic disarray gives rise to a widespread sense of uncertainty. What may be in store for the capitalist world is a period of extreme unpredictability in which structures that had been taken for granted are dissolving without new structures taking their place.

## **2. The Standard Model in Decline**

Postwar capitalism in Western core countries was capitalism under government, also known as “state-administered capitalism” (Brown 2015). The state that was to administer postwar capitalism was no longer the liberal state of earlier periods of capitalist history. The United States and Britain had triumphed over fascism, not because they were liberal, but because they had managed to mobilize the productive capacities of their capitalist economies for a collective social purpose – winning the war – through massive supervision and planning of economic activities. Economic planning, as practiced extensively in the

war economy, was continued, in modified ways, in subsequent decades when capitalism became the “mixed economy” of the 1950s and 1960s. This reflected also what was universally considered the hard-learned lesson of the interwar years, when ungoverned liberal capitalism had proven an economic and political disaster. With the other version of industrial society, communism, offering a potentially attractive alternative to capitalism, nobody was in doubt that the capitalist economy had to be controlled by strong and active government, preventing it from destroying its surrounding society and ultimately itself. State-administered capitalism was instituted in the “Free World” by the United States as it had emerged out of the New Deal of the 1930s. Under its leadership and in its global rivalry with communism, national “varieties of capitalism” (Hall and Soskice 2001; Streeck 2011) were within limits admitted, to the extent that this helped stabilize non-communist governments friendly to the U.S. and ready to integrate those elements of the Left into national social and political pacts as were willing to participate in New Deal-like administration of national capitalist economies.

State-administered capitalism was democratic capitalism, different from its liberal predecessor as well as from fascist capitalism and Stalinist communism. By the end of the Second World War capitalist countries under U.S. leadership adopted a common *standard model of democracy*, with reasonably free elections, governments dependent on parliamentary majorities, broad-based political parties of the Center Left and Center Right, by and large pluralistic mass media, strong trade unions with a right to strike, freely negotiated collective agreements regulating wages and working conditions, and only moderate repression of opposition, except where it came too close to the Soviet-communist alternative to state-governed democratic capitalism.<sup>1</sup> Standard-model democracy served to correct, within limits, the outcomes of free markets and of the free deployment of capitalist property rights. Institutionally it was calibrated to function as an engine of social and economic progress through social compromise, mobilizing popular support for capitalism through redistributive intervention in market outcomes while leaving untouched the foundations of capitalist political economy, including private property and free if regulated markets. Redistributive democratic egalitarianism was to manifest itself in slowly but steadily rising wages and wage shares, stable and secure employment, indeed full employment as a social and political right, comprehensive social insurance continually adjusted to newly arising social needs and growing economic possibilities for a “de-commodification” of social life, together with the elimination of the worst forms of social and economic inequality, ushering in an “age of compression” of incomes, wealth, living standards and life chances. Universal collective bargaining, an expanding social welfare state and redistribution of income from the top to the bottom fitted in with a Keynesian economic policy that relied on egalitarian democracy for turning the capitalist economy into a collective wealth creation machine, by using low income-earners’ higher propensity to consume as a driver of economic growth, in the service of political objectives like full employment.

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1 See the introductory chapter in Streeck (2016).

This configuration of state-governed capitalism, redistributive democracy and Keynesian growth broke up in the 1970s with the beginning of the neoliberal revolution. One aspect of this was a gradual but nothing short of transformative change in the relationship between capitalism and the nation-state, as part of a secular process of economic, political and social *internationalization*, aka “globalization”. In shorthand, while previously markets had been embedded in states, now states came to be embedded in markets, resulting ultimately in a global liberalization of domestic political economies and national policy-making, at different speeds and in different forms, but still universally. With capitalism governing states rather than states governing capitalism, “competitiveness” became a fact of economic and social life, a national goal to be achieved by political “reform”, and a corporate benchmark for relentless “restructuring”. In essence this meant a de-coupling of the democratic nation-state from a newly market-governed, liberalized capitalist economy, together with a shift from the Keynesian to a Hayekian growth model. Under the latter, capitalism is to flourish from redistribution, not from the top to the bottom, but vice versa from the bottom to the top, to reinforce *work incentives* at the lower and *investment incentives* at the higher end of the income distribution (Streeck 2017).

### **3. From National Democracy to Global Governance**

Where exactly “globalization” comes from cannot be discussed here. I suggest that it was the way for capital out of the social-democratic national regimes of the postwar era, using new transportation and information technologies for this purpose. Generally the continuing conquest of virgin land, in a broad sense, is fundamental for capitalist accumulation (“*Landnahme*”).<sup>2</sup> Importantly, globalization could not have proceeded without the collusion of the same states and governments that were disempowered by it – agreeing to be divested of powers they could or would no longer responsibly and responsively discharge. There were several motives for this, from the benefits of free trade for consumers to the benefits of global production chains for profit-making firms. “Globalization” could also be used to justify cutbacks in social spending or employment security and worker rights in general, in political efforts to restore discipline among workers, trade unions and citizens “spoiled” by the long era of stable growth and social progress. Especially social-democratic parties and governments took recourse to enlisting and indeed calling in the competitive pressures of international markets to restore domestic governability at the expense of domestic democracy. Different countries and political coalitions had different reasons to rely on “globalization” as a policy tool, ranging from social-democratic strategies of national niche-building in international markets to the neoliberal destruction of domestic industrial employment in the course of “financialization”. A special case is the United States as a hegemonic nation for which “globalization” means extending its own domestic order and corporate structure to the rest of the world, eliminating national sovereignty for all countries but one (Anderson 2013).

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<sup>2</sup> “Land-grabbing.” The metaphorical use of the concept is from Rosa Luxemburg (1913).

The liberation of capitalism from national government and national democracy is glorified as a transition to “global governance” (Berggruen and Gardels 2012). In reality it would be more appropriate to speak of a return of what used to be called “capitalist anarchy”, which of course never was anarchy in the original sense of the word but a rule of markets and big firms unmodified by political intervention. Governance may be generically defined as a *laissez-faire* mode of order production that lacks democratic accountability and is proud of it. Negotiated between states, firms, international organizations and all sorts of, appointed as well as self-appointed, representatives of “civil society”, governance is biased towards those able to exercise private property rights as private power, as these can unilaterally withdraw the means of production under their control from jurisdictions and regions that refuse to accede to their demands. Under governance, there is no or only weak public power to balance the private power of capital. Ideologically, governance, in particular international governance, is conceived as delegation of “problem-solving” to “experts”, excluding from decision-making those who, not being able to comprehend the complex issues that arise in a global economy, are considered too vulnerable to populist demagoguery. This hides the fact that whatever governance may be able to do, it is unsuited to two tasks that democratic capitalism had by and large been able to perform: to correct the results of market justice in an egalitarian direction, and to restrain through effective regulation the inherent tendencies of a capitalist economy toward unbounded commodification of labor, land and money.

Ungoverned, or under-governed, capitalism under global governance means two things: capitalism emancipated from democratic control, and capitalism lacking political stability. As a product of the neoliberal revolution, today’s capitalism is more capitalist and less stable, less egalitarian and more crisis-prone, more market-driven and less able to sustain a reliable social order. With advanced capitalism extracting itself from the postwar settlement, growth rates declined, inequality increased, and debt, both public and private, kept accumulating at a rate vastly exceeding the growth of the economy. At the same time, in parallel with low growth, profit rates went up, labor shares plummeted, and inequality reached levels not seen since the nineteenth century. De-socialized capitalism, moving into its new, Hayekian growth model, came with a deep oligarchic restructuring of capitalist society (Tomaskovic-Devey and Lin 2011; Alvaredo et al. 2013; Piketty 2014; Harrington 2016).

Capitalism after government, like liberal capitalism before government, is crisis capitalism. Gone are the days when national governments were sufficiently confident of their control of the capitalist economy to promise their voters stable growth without cyclical ups and downs, free from financial bubbles, fiscal crises, and ungoverned structural change. Capitalism under global governance constitutes a world of *uncertainty*, essentially for all, but in practice much more for those unable to offload their uncertainties to others – those confined to the receiving end of the increasingly sophisticated uncertainty management of large corporations and oligarchic families. Without government, that is to say, uncertainty means very different things for different classes, regions, and countries. This holds for the fallout of imploding pyramids of debt, for labor markets offering increasingly precarious employment, and for the results of the monetary policy experiments conducted by “independent” central banks without public

accountability. It also applies to the re-importation of violence, in the form of terrorism, from a capitalist periphery devastated by the crisis and by the military interventions of the hegemonic powers of the capitalist world system, in their attempts to dictate through “global governance” their terms of “globalization” to peripheral countries.

#### **4. Domestic Revolts**

“Globalization” has brought with it a deep penetration of nationally constituted societies by international markets and corporations. The centrist left-right consensus of the past two to three decades – of the era of the neoliberal revolution – was that national political economies must be opened up to the world, to be integrated into the increasingly global markets of contemporary capitalism, in order not to hopelessly fall back in global competition. This involved deregulation, or re-regulation, of social protection to increase the “competitiveness”, external and internal, of national economic societies. In the process, the number of “losers”, economic and cultural, kept growing slowly but continuously, until it reached a threshold where their frustration became politically potent. That moment arrived more or less simultaneously across advanced capitalist societies, when it finally transpired that the promised fast recovery from the global crisis of 2008 was a chimera. It also turned out that growth after the Great Recession, to the extent it materialized at all, was even more unequally distributed than before, being captured in some countries entirely by the top one percent. One result was that the established political parties of the center-right and center-left that had represented the internationalist consensus lost support. While electoral participation had long declined across the OECD world (Schäfer and Streeck 2013), it now increased in a large number of countries as voters turned to new, no longer centrist and increasingly radical parties, or movements, mostly from the right, summarily called “populist” by their older, up to then safely established rivals. Once the internationally oriented center-left had rendered itself unable to give voice to the rising countermovement against the new wave of capitalist progress – towards a global “post-industrial” “knowledge society” or “service economy” – what remained for the losers, in the absence of a left alternative, was recourse to nationalism and, sometimes, nativism.

“Populism”, right or left, has not yet achieved a governing majority in any country, except perhaps Italy and the United States. But it is now strong enough almost everywhere in the Western world to make forming a government difficult if not impossible for the established democratic parties of the center-right and center-left.<sup>3</sup> Even where this is not

3 This holds even in Germany, hitherto considered a paragon of political stability. Italy is now divided politically between two “populisms”, left and right, with uncertain event. In France both parties of the center, the Socialists and the Conservatives, were wiped out in 2017 by a new kind of “centrist populism”, or Bonapartism. Similarly in the United States where neither Republicans nor Democrats were able to govern the country, together or by winning a decisive majority; Trump is the result of a revolt within the Republican Party, just as Sanders was within the Democratic Party. In Austria, the Conservatives were able to take over the government only by presenting themselves as a party of a populism of the center, led by someone acting like a Bonapartist rebel, and by inviting the right-wing populists to join them in a national coalition. In the Netherlands, the once so important Social Democrats, the *Partij van de Arbeid*, are now reduced to below five percent of the national vote. Etc.

or not yet the case, governments find themselves forced to respond in some way to the demands of the new opposition and its constituents. Uppermost among these demands are limitations on free trade and controls on immigration, to protect the economic position of the resident population from further decline and their social life from disintegration. Among the new political and social cleavages that are immobilizing the politics of capitalist democracy is a growing division between the big, often “global” cities on the one hand and their surrounding countryside on the other. That division is not only about income, although cities have emerged as the new growth poles of post-industrial society, but also about social values and cultural ways of life, as became obvious in particular in the British vote to leave the European Union. Whereas global cities’ lifeworld is “cosmopolitan” and “liberal”, accepting of global competition and migration, people in national hinterlands, some of whom had to move out of the cities because they could no longer afford living there, tend to feel abandoned and betrayed by a state that no longer regards it as its duty to shield its citizens from foreign competition.

The crisis of the modern state system extends not just to the centers of capitalism but also to its periphery. There, major BRICS states, once hailed as core areas of future economic growth, are sinking into corruption and stagnation (Brazil, Russia, South Africa) while the number of “failed states”, from West Africa to South-East Asia, keeps growing. Where hopes for peaceful “development” to North American and West European levels of prosperity have vanished, people abandon their homelands and try to join the advanced capitalist world by migrating there. At the same time, advancing disintegration of social and political order in peripheral societies, often as a result of Western military adventures on behalf of cooperative local elites, gives rise to millenarian movements organized around fundamentalist religious ideologies. Some of these take their frustration from the periphery to the center of the capitalist world, where they engage in terrorist cultural and class warfare, recruiting among second or third generation migrants from their regions of origin. Results are both more military interventions in peripheral areas and pressures in the societies of the center for more “homeland security” including tighter restrictions on immigration.

## 5. International Disorder

Moving on to the global level, the decline of the United States may leave global capitalism without the carrier state and hegemon of last resort capitalism has historically needed for its progress. The United States have for some time now lost their wars, from Vietnam to Afghanistan, coincident with political-economic turbulences at home caused by de-industrialization and financialization. Military defeat and domestic economic and social decay co-produced the election of Donald Trump as President, with his initial promises of protectionism and isolationism. Concerning isolationism, this continues a trend that was effective already under Obama, with his decision not to send ground troops to Libya and Syria, his staying out of the conflict between Israel and the Palestinians, and

his attempted withdrawals Iraq and Afghanistan. Capitalist carrier states must be able to provide capitalism with a stable international order, especially with reliable money and imperial peace on its periphery. There obedient client regimes must be kept in power to assure a reliable supply of cheap raw materials and secure access to new markets. The role of international capitalist hegemon, successively performed by Genova, the Netherlands and Britain, was taken over by the United States in 1945, after disruptive conflict in the 1930s over the organization of the global economy between the two Anglo-American democracies on the one hand and the neo-imperialist powers of Nazi Germany and Japan on the other had resulted in the worst catastrophe in human history.<sup>4</sup>

Today a power vacuum appears to be developing in the international state system that may make China claim a share in its governance. As Chinese authoritarian state capitalism is continuing to grow in size and strength, it needs, like all previous capitalist centers, to secure its periphery. Capitalist growth is impossible without political land-grabbing, typically combined with the provision of a stable international currency and a power-backed international credit regime. This used to cause international conflicts even when there was just one capitalist hegemon. Now it appears that China is determined to establish its own center-periphery relations, which will inevitably interfere with the interests of the declining hegemon, the United States.<sup>5</sup> Perhaps China and the United States will somehow learn to divide the world between them. There is, however, no historical precedent for a peaceful co-directorate of global capitalism, not even between Britain and the U.S. in the interwar period. Indeed given the erratic domestic politics of the United States in the era of its decline, the risk of a violent clash between it and China might seem rather real.

For some time now, the largest nation-states have experimented with ever new formats of international cooperation, among other things by expanding the G6 summit meetings

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4 As to protectionism, Trump's various trade wars have become the defining features of the first years of his administration. Unlike isolationism, which the "deep state" of the huge military and "intelligence" apparatus of the U.S. has up to now managed to contain, there are only weak countervailing forces in the American political economy against policies to correct the country's balance of trade and restore industrial employment in the American heartlands. Anti-isolationism and protectionism may combine where the United States commits itself and its allies to higher expenditures on "defense", with the understanding that the new hardware will have to be "made in America".

5 There is also Russia, as a would-be third hegemonic power afraid of being reduced to a contested periphery for the two others. American "deep state" imperial strategy seems to assign to Europe the task of keeping Russia in check, to set the United States free for a possibly approaching showdown with China. It may be in this context, not just in that of improving the American trade balance, that the Trump administration seems to have reconciled itself with NATO, on the proviso that NATO members raise their defense spending to two percent of their GDP, as promised already under Obama. Note that Russia's military spending, at 3.1 percent of GDP, amounted to (a mere) 45.6 billion dollars in 2017, compared to 41.7 billion dollars, at 1.1 percent of GDP, in Germany alone. If Germany were to spend, as promised, 2 percent of its GDP on defense, its military expenditure would be as high as 75.8 billion dollars. Aggregate defense spending of NATO countries, excluding the United States, is currently at 254.7 billion US dollars; the U.S. spends more than twice that amount.

of the 1970s to the G20 after 2008. Rather than developing into a global government, however, the G20, as became apparent once again in Hamburg 2017, turned into a hundred million dollar public relations spectacle, for the benefit of national leaders and their mass media. No effective decisions can be made by what is as devoid of legitimacy as the self-appointed would-be world opposition that the local police have to keep away from its meetings. Meanwhile, the gap in “global governance” is filled by large financial firms and other global corporations, leaving governments and peoples at the mercy of “the markets,” in particular the financial markets, as ultimate arbiters not just of their policies but also of their societies.

## 7. Centrifugal Forces

The contemporary state system, as inherited from the postwar era, is subject to strong centrifugal forces, not just between but also within states. In one way or other, these are related to the penetration of national polities by international markets, weakening their capacity to protect social cohesion. With states more or less voluntarily leaving the structure of their societies to be determined by market competition, disparities between winners and losers in global markets tend to increase, by class as well as by region.<sup>6</sup> With class interests more difficult to organize than regional interests – given that capitalists are no longer within reach for national societies while national states are – lack of confidence in central government protecting societies from the vagaries of global markets gives rise to demands for more local and regional autonomy. Large political entities having become enforcers of globalization, seeking national prosperity through the integration of national into international markets, the hope is for smaller, more homogeneous and more locally responsive units of governance carving out niches in the world market in which smaller communities can develop their specific potentials and competitive strengths.

Centrifugal pressures tend to meet centripetal resistance in central governments and imperialistic international organizations. At national level, state size, communal homogeneity and the strength of democratic traditions seem to be important factors determining the outcome of conflicts over what may be called political architecture.<sup>7</sup> Large states tend to be more heterogeneous internally than small ones and are therefore more susceptible to demands for decentralization or, if this is not conceded, secession. Since large size carries a rent in terms of international power, governments of large countries are unlikely to take separatist tendencies lightly; remember the American Civil War, which was fought over the unity of the United States as a continental-size state. Current tendencies among very large countries such as China, India and Russia, but also Turkey, toward more authoritarian forms of government may indicate an increasing vulnerability of large states vis-à-vis movements for greater regional and ethnic autonomy, and generally growing

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6 For an excellent account of the discontents of “globalization” as pursued by the neoliberal internationalism in the 1990s and early 2000s, see Rodrik (2018a).

7 On this see, in more detail, Streeck (2019).

difficulties in keeping heterogeneous societies united in the face of market pressures making them more unequal.<sup>8</sup> As far as the United States is concerned, its system of governance is historically far more decentralized than that of the three Asian large countries, allowing considerable space for the expression of specific regional needs and interests.<sup>9</sup> In the U.S., centrifugal pressures caused by rising regional disparities have led, not to authoritarian centralization – at least not yet – but to the national government paralyzed by a stand-off between postdemocratic show-business “populism” and the remnants of an imperial deep state based in the military and the secret service complex.<sup>10</sup>

Medium-sized countries without a capacity for imperial ambitions, especially if they are ethnically heterogeneous and politically democratic while lacking sufficiently deep federalist structures, may be most likely to be affected by centrifugal tendencies.<sup>11</sup> In the postwar period, ethnically diverse medium-sized nation-states controlled centrifugal forces among their citizenries not just by political-administrative devolution but also by institutionalizing conflict *as class conflict* between capital and labor.<sup>12</sup> Negotiated class compromise between employers and trade unions, and between pro-business and pro-labor political parties, cut across ethnic divisions and thereby absorbed much of societies’ conflict potential. Moreover, by managing the insertion of national political economies in international markets, moderating competitive pressures and offering protection against them, postwar nation-states built loyal constituencies that identified with them even if they were less than ethnically homogeneous. As neoliberalism abolished the institutionalization of class conflict and withdrew national economic protection in pursuit of internationalization – or in Europe: of European integration – ethnically based regional divisions were bound to regain prominence. This was especially true where the institutional structure of the state did not allow for more autonomous regional or local responses.

The United Kingdom and Spain, both medium-sized democracies with an ethnically heterogeneous population, are the most visible cases of regional separatism, the former in Scotland, but also in Wales and, perhaps, Northern Ireland, the latter in Catalonia, the Basque Country and a few other regions. But there are also secessionist movements in France (Corsica), Italy (the Po Valley, among others) and Belgium. While in Belgium

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8 Regional separatism may also be promoted by integration of nation-states into global markets, making economic integration at the level of nation-states themselves dispensable as a condition of free market access (Alesina et al. 2005). For a discussion see Streeck (2019).

9 With the federal states, in the best of cases, functioning as “laboratories of democracy.”

10 Trump’s „America first“ may mean two things, one old and the other new. The old meaning would be the imperialistic meaning, as last proclaimed by Obama when he declared the United States “the indispensable nation”. The new one would entail a promise of the national government turning “isolationist”, in the sense of caring more for its own country than for the world at large, and indeed withdrawing from it in favor of doing its hitherto neglected “homework”

11 I use the concept of federalism in the continental-European sense, not the Anglo-American one. While federalism in the UK and the U.S. means a strong “federal” in relation to regional governments, in Germany in particular it means strong subunits with a good deal of autonomy from the government of the central state.

12 On postwar democratic corporatism, see Schmitter (1974) and Schmitter and Lehbruch (1979).

secessionism is kept in check by a highly complex federalist political system, Spain and the UK have notoriously weak ad hoc-federalisms and seem unable to respond to centrifugal pressures by orderly devolution allowing for more local and regional self-government. It is interesting to note that French governments have for some time tried to decentralize the French state, with overall little success. Concerning Germany, which appears ethnically rather homogeneous, its relative stability may be due to an elaborate federalist system of government keeping centrifugal forces, where they exist, busy governing their regions in forced close interaction with the federal government and the governments of the other *Länder*<sup>13</sup>.

Subnational just as national nationalism must be understood as a reaction to the neoliberal revolution. Regional separatism in today's Europe shares with the new nation-state nationalism, also known as "rightwing populism", its opposition to market-opening ("globalization") by way of political centralization: the one fights to prevent, the other to undo it. Both demand decentralization, one from "Europe" to the nation-states and the other from nation-states to subnational regions and communities. National nationalists insist that the protective functions of the nation-state be restored, after the promises of neoliberal prosperity for all have not come true. Subnational nationalists, for their part, have given up on the existing nation-state and demand new, smaller nation-states of their own, for protection to be restored at what is now still the regional level. Note that neither of the two seeks to enlarge political jurisdictions: separatist nationalists want smaller units of sovereignty, national nationalists – unlike nationalists in the past – demand that national borders and national sovereignty be respected and reinstated, rather than abolished to make political entities larger.<sup>14</sup>

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13 The only region in Germany where there might still be something like ethnically colored separatism is Bavaria, with its "Free State" that became a *Land* of the Federal Republic in spite of a majority of its electorate having voted against the West German constitution in 1949. Postwar separatist tendencies were successfully kept in check by the CSU, a regional sister party of the CDU, playing a special role at the national level where it represents Bavarian interests and sentiments with great vigor and success. This has enabled it to become something like a state party of Bavaria, where it has since the 1950s governed with an absolute majority, with only two very short interruptions.

14 The new nation-state nationalism is defensive rather than aggressive: it defends the political sovereignty of extent states against transfer to larger, new states, often to protect national cultures against globalist dilution. Interwar nationalism, by comparison, was expansive, searching for new *Lebensraum* (living space) to be cleared of what was regarded as inferior cultures and races. Characterizations of the "populist" Right as "fascist" overlook the fact that none of the parties and movements in question come with paramilitary organizations or with a national *Führerprinzip* ideology. To the extent that they agitate against parliamentary democracy, they sound less radical than leading liberal proponents of technocratic postdemocracy, who declare democracy to be unfit to ensure national competitiveness in global markets or to uphold universalistic moral principles. It is true that populist nationalists sometimes speak the language of prewar fascist and semi-fascist movements, in the hope thereby to increase their support among sections of the electorate. Disgusting as this may be, however, one may regard it as a reaction to the elimination of pro-national topics from public discourse by a center-left that has in the era of neoliberalism turned "cosmopolitan".

Promises of a restoration of the democratic class compromise at supranational or international, let alone global level appear illusory. A supranational labor movement would have no organized counterpart on the side of capital, and there is no global state able and ready to make global capital organize for negotiated co-government of the economy (as was common at national level in the neo-corporatist era; Streeck and Schmitter 1991). As a consequence an overriding concern among Western democracies today is with the right size and cut of “sovereign”, in the sense of autonomous, political units seeking a place for themselves in the global political economy and its state architecture. The idea here is to draw on and develop localized productive solidarity in search for a world market niche in which local competitive advantage can gainfully be deployed. The quest for a repossession of local autonomy within national or subnational boundaries under multilaterally contracted international regimes departs from existing political units and their historical experiences, social identities and economic relations. Models are small European democracies that are not member states of the European Union or of European Monetary Union (EMU), like Switzerland (which is itself highly decentralized politically), Norway, Sweden, and Denmark, all of which are economically very successful. There is also the case of Britain leaving the EU in a search for greater economic independence, where Brexit may (have to) be accompanied by accelerated regional devolution, in response to pressure from, in particular, Scotland.

Regional autonomy within a multinational nation-state can take many and quite different forms. Regionalist movements are of different kinds and require different answers. Sometimes, as in the case of Czechoslovakia in 1992, countries may peacefully divorce, but this is the exception; the simultaneous dissolution of Yugoslavia involved several civil wars and attracted external military intervention. To avoid separation with its high potential costs – imagine only the difficulties of telling apart Spaniards and Catalans after a Catalan secession, or Brits and Scots if Scotland seceded from the UK – ingenious customized solutions may be needed.<sup>15</sup> Be this as it may, even before nationalist “populism”, there has been no case in postwar history of the citizenry of two or more nation-states voluntarily turning over their sovereignty to a supranational superstate.<sup>16</sup> In fact, the number of independent states under international law has grown since the end of WWII from about 90 in 1950 (of which 60 were in the United Nations) to 202, among them 192 UN members, in 2010. Major forces behind this were de-colonization and the break-up of the Soviet Union and Yugoslavia. Most of today’s states are small; in 2010 median population size was around 7.1 million. Although this makes them vulnerable to imperialistic encroachment, sovereign statehood as a form of political organization has a lot of support, presumably

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15 Unless secession or separation can be avoided by deep federalism. A successful example would be Canada in the 1970s and 1980s.

16 Thus Italy, Spain and Portugal failed to merge into Latino-Mediterrania, just as Norway, Sweden, Denmark and Finland abstained from forming Greater Scandinavia, and Estonia, Lithuania and Latvia never considered dissolving into East Baltistan. German unification is not an exception as in this case the result was, not the creation of a supranational state, but the restoration of a nation-state.

also because national sovereignty is today better than ever protected in international law (although not necessarily in international practice; see the frequent American or “Western” military interventions in countries like Libya, Mali or Afghanistan). Also, while many existing states are far from democratic, and some are in the hands of warlords and robber barons who mercilessly exploit their citizens, states remain the only political organizations that can in principle be democratized, in the final instance by armed revolution.<sup>17</sup> Clearly the historical trend, even and precisely in an era of economic globalization, is toward more rather than less nation-statism, and towards smaller rather than larger units of governance.<sup>18</sup>

## 7. A Europe of Nation-States

For the future of the European Union this would imply that centrifugal forces are likely to dominate over centripetal ones, at both nation-state and supranational level, making a continued pursuit of integrated centralization destructive of integration. No EU member country will voluntarily transfer its national state sovereignty to Brussels; in fact many if not all have joined the EU precisely to lock in their national statehood.<sup>19</sup> Were the “ever closer union of the European peoples” (as in the Treaty of Maastricht) to become too close, exit is the likely result, the first case being Britain.<sup>20</sup> Short of exit faked compliance will crowd out *bona fide* cooperation (Hungary, other East European countries). Forced unification – in the form of centrally mandated economic and cultural “reform” – will result in national state sovereignty being employed for national resistance, undermining whatever Europe unity may over the years have been achieved on a voluntary basis.

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17 There are several attempts to determine the number of democracies in the world. Most of them come up with about twenty “complete” and between 80 and 90 more or less “flawed” democracies, among the roughly 200 existing states.

18 An interesting case in point is Taiwan. For a long time the Taiwanese government, led by the Kuomintang party, agreed with the Communist government of mainland China, if on nothing else, that there is just one China, the question being only what its legitimate government was. After mainland China had become capitalist, the Kuomintang became willing to take the shared One China doctrine seriously and use it as a political launching pad for national re-unification. Meanwhile, however, it lost its majority to a party strictly opposed to a Taiwanese return to the mainland. To an important extent, this was caused by events in Hong Kong and places like the Xinjiang Uyghur Autonomous Region, where the Chinese central state used increasingly authoritarian means to rein in local demands for autonomy in defense of its unity.

19 This applies to Ireland in its relationship to the UK, to Denmark vis-a-vis Germany, to the three Baltic states that used to be part of the Soviet Union, to Poland, certainly to Luxemburg, and also to West Germany in the 1950s. For the general point see Alan Milward, *The European Rescue of the Nation State* (1992).

20 The Brexit story is a complicated one. It begins with the Conservative Thatcher government in the 1980s obstructing, in the name of national sovereignty, all attempts to enable the EU to interfere with the neoliberal political-economic trend of the time. Its preliminary end was the rediscovery of national sovereignty as a means of political-economic defense in an era of globalization by those who might have benefitted from the very “Social Europe” that their government had blocked, voting together with those who believe that the real neoliberal paradise is still to be found outside of the EU.

In any case, dreams of integrated European statehood-cum-democracy forget that large state size comes with high internal heterogeneity and must therefore in a democracy be paid for, in order to be sustainable, with decentralization – the larger a state, the more so. This should hold in particular in Europe where there are older traditions of national statehood that would have to be bargained away in the course of supranational state-building. In a U.S. of E. (United States of Europe, a term sometimes used by fervent “Europeans” like the defeated SPD candidate for Chancellor in 2017), democratic-majoritarian government would therefore inevitably be located deep down in a federal hierarchy of sites of government – at the level of the former nation-states now turned into federal states, or even further down – while democracy at the central level will, and can only, take a consociationalist, non-majoritarian, not-very-redistributive form. Imposing hegemonic values from above on diverse citizen communities will have no constitutional legitimacy in such conditions, nor will it command sufficient power at least as long as democracy cannot be replaced with technocratic manipulation or military coercion.

A democratic European Union – one that is not an, inevitably unstable, outgrowth of imperial ambitions of individual member states like France and Germany, or both together – cannot be a European superstate. Anti-technocratic and anti-centralist sentiment is strong in Europe, even in countries like Germany and France, not to mention the United Kingdom or Eastern Europe. What “the European project” might be, and then it will perhaps survive, is a platform for voluntary international cooperation, among countries desiring to do things together or to maintain a common physical and institutional infrastructure, based on respect for the external sovereignty of participating countries as an essential precondition of their internal democracy. An international order of this sort, allowing as it would for high nation-state autonomy, would in the reality of everyday policy-making not differ much from the decentralized federal regime that a United States of Europe would have to be if it were to be politically and democratically viable – which should in itself be reason enough not to embark on the costly uncertainties of a collective effort at integrated European state-building.

National autonomy in a cooperative international order would have to allow democratic nation-states to defend their societies and their politics against “unfair”, meaning socially disruptive economic competition, with tools of their own rather than depending on the benevolence of lead nations or supranational bureaucracies. One such tool is devaluation of national currencies, which is a way of politically correcting market-driven international disparities (Streeck 2015). Such disparities are presently undermining the European Monetary Union (EMU), a group of EU member states that have given up an independent monetary policy in favor of a common currency while defending their sovereignty with respect to their fiscal and economic policies. Since economically superior countries are unwilling to accept international redistribution in favor of weaker members, demanding instead domestic institutional “reforms” among the latter that are, however, opposed by local populations, EMU has been and continues to be on the brink of disintegration, first in the course of the Greek debt crisis and now due to ongoing economic decline in Italy, on a scale likely to defy any international or supranational “rescue operation.”

A restored capacity for national political self-help by way of monetary adjustment could be regulated under a cooperative international regime, of the kind of the Keynesian Bretton Woods economic order. The same applies to national protection in international trade. It is increasingly recognized as a myth, spread by interested parties, that “free movement of goods, services, capital, and labor” (the European Union term for its “Internal Market”) ultimately benefits all members of all societies involved. This holds not just between the capitalist center and its various peripheries but also within Europe, especially when it comes to the mobility of capital and labor. It is now widely considered a gross simplification that global liberalization of trade benefits so-called “developing countries” if, for example, it prevents them from sustaining local financial institutions, protecting subsistence agriculture, or cultivating employment in small and medium-sized firms. Increasingly, leading economists are putting forward concepts like “globalization à la carte” and “responsible nationalism” (Rodrik 1997; Summers 2016; Rodrik 2018b) as guideposts for a future international trade regime in which national protection has a legitimate role. Similarly, immigration, from both outside and inside Europe, increasingly meets with resistance from resident populations fearing for their wages, their jobs, their social insurance benefits, their share in the national infrastructure (schools, housing and the like) and their cultural way of life. The Brexit vote was to a large extent driven by such concerns, and so is the growing opposition in Europe against international technocratic agencies like the EU dedicated to “internationalizing” European economies and societies, by telling European natives how they have to live to fit in the modern world.

## **8. By Way of Conclusion**

“Taking back control” was the slogan of the Leavers in the Brexit campaign. Today it may be seen as the motto of a powerful sentiment throughout Western democracies, from Trump’s “America first” throwing off the constraints of an – American-made – multilateral world order to the new nationalism and subnationalism in Europe, the latter extending from demands for federalist decentralization to secessionist, separatist, sovereigntist claims for national independence. The new enemies are centrist national governments, right and left, devoted to “globalizing” their societies and economies, together with international technocracies like the EU dictating to national governments, and international organizations like the WTO, the IMF, and the World Bank. There are no, or only very few, pressures in the opposite direction, certainly not bottom-up. As both international organizations and centrist national governments are perceived to be unable or unwilling to contain, let alone correct, growing international or inter-regional disparities, protection from capricious international markets overwhelming social solidarity is increasingly sought at lower levels of political organization, in thhoping to find their politics more democratically responsive to communal concerns over economic security, sustainable prosperity, and cultural integrity and continuity.

If a more decentralized state architecture will “work” better than the present or a more centralized one is a hypothetical question that seems impossible to answer. Generally confidence in centralized politics seems to be at an all-time low, especially as far as electorates are concerned that have become, for good reasons, increasingly “populist”. Experimentation with smaller, more autonomous units of (self-) government would require creative industrial policies combined with “responsible protectionism,” allowing for self-determined insertion of smaller regional-national economies into the world economy at large. Mutual protection from beggar-thy-neighbor policies, for example in environmental and tax politics, would be essential (remember, however, that tax competition and tax evasion are rampant already under the present regime, even within the European Union). There is some thinking now about a renewed international multilateralism leaving more space for decentralized autonomy and creativity, including new international mechanisms of conflict resolution, in economic and other matters. Still, there are no reasons to be overly optimistic here.

Looking at Europe in particular, the decades-old drift toward a European superstate has been halted, with the remaining integrationists, most of them located in Brussels, reduced to picking up the pieces. The future of organized “Europe” is uncertain, and will not become less so after the British exit. Multiple “integration” projects have failed. In relation to Eastern Europe, the authoritarian imposition of liberal “values” has produced what is now called “illiberal democracies” – the more so the greater the pressure applied. In relation to the Mediterranean, monetary union has revealed vast differences in economic institutions and political-economic traditions that make Southern political economies, very likely including France, incompatible with a German-style hard-currency regime. The result is huge gaps in “competitiveness” that seem incurable given growing popular – “populist” – resistance, in the South against neoliberal “reform” and in the North against international redistribution or an expansion of aid for regional development.

What remains of the EU? Ultimately Monetary Union is unlikely to be sustainable and some other, less centralized monetary regime will have to be put in place, after long haggling and international hostility if at all. Also, there will have to be more tolerance with respect to the domestic politics of member states, including their policies on immigration. This may result in the geo-strategic functions of the EU becoming more prominent, in relation to the Balkans (where Germany, prodded by the U.S., acts as sponsor of “Western”-oriented governments expected to resist Russian sticks and carrots) and Africa, in particular West Africa (where especially France has long-standing political and economic interests). Here a European periphery may be about to be constructed, in competition with Russia, China (the New Silk Route ending in the Eastern Mediterranean!) and the United States. This would probably require considerable investment in military capabilities and capitalist-economic development, to keep pro-European elites in power and thereby secure access for center nations to markets for raw materials and finished goods. Again, it is far from clear whether this can work; see, for example, the German refusal in 2011 to join France, the UK and the United States in bombing Syria for its alleged use of weapons of mass

destruction. Can the still rather pacifist German public be convinced to support the still rather militant French state in its *Francafrique* adventures? How seriously will “Europe” (have to) take Eastern European fears of Russia? Will “Europe” tolerate German purchases of Russian natural gas? Will Turkey take sides with Russia or the U.S. or “Europe”? What role will the UK play once it will be outside the EU? Having failed as a social project to create a capitalism with a human face – the “European social model” of yesteryear – and also as a cultural education program to inculcate “liberal values,” “Europe” may try its luck as an imperial center-periphery regime under a French-German co-directorate. Whether this version of the “European idea” will be less prone to miscarry than its predecessors is, once again, uncertain.

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