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FROM DEVELOPMENT TO CRISIS: ORIGINS AND OUTCOMES OF THE NEOLIBERAL TRANSFORMATION

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Introduction.

The urgent question of a way out of the crisis presupposes a tentative understanding of its characteristics. To this purpose, the analysis of the economic and political traits of the historical period commonly called ‘neoliberalism’ – from the crisis of the 1970s determining its genesis to the present crisis – can be helpful. Only on this ground, in fact, can we look for a reply to a series of questions: are the causes of the crisis still in force? To what extent is it possible to remove them? Which reforms would be desirable, and what are the scope and depth of the institutional change they imply?

Neoliberal globalization has not allowed the so-called Western countries to resume their postwar pace of growth. The slowdown has continued in the last three decades – more or less creeping or dramatic, more or less postponed by various ‘bubbles’, making then heavier the crash. The globalization of the labor market has gone hand in hand with its fragmentation. Corporations have looked for cheap labor and convenient or, better, inexistent labor legislation all around the world. Lower levels of wages and harder conditions of work have been imposed in ‘central’ countries too, in the name of the need to face competition. This sort of corporate strategy is obviously embittered by the current crisis, together with competition; however, by depressing workers’ purchasing power, it makes the crisis continue. The result is a vicious circle producing ‘social costs’ (see Kapp 1963), shifted from big industrial and financial corporations onto many small enterprises, the greater part of citizens, public administrations, weaker countries, and future generations. Yet, not merely the crisis, which is also a result of neoliberal policy, but that policy itself have had devastating consequences on human beings, society, and natural environment.

At this point, it seems necessary to call more in general into question the ability of human beings to take care of their own destiny through a purposeful control of social institutions, and, in particular, of the economic system. This is firstly a theoretical problem, going beyond the closed playground of conventional economics. How can we evaluate the effects of the economic system on its human, social and ecological environment? How would it be possible to overcome the inefficiency of the system, resulting from such reckoning? The problem turns out to be also, or principally, a political problem.

On the one hand, in order to understand the present situation and organize a better future, the adoption of a holistic, open-system, and normative approach is indispensable. This approach has marked the ‘institutional’ tendency of economic theory, or at least its more radical rep-

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representatives. On the other hand, if the solution of problems cannot but be political, the quality, indeed the very effectiveness of solutions depend on the degree to which political life is democratic. Well then, a basic characteristic of the neoliberal transformation is the attack to democracy. The so-called 'privatization of politics' consists in the fact that big corporations and technocratic international organizations enjoy of an unprecedented and unaccountable concentration of power and are able to directly condition governmental policies. The consequence is that not only the informed and responsible participation of the majority of citizens in choices concerning their life and their future is undermined, but also the institutions of formal democracy – parliaments in the first place, and the complex system of 'countervailing powers' – are bypassed, or thwarted and even destroyed. We should be particularly worried about the state of democracy, because democracy is an essential condition for both individual freedom and, as Karl Polanyi says (1977: xliii), our ability "to enlarge our freedom of creative adjustment, and thereby improve our chances of survival."

1 . Globalization, commodification, financialization

Compared to the postwar epoch of development, neoliberal globalization, on the one hand, continues the tendency to spread the practice and ideology of 'free market' all over the world. On the other hand, neoliberalism is characterized by the erosion of the defenses by which both developed and developing countries might still oppose the market mechanism. The ensuing irresponsible use of human and natural resources is highlighted, for example, in a report by various authors, entitled *Alternatives to Economic Globalization*. The book begins by examining such "key ingredients of the globalization model" as: "hypergrowth and unrestricted exploitation of environmental resources"; "privatization and commodification of public services" and "global and community commons"; "cultural and economic homogenization" and "consumerism"; conversion of national economies "to environmentally and socially harmful export-oriented production"; "corporate deregulation and unrestricted movement of capital across borders" and "corporate concentration"; "dismantling of public health, social, and environmental programs"; the shift of decision-making power from "democratic nation-states and local communities" to "global corporate bureaucracies" (International Forum on Globalization 2002: 19).

In the 1970s the crisis of the development era had to be acknowledged, together with the inherent contradictions of organized capitalism that postwar reconstruction and prosperity had masked. Inflation, and public and private borrowing began to grow, as a consequence of such intertwined factors as the slowing down of productive investment, the over-accumulation of capital, and the unequal distribution of the wealth annually produced. Remedies adopted have been, as usual, a lowering of costs and new opportunities of investment. These remedies have been the primary aims of globalization; however, the former reproduces depressive tendencies, the second creates new problems. Lowering labor costs and social expenditure, instead of augmenting taxation on higher incomes, cannot be a solution to over-accumulation, because the result is a restrained aggregate demand. To this "first" contradiction of capitalism, consisting in the tendency to capital over-accumulation, a "second contradiction" is added (see O'Connor 1991), as a consequence of business enterprises shifting costs onto the human and natural environment (Kapp's "social costs"). Economic growth has been possible, according to James O'Connor, only by depleting and damaging the environment of the economic system, without taking these costs into account. This process gradually leads to a rise in costs for the economic system itself, and thereby to the need to increasingly shift costs onto the environment, risking a runaway process. The tendency toward a counter-adaptive relationship with the environment accelerated during the postwar epoch of development and has become ever more apparent in the globalization era.

As to the new fields of investment, they are of two sorts. Some only allow a temporary and illusionary increase of occupation and income, as is the case of financial and real estate speculation. Others actually widen the scope of capitalist investment; new regions have been included in the process of accumulation and in the world market, as well as new aspects of individual and social life, such as leisure and knowledge activities. Intensified competition concerning the appropriation of natural resources, and the increasing ‘land grabbing’ by private enterprises and sovereign funds – a true agrarian counter-reform – have changed the frugality of millions of people into poverty, provoked irreversible damages in the natural environment, and augmented, together with warmongering, military expenditure. A new food crisis is presently compromising the living conditions, and even the very survival, of the poorest on the global stage, after the food crisis of 2007-2008. These crises have once again shown that the scarcity of food depends primarily on the social and political setup, and, in particular, on the dynamics of capitalist development. Huge masses of people have been made dependent on the world market through the expropriation of their resources and competitive prices of foodstuffs produced industrially – and often subsidized by governments, as is the case of both the United States and the European Union. Subsequently, the increasing of investment in agriculture, in particular in view of producing biofuel, caused prices to grow, also in consequence of speculation, to the point that people could no longer afford to buy their food (see McMichael 2009 and also Drèze and Sen 1989).

Polanyi (2001 [1944]) maintains that only in the “market society” or “capitalism” labor, land, and money generally and typically acquire the nature of commodities. In the course of this society’s development, such unprecedented – and, in Polanyi’s view, unnatural – cultural innovation has been bounded by a “countermovement”. Neoliberal globalization tends to suppress political, socio-cultural, and geographical limits to the functioning of the market system. Indeed, the reforms starting in the 1970s give rise to a new ‘mode of regulation’ of capitalism, or, as Polanyi would say, to a new “institutional arrangement” of the market system. In the neoliberal era, labor, land, and money tend to be mere commodities, instrumentally employed in view of monetary gain, which constitutes – as Polanyi, and Max Weber before him, affirm – the basic motive of the economic activity in that system.

Acquiring hegemony, neoliberalism asked for a ‘de-regulation’ of economic activity, beginning with labor and financial markets. The opening up of new fields for investment was pursued: not only financial speculation, but also scientific research, leisure activities and commodities, real estate, public utilities, health care and social services. This kind of investment generally implies rent, monopoly positions, devaluation of labor power, inequality, and a further commodification of individual life and social relationships. The ‘privatization’ wave has not only jeopardized the ‘European social model’; it has also opened new and not necessarily legal opportunities for collusion between a political patronage system and private economic interests. David Harvey points out that the main achievement of neoliberalism has been “to redistribute, rather than to generate, wealth and income”; an “accumulation by dispossession” has been generated through various means which required state support, such as “the use of the credit system”, the commodification of land and labor power, the privatization of commons (natural resources and knowledge) (Harvey 2005, p. 159). In the 1980s Structural Adjustment Programs were imposed on ‘developing’ countries. Restrictive monetary and budget policies were also recommended to ‘central’ countries, the purpose remaining that of reassuring international creditors and financial investors. Profits (and losses) of the latter were to be paid for by drawing resources from wage workers and social expenditure, even at the risk of a deflationary runaway.

Moreover, knowledge has been added to labor, land, and money as a fourth “fictitious commodity”. The legislation on patents and intellectual property has been extended to new domains, from software to living entities. This tendency started in the United States in 1980. Patents have become easier to obtain, and can concern not only inventions, but also results, methods and fields of basic research. The privatization and commodification of commons has now reached knowledge itself. Not only inventions, that is new technological devices, can be privately appropriated and given a monetary value as commodities, but the absolute novelty is that the same thing also applies to discoveries, that is to the enlargement of the human knowledge of nature. This constitutes a new step in the process of privatization and commodification of commons beginning with land, at the dawn of capitalist development. Thus, whether knowledge consists of new scientific discoveries or old traditions, the power of big corporations increases, and the gap between developed and developing countries widens.

The governance of the world system mainly rests on the Washington Consensus, which is generally understood as the set of “development strategies that have come to be associated with the Washington-based institutions: the IMF, the World Bank, and the US Treasury” (Serra, Spiegel, and Stiglitz 2008: 3). That “consensus” began with an attack on state intervention in the economy, and in particular the state’s role in initiating and addressing industrialization; later, the focus shifted to privatization, price stability, and further liberalization, of capital markets in the first place. Thus “market fundamentalism” has spread – that is, “the view that markets solve most, if not all, economic problems by themselves” (ibid.). “There Is No Alternative”, Margaret Thatcher used to say. This political and cultural trend gradually received such a wide support from opinion makers, social scientists, and would-be progressive political groups, that it has been called “pensée unique” by Ignacio Ramonet (1995).

Neoliberal globalization did not establish general growth and equity; nor did it assure democracy and environmental sustainability. The efficiency of markets has been questioned, both in general and in view of the strong asymmetries characterizing actual markets. In fact, under the free trade system some people and countries are systematically less free than others. Not only does free trade favor “central” countries that enjoy more advanced industry, as it has done throughout the history of capitalist development; not only is this advantage more a systematic difference undermining competition than a competitive advantage as defined by classical economics; but it is strengthened by the leading role that big corporations – and the governments with which they have a relationship of mutual support – have in international agreements and institutions. Just to cite a couple of examples concerning the role of the WTO (World Trade Organization): 1) the Agreement on Trade-Related Intellectual Property Rights (TRIPs), negotiated in 1994, gives high-tech transnationals the right to monopolize innovation in such important fields as information and communication technology, and biotechnology. 2) All countries are in principle obliged to cut customs duties and quantitative limits on import goods, but the USA and the European Union are allowed to subsidize their farmers, which on the world market amounts to a dumping policy.

Problems regarding international economic institutions have indeed been widely raised. Joseph Stiglitz points out, for instance, “the ‘democratic deficit,’ and the lack of political legitimacy” affecting such institutions; furthermore, criticisms concern their incapacity to adapt prescriptions to particular situations, as well as their “close links with financial markets” and therefore with financial interests (Stiglitz 2008: 52). There is a loss of confidence in liberalization as a universal remedy, while the role of state institutions has been reassessed – Stiglitz observes. The tendency he names the “post-Washington Consensus” calls not only for a radical revision of “structural adjustment” policies, but also for “reforms in global governance” inspired by

two basic requirements: 1) not just the increase in GDP (Gross Domestic Product), but also “environmental and social sustainability” and a fairer distribution should be the goal of development policies; 2) “countries should be given room to experiment, to use their own judgment, and explore what might work best for them” (ibid.: 54).

But, as Walden Bello (2007) asks, are these requirements consistent with the maintenance of globalization, understood as the “unsuccessful effort to overcome the crises of overaccumulation, overproduction, and stagnation that have overtaken the central capitalist economies since the mid-1970s”? Moreover, he continues, people would in fact “prefer to be part of economies that are susceptible to local control and are buffered from the vagaries of the international economy”.

These requirements may, in fact, point the way to a far-reaching criticism of the very substance of capitalist development, and may entail deeper reforms than those envisaged by Stiglitz (and others). Thus more general problems may be raised at the anthropological level, at which the very nature of modern civilization is questioned: “Another World Is Possible” (see Fisher and Ponniah eds. 2003, George 2004).

As the crisis of global economic governance is a systemic one, Bello maintains (2002: 107-8), “deglobalization” represents the way forward. The WTO, which is the instrument of neoliberal corporate-driven globalization, should be dismantled. The Bretton Woods institutions should be converted into research agencies along the lines of the Organization for Economic Co-operation and Development (OECD), with the task of “monitoring global capital and exchange rate movements” (ibid.: 108). Not only should production be prevalently oriented to local markets and not to exports, but the “re-empowerment of the local and national” would be possible within an alternative, pluralistic system of global governance – one that would be able “to tolerate and profit from diversity” (ibid.: 114, 115).

Bello is clearly more radical than Stiglitz in criticizing the international institutions regulating neoliberal globalization; however, they both consider regional autonomy and diversity as a basic requirement of an alternative type of development. Bello (2002: 117) adds that “the agenda of people-oriented sustainable development can succeed only if it is evolved democratically”. This presupposes a “re-empowerment of the local and national”, which would only be possible within an alternative, pluralistic system of global governance – one that would be able “to tolerate and profit from diversity” (ibid.: 114 and 115). But these requirements are not consistent with the maintenance of neoliberal globalization, understood as the “unsuccessful effort to overcome the crises of overaccumulation, overproduction, and stagnation that have overtaken the central capitalist economies since the mid-1970s” (Bello 2007).

In fact, we can say with Michel Chossudovski, and with an obvious reference to the fundamental contradiction of capitalist accumulation pointed out by Marx, that the global economic system is characterised by two contradictory forces: the consolidation of a global cheap-labour economy on the one hand and the search for new consumer markets on the other. The former undermines the latter (Chossudovski 1997, p. 17).

Not only the analysis of the present crisis cannot be limited to its financial aspect, but ‘financialization’ itself can only be explained with reference to the deep and contradictory dynamics of capitalism. Some consider the size and forms assumed by finance as opposed, and detrimental, to ‘the real economy’. In fact, with ‘financialization’ we make reference to some important institutional developments, on which the crucial role played by financial markets depends. In particular, the primacy acquired by the so-called shareholder value has important consequences on firms, to which a high level of ROE (Return on Equity) is imposed by the power of financial organizations. Managers are therefore compelled to limit investment to the

most profitable opportunities and to reduce the cost of labor. As a consequence, growth remains low, unemployment does not diminish, and inequality rises.

It is true, then, that the new forms and relevance of financial activity are typical of the neo-liberal era: however, they have also to be understood as functional to capitalist accumulation in a situation of systematic tendency to stagnation. John Bellamy Foster (2007) recalls that Harry Magdoff and Paul Sweezy raised in these terms the issue of a non-contingent shift toward finance in their 1987 book *Stagnation and Financial Explosion*, but had already detected this tendency in the second half of the 1960s. Foster points out that the neoliberal ideology imposed itself together with “monopoly-finance capital”, and is instrumental in justifying heightened exploitation and inequality, which provide money for financial speculation, and eventually to bail out financial corporations risking failure.

Public intervention of that sort is presently commonly called ‘socialism for the rich’ or ‘corporate welfare’. We can find a comment on a similar policy – though at a much smaller scale – in an article by Marx (1857), who, in the middle of the liberal era, ironically points out that “this kind of communism” does appeal to capitalists.

To look at the deepest dynamics of the market-capitalist system – beyond the enormous increase and important innovations of financial activities of the last decades – can be rewarding, if crucial questions have to be raised and answered. Why, to begin with, an effective reform of the financial system, one comparable to that carried out by Roosevelt in 1933, seems presently so difficult, indeed impossible? The same can be said as to the risk of an environmental catastrophe: many years passed between the 1972 United Nations Conference on the Human Environment (Stockholm Conference), when the environmental problem emerged as a global issue, and the United Nations Climate Change Conference held in Copenhagen (Dec. 7-18, 2009): but wise analyses and recommendations continue to fail to be implemented. Why did the astonishing increase of productivity not make happiness (as utilitarian philosophers used to say) or well-being (as we say) easier to pursue? Moreover, our ‘globalized’ world is not peaceful, and we must acknowledge the decay of democracy.

Vandana Shiva (1997: 105) recalls that Rabindranath Tagore “saw democracy in society as derived from the principles of diversity in nature”. Global development, led by transnational corporations – she observes – “can only be realized by ripping apart society’s plural fabric along with its capacity to self-organize” (ibid.: 103). In her 1993 book *Monocultures of Mind*, Shiva analyzes the connection between the disappearance of varieties of plants, animals and productive techniques, and the disappearance of socio-cultural alternatives. Peoples lose the control of both their resources and knowledge – that is to say, of their conditions of existence. Undermining self-government, neoliberalism curtails liberty.

Most proponents of an alternative path insist on regional autonomy, to be pursued through democratic political institutions. According to the ecological economist Juan Martinez-Alier, for instance, the only way to build a human economy – an economy for human beings which would also be capable of adapting well in the natural environment – is a regional economy organized in the most democratic way possible. Thus the organization of the economy could again be controlled by society, not by embedding it within a traditional culture, but by modern, democratic politics, taking the power to choose away from both transnational corporations and corrupted local élites (see Martinez-Alier 1997; Guha and Martinez-Alier 1998).

The project of a “universal capitalism” supported by a free-market ideology, which was going to be implemented under the leadership of the United States, was already criticized by Polanyi during the Second World War. In an article of the beginning of 1945, he opposes to that project the possibility of multiplying regional experiments in social organization and economic

development. He hopes it would be possible to develop such experiments autonomously, without being conditioned by the Soviet model, and “without having tacitly to accept the universalist market criteria” (Polanyi’s unpublished note, cited by Polanyi-Levitt 1990: 261).

Such alternative, democratic, and regionally-based development would have also been a condition for peace. In Polanyi’s opinion, the dominant position of global business tends instead to induce people to assert their ethnic and/or religious identity through a struggle against other people; they do so under the illusion of being able in this perverse way to recover their autonomy and their ability to control the conditions of their lives.

Today, in fact, liberal universalism spreads together with a series of regional conflicts and wars, which are often related to neocolonial policies of old and new powers. Fifty-two years after Polanyi’s article, Shiva writes (1997: 103) that “globalization can only be realized by ripping apart society’s plural fabric along with its capacity to self-organize.” As a consequence, diversity becomes fragmentation, and “the justification for violence and war”. In fact, she observes on the same page,

As conditions of everyday life become increasingly controlled by outside forces and systems of local governance decay, people cling to their diverse identities as a source of security in a period of insecurity. Tragically, when the source of their insecurity is so remote that it cannot be identified, diverse peoples who have lived peacefully together start to look at each other with fear.

Let us now recall the first of Stiglitz’s above cited “requirements”, according to which the goal of development policies should not just be an increase in GDP, but also “environmental and social sustainability”. Both Bello and Shiva interpret that requirement in a radical way. They emphasize, for example, the connection of “food security” with “sustainable agriculture”, and also with democratic control of resources. In addition, they make reference to a series of movements and struggles that constitute growing opposition to the current global system. Serge Latouche (see e.g. 2004; 2006) grounds his rejection of an economy whose only goal is growth for growth’s sake, and his proposal of a system based upon a different kind of logic, a “degrowth society”, in an analysis of the results of market-centered growth and the condition of people he calls the “*nafragés du développement*”.

Polanyi deeply criticizes the society and “mentality” of the market, and the fallacious generalization of the features of this peculiar socio-cultural arrangement to the economy in general. Moreover, he points out the link between “social efficiency” and the degree of “living democracy” at all levels of social organizations (Polanyi 1925). Most proposals for an alternative social organization make reference to his ideas, and in particular to the need to reverse the autonomy of the economy, so that the economy can serve as a means for societal ends, thus ceasing to set self-referentially its ends. In Polanyi’s view, the allocation of resources is biased by the domination of “formal economic rationality” over the rationality regarding social choices (“material” rationality, in Weber’s terms). That is to say, ends and means of production tend to be determined, or at least constrained, by the need to make profit in a “market situation”. Productive choices of capitalist firms, primarily taking into account the need to maximize profits, do not generally coincide with choices maximizing social utility – with “serviceability for society at large”, as Thorstein Veblen (1901) says. Polanyi belongs, in fact, to the institutional/heterodox tendency in economics stretching from Veblen to K. W. Kapp (see e.g. 1963 and 1985). They all take for granted that the market (capitalist) system is not efficient, as is evident when growth of monetary revenue ceases to be taken as the true measure of development.

In the next section Polanyi’s thesis of the direct and tight relationship between democracy and efficiency will be tentatively demonstrated a contrario: in the course of the neoliberal trans-

formation not only the risk of crisis persists, but both efficiency (in the sense of social utility) and democracy are growingly jeopardized.

2 . Economic crises and the crisis of democracy

Paul Krugman (2010) interprets the current deep crisis as “the early stages” of a third depression, after the Long Depression and the Great Depression, beginning respectively in 1873 and 1929. However, it is also possible to say that the slowdown that has been going on, through some cyclical oscillations, since the 1970s has dramatically come to a head.

Complex analyses of the crisis of the postwar development in the 1970s – such as that by James O’Connor’s (1973) – raised the issue of a necessary transformation, involving both economic and political institutions. But the change could have followed two opposite paths: either toward democracy or away from it. In reality, such alternative constitutes a crucial aspect of the history of the Twentieth century, continuing, for the moment, in the Twenty-First. This thesis, which implies that the relationship between the economic and political spheres is a central issue, can be found for instance in the history of “the short Twentieth century” by Eric Hobsbawm (1994), as well as in Polanyi’s reflection. The major and definitive crisis of liberal capitalism, culminating in WWI, makes some change inevitable: a “great transformation”: but, which way? In any case, Polanyi pointed out (1935, p. 367), as the solution of a radical and therefore socialist democracy could not be realized, capitalism continued its existence under a new institutional arrangement: “in its non-Liberal, i.e. corporative forms”. The extent to which some aspects and formal rules of democracy will survive depends on economic and political conjunctures, with important geographical differences.

The Great Crisis, in Polanyi’s opinion, involved the whole fabric of society; in particular, it made class conflict deeper, while cutting out economic means for a class compromise. The very need for incisive reforms led the ruling class to a stronger control of power in order to monopolize decisions about which reforms were to be implemented, and to what extent. Moreover, Polanyi contends that the diffusion of fascist regimes in many countries – and the weakening of democratic institutions in many others – revealed “the mutual incompatibility of Democracy and Capitalism” (ibid., p. 391) at that stage of their history. “The Fascist Virus” – we read in two of Polanyi’s manuscripts by the same title – is endemic in modern society, and reawakens in critical situations. Some years later, Kapp expresses himself similarly (1950, p. 40): the market economy has been accompanied by the growth of freedom (whenever it gave rise to higher standards of living) and by a return to totalitarian controls (when it produced a state of affairs which large masses of people considered intolerable).

The criminalization of dissent and the underrating of civil rights are a part of this general tendency, which has spread in recent years, and has been often supported by instrumental justifications, such as the “War on Terror”.

The alternative between improvement and decay of democracy continues to be on the agenda, according to Polanyi, and becomes particularly evident in times of crisis and change. Soon after WWII, he foresaw again a possible evolution toward a “truly democratic society”, where the economy would be organized “through the planned intervention of the producers and consumers themselves” (1947, p. 117). But he feared that the opposite tendency would prevail, supported by those who “believe in elites and aristocracies, in managerialism and the corporation”. The resulting society would be “more intimately adjusted to the economic system”, which would remain unchanged in its basic features (ibid.), while democracy would be damaged and possibly depleted.

Otto Bauer (1936) interprets “the crisis of democracy” after WWI as the crisis of the ruling class’ hegemony. In *The Great Transformation* Polanyi speaks in the same sense of the crisis of

“the liberal state”. The Report to the Trilateral Commission (1975) confirms – though implicitly, through ‘monetarist’ arguments – that this is again the case in the 1970s: wage and normative gains obtained by unionized workers are pointed out as the cause of ‘stagflation’ and budget deficit. Not long before, in 1973, in Chile, the attack by Allende’s government on transnational corporate power and North American rule roused a violent reaction. Augusto Pinochet took power and notoriously adopted neoliberal economic policies suggested by the Chicago School. Later, the turning point of the illiberal neoliberal solution to the crisis of the Seventies spread throughout the world. In 1978 Deng Xiaoping opened China to economic liberalization and capitalist accumulation, within an authoritarian political framework. Soon afterword, the basic purpose of both Margaret Thatcher’s and Ronald Reagan’s governments, starting respectively in 1979 and 1980, was to demolish the alarming power of labour, firstly but not only in industrial relations. In addition, the new ‘supply-side’ model of accumulation, based on the priority of profit and rent, entailed a decrease of taxation for the wealthiest strata. If, then, the “fiscal crisis of the state” was to be faced, a greater cut of public spending was needed – the U.S. military budget representing an important exception (plus 7% per year from 1981 to 1985).

The ‘neo-liberal transformation’ was achieved in the 1990s by a series of reforms. Under Bill Clinton’s presidency, for example, a Welfare Reform embittering the condition of the poorest and widening the working poor area was implemented, and the final liberalization of financial markets was realized by the repealing, in 1999, of the Glass-Steagall Act of 1933. In the same year 1999 the NATO bombing of Serbia achieved ‘deregulation’ also in the field of international law.

We have seen in the previous section that the institutions of the Washington Consensus, and more generally the very conception of development, have been widely questioned, and democratic alternatives have been proposed. Similar issues can be raised concerning vast regional (in fact, continental) agreements and associations, such as the NAFTA (North American Free Trade Agreement) and the European Union.

The European Union – also through its enlargement, to former socialist countries in particular – has accentuated those aspects of its constitution and strategy, that give its governance, and therefore its approach to the crisis, a non-democratic character. 1) Technocratic and oligarchical decisional procedures set aside popular control through elected representatives. 2) There is a paradoxical fragmentation of member states’ policies concerning wages, work regulations, taxation, welfare, control on financial activities, and industrial strategies. Besides, restrictive monetarist policies are imposed, while neomercantilist attitudes are allowed, exporting unemployment to other countries. 3) Privatization of public utilities and services, reduction of wages and pensions, and of taxes for higher revenues, freedom for financial investment, and green light for delocalization of industrial activities have been allowed and often recommended. 4) There is an ideological shift from social-universalistic to individual rights, noticeable for instance in the 2007 Lisbon Treaty. 5) All this clearly coincides with the neoliberal creed to the advantage of big business, contributes to the counter-revolution against social reforms conquered by labor, increases economic and social inequality, and leads to a hierarchical structure of the market as well as among member states.

Recent vicissitudes of Greece show that EU is incapable of escaping from the menace of speculation on the sovereign debt of European states, which must borrow from private financial corporations. Governments are obliged to cut public spending. The ensuing reduction of civil servants, investments, and social security benefits clashes with the increase of unemployment and poverty. Moreover, given the deflationary effect of such policy, overcoming the crisis becomes harder. The public debt will tend to increase, as a consequence of two combined factors: low growth, if not recession, causes the erosion of public revenue, while higher interest rates are im-

posed by the financial market. The financial market, in fact, is inefficient, in the sense that it tends to cause positive feedbacks. The risk of default and failure augments not only, as we have seen, precisely because of the measures imposed in conformity with the neoliberal myth of the efficiency of markets – that is, with the interest of financial investors – but also because of the very logic of speculation. In conclusion, it seems absurd to entrust the destiny of entire nations to neoliberal strategies that proved to be ruinous, and to financial organizations that provoked the crisis and whose bailout is paid with public money: some € 3,000 billions according to the estimate concerning the EU, while the entire Greek debt amounts only to 350 billions.

The neoliberal transformation and the present crisis show that the economic contradiction is doubled by a political one. A rational use of resources from the point of view of social well-being and ecological equilibrium would only be possible through a democratic control of the economic system. But neoliberal society is dominated by technocratic and unaccountable institutions, while collective institutions trying to counterbalance asymmetries of power and information (e.g. trade unions) or of safety and ‘capabilities’ (welfare state) have greatly weakened. In the United States, for instance, union membership has declined, especially since the early 1980s. According to a recent Report of the Bureau of Labor Statistics (Jan. 21, 2011), “in 2010, the union membership rate [...] was 11.9 percent”, with a remarkable difference between public sector workers (36.2%) and private sector workers (6.9%).

Big corporations and international organizations have taken decisional power away from national states, which remain the only seat where democratic institutions traditionally developed and to some extent go on. The managerial, elitist, and authoritarian aspects of postwar corporatism have taken increasingly the place of welfare policies and pluralistic ‘concertation’. The structure of governance has changed. Political representative institutions are tendentially bypassed or undermined by a growing and more direct influence of economic corporate power on law-making and governmental policies.

In the interwar transformation, according to Polanyi, the need to face the irreversible decay of the 19th century utopia of the self-regulating markets gave rise to new institutional arrangements implying the removal of the institutional separation of the economic and political spheres. The basic feature of neoliberalism too is not, in spite of its name, free market, but a tighter intertwining of economic and political powers. Again, the defeat of ‘big labor’ is a preliminary requirement, while business becomes ‘bigger’. Oligopolistic competitors have become more and more involved in politics. Thus the neoliberal institutional setup enhances the role of the “power elite” analyzed by Charles Wright Mills (1956) as the leadership by corporate, political, and military vested interests in society. Capital concentration, deregulation, globalization and financialization give business an unprecedented power, not only economic, but also political, which is removed from democratic control, indeed opposed to it.

The decay of democracy is both a means and a consequence of this process. Many authors take this tendency into consideration. Robert Reich (2007) traces it back to the 1970s, and asks for a “battle for democracy”, though limiting it to a regulation of corporate lobbying and environmental damages, and to the defense of democratic procedures. These procedures are bypassed and jeopardized according to Noam Chomsky, who notoriously maintains, referring in particular to global finance, that the free flow of capital creates what is sometimes called a ‘virtual senate’ of lenders and investors who carry out a moment-by-moment referendum on government policies, and if they find that they are irrational, meaning they help people instead of profits, then they vote against them, by capital flight, by tax on the country, and so on. So the democratic governments have a dual constituency, their own population and the virtual senate, who typically prevails (www.democracynow.org/2009/7/3/noam_chomsky).

The opposition electoral control/business control concerning The Policy-Making Process is dealt with by Lindblom in his 1980 book so entitled, and is a central issue in a new version of the book (by Lindblom and Edward Woodhouse, 1993). Here the authors also point out that the electoral control itself tends to be directly “manipulated,” and indirectly influenced by the diffusion of pro-business cultures and by the objective weight of business in economic and social conditions of life. Such influence, in reality, is only an aspect of the “unique and powerful role” that business plays “in the overall scope of public policy making” (Lindblom and Woodhouse 1993: 91). This role “renders the task of intelligent, democratic governmental policy making extremely difficult”; in particular, in “a market-oriented society” it is difficult to restrain big economic interests, even if they cause waste and suffering (*ibid.*: 102-103). The conclusion, to which Lindblom and Woodhouse consistently arrive, is that “the privileged position of business, inequality, and impaired thought” are “tightly interconnected” (*ibid.*: 143). These three elements reinforce each other and “constitute major impediments to more intelligent social problem solving” (*ibid.*: 141).

According to Crouch (2003: 6-7), in the current “minimalist” model of democracy, which he calls “post-democracy”, policies are decided within the interaction between elected governments and privileged elites, which prevalently represent economic interests. From Reagan on, in Crouch’s opinion, the American concept of democracy tends to be reduced to free elections – more precisely, we could add, to the right to vote, since the electorate’s choice is limited, ill-informed, and not necessarily respected. Furthermore, the present dominance of mass media on public opinion is highly worrying, if the early remark by Schumpeter is to be taken into account, that the voters’ opinion and choice cannot but be shaped, “and the shaping of them is an essential part of the democratic process” (Schumpeter 1943: 282). Most mass media are, in fact, possessed by big corporations, and all of them depend on the huge budget corporations dedicate to advertising.

Moreover, the remains of formally democratic institutions are increasingly subjected to distortions and retrenchments, in the absence of such a substantive factor of democracy as wider, well-informed and responsible participation to political life. In fact, according to Crouch, the more the state renounces its interventions concerning common people’s life, the more people become indifferent towards politics, the more thoroughly and safely multinational corporations can exploit the community, by controlling the political agenda and manipulating public opinion (Crouch 2003: 25-26).

The recent huge public help to financial organizations risking failure has similar, indeed paradoxical, consequences: the increase of public debt not only makes a further reduction of social expenditure necessary, but it makes governments more subject to restrictions imposed by international institutions (be they located in Washington, Brussels, or Frankfurt), more powerless as to the conditions imposed by corporations, and even more vulnerable to speculative attacks by the same financial institutions enjoying public help.

Besides the concentration of power and the decay of representative institutions, specific state policies have also been relevant. Fiscal policy increased inequality rather than seeking to correct it through redistribution. This trend is particularly remarkable in the U.S.A., from Reagan’s 1981 Economic Recovery and Tax Act to G. W. Bush’s tax reduction for revenues exceeding 200,000 \$ (see Hacket and Pierson, 2010). The rich minority could thus more easily acquire the power and safety they were looking for through the neoliberal transformation.

Income inequality, rising in the 1920s also on account of fiscal policy, is considered by John K. Galbraith (1955) as an important, perhaps the most important, cause of the Great Crisis. Krugman (2007) points out that eighty years later the situation is similar, with the richest 10% of the

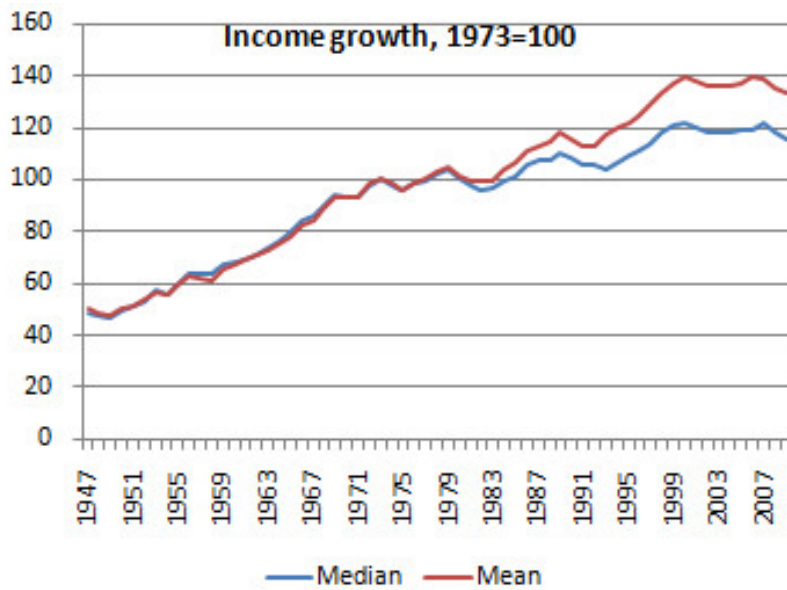


Figure 1 Paul Krugman's blog, "Prices and Plutocrats", The New York Times, Feb. 2, 2011. Source: U.S. Census Bureau.

population receiving about 44% of U.S. revenue. The growing economic inequality documented in the above diagram is obviously also politically important, being a fundamental aspect of the complex tendency denoted by the term 'plutocracy'. I made above a hint to other aspects, such as the direct and exclusive influence of economic powers on political institutions and public opinion. Also lobbying and corruption have been long since considered as causes of the decay of democracy. The same can be said of

the phenomenon described, for example, by Paul Kurtz (2000): the "corporate domination of the democratic process by means of campaign contributions blocks the emergence of independent voices willing to defend the public interest".

We are thus led to a further, crucial question: why democratic vote has never been able to reverse this kind of social and political trend? Growing economic troubles, and the want of so-called 'citizenship rights' as a consequence of cuts affecting social policies (education, health care, poor relief) have undermined not simply the equality of opportunities, but the very 'capability' of the greater part of individuals to participate in social and political life. We must add to this the absence of real alternatives in the offer by different parties competing in the public arena, and the use of mass media and Public Relations techniques in view of 'manufacturing consent' (to borrow Chomsky's expression). Relevant information is concealed, and substituted by illusory representations and expectations.

Kapp's observation can here be usefully recalled, that in the electoral competition images of candidates and slogans are immediately adapted to the results of opinion polls. Such a misuse of voters' choice theories and of new techniques of data processing amounts to a "manipulation of the sovereign electoral constituency by pseudodemocratic means" (Kapp 1985 [1967]: 87). In fact, the immediate connection between common sense and political slogans leaves no room for the authentic public opinion formation, that is a fundamental factor of an effective policy-making process (see the above reference to Lindblom's analyses).

In his foreseeing considerations on the reduction of democracy to formal electoral procedures, Schumpeter points out the similarity between electoral competition and oligopolistic market, adding that the consumer of political goods can be "fooled" more easily than any other consumer (1943: 264). A widening gap between elites and masses, as well as the reduction of society's capacity to solve its problems, were logically to be expected. No wonder, then, that not only elections are incapable of bringing about substantial changes, but many people do not even exert their right to vote. Thus a vicious circle of disempowerment has been set up, by which common citizens are less and less able to contribute to decision-making over issues of common interest.

In the market-capitalist system, in fact, there is a deep and permanent tendency to contrast democracy and freedom. In the neoliberal era, that tendency takes new shapes and grows stron-

ger. In the last decades, the ‘privatization’ of politics and the need to support free-market principles through authoritarian attitudes and legislation have undermined both the public character of democracy, and equality and self-determination, which are its basic conditions (see Lösch 2008: 221-2). A double, interdependent reduction has been accomplished: that of democracy to the formal right to vote, and that of politics to a play, or a struggle, taking place within the restricted circle of the ‘power elite’. The privatization of politics is in contrast with its true, and typically modern, character: that of accomplishing the social function consisting in the acknowledgment, analysis and solution of social problems. ‘Social’ in the sense of problems concerning society, as a whole and as an ‘open system’.

Authoritarianism and inefficiency make the neoliberal order completely different from the “truly free system”, the “competitive order” Friedrich Hayek was promoting when he founded the Mont Pelerin Society in 1947 (see Hayek 1980 [1948]). His expectation that the social-democratic, Keynesian, and corporatist-pluralist mood of the postwar years would be superseded by a revival of free-market orientation in the span of a generation has reached an ironic fulfillment. Hayek himself, in fact, was aware that “many of the pretending defenders of ‘free enterprise’ are in fact defenders of privileges and advocates of government activity in their favor” (ibid., p. 107). However, he considered these to be amendable deviations in a free-market perspective. Polanyi alludes instead to structural features and inherent tendencies of capitalism when, three years before, he addresses his criticism to the liberal (free-market) conception:

Free enterprise and private ownership are declared to be essentials of freedom. With the liberal the idea of freedom thus degenerates into a mere advocacy of free enterprise – which is today reduced to a fiction by the hard reality of giant trusts and princely monopolies (Polanyi 2001 [1944]: 265).

Besides, differently from Hayek who was committing his liberal utopia to the next generation, Polanyi was worried about the long-run free-market strategy, which was going to characterize the Pax Americana. The ideology of “liberal universalism” and the reality of “universal capitalism” (Polanyi 1945) were to be imposed internally and internationally. This policy, and the liberal ideology supporting it, did not fade away after the end of the Cold War: on the contrary. This is convincingly shown, for instance, by Peter Gowan (1999), who also stresses the political aspect of neoliberal globalization, and the influence of financial interests in U.S. world policy.

The “fiction” of “free enterprise” – and the deceptive nature of free-market propaganda – have become most apparent in present times. Indeed, we feel the need to raise a radical question: what does freedom consist of, if the democratic political sphere is seriously jeopardized if not abolished? To the extent that this is the case, Polanyi points out in his essay on Fascism (1935: 392-393), capitalism “becomes the whole of society”, and “human beings are considered as producers, and as producers alone”. Producers without freedom. Trying to strike a historical balance of the development of our society, from WWII to neoliberal globalization, David Harvey (2005: 70) recalls “Polanyi’s fear: that the liberal (and by extension the neoliberal) utopian project could only ultimately be sustained by resort to authoritarianism”.

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