



EMES CONFERENCES SELECTED PAPERS SERIES

EMES-Polanyi International Seminar: "The world between crisis and change"

Paris (France) – February 15-16, 2012

THE NEOLIBERAL TRANSFORMATION AND THE DECAY OF DEMOCRACY

Michele Cangiani
Università Ca' Foscari Venezia, Italy

Copyright © 2012 Cangiani (cangiani@unive.it)

Any portion of these materials is freely available for information and educational purposes, but cannot be re-published in any format that may entail fees or royalties without the express permission of the copyright holders.

ABOUT THE EMES CONFERENCES SELECTED PAPERS SERIES:

This series aims to ensure that selected papers from conferences in which EMES has been involved will be accessible to a larger community interested in the third sector and social enterprise.

EMES Conferences Selected Papers have not undergone any editing process.

All the papers of the series are available for download at www.emes.net.



CONTENTS

1. Introduction: From one crisis to another.....	3
2. Globalization, commodification, financialization.....	5
3. Economic crises and the crisis of democracy	9
References.....	15

1. INTRODUCTION: FROM ONE CRISIS TO ANOTHER

"Neoliberalism" is to be analyzed as an historical phase of the market-capitalist society. It started as an institutional re-arrangement, with the purpose to getting over the political and economic crisis of the 1970s.

Neoliberal globalization has not allowed the countries traditionally constituting the "center" of capitalist development to resume their postwar pace of growth. The slowdown has continued in the last three decades, which have been punctuated by more or less dramatic crises, 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 has obviously been 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" (Kapp 1978 [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 the neoliberal policy, but that policy itself have had devastating consequences on human beings, society and natural environment.

An adequate political capacity to confront those consequences through effective reforms is at the moment missing. For example, a re-regulation of finance comparable to that realized by the Banking Act of 1933 (whose repealing began in 1980 and, in spite of the following savings-and-loan crisis, was achieved in 1999) seems improbable, in the USA or elsewhere. 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 recent United Nations Climate Change Conferences (Copenhagen Dec. 7-18, 2009; Durban Nov. 28 – Dec. 9, 2011); but wise analyses and recommendations continue to fail to be implemented. An increase of poverty and starvation is recorded by annual FAO reports. In developing countries, the overall loss due to the lack of water and sanitation has been estimated, a few years ago, to be nine times bigger than the cost of providing universal coverage (UNDP 2006: 52-3). Among the consequences of insufficient and/or unclean water there are 1.8 million child deaths yearly (*ibid.*: 3).

UNPD Reports are significantly inspired by Amartya Sen, who observes that "despite unprecedented increases in overall opulence, the contemporary world denies elementary freedoms" to the majority of people (Sen 1999: 3-4). Living standards can be enormously higher in the case of richer strata and countries, but the use of resources is as much inefficient. The astonishing increase of productivity has not made happiness (as utilitarian philosophers used to say) or well-being (as we say) easier to pursue.

There should be non-casual reasons for the persistence of such an irrational state of things, involving the entire globe. In *The Great Transformation*, Karl Polanyi's analysis of the Speenhamland crisis applies a systems theory and cybernetic method: when a positive feedback systematically results from the system's attempts at solving problems, it is the organization of the system itself that requires to be changed. The development and crisis of neoliberal capitalism seems to have brought us to a similar situation.

At this point, it is necessary to call into question the ability of human beings to take care of their own destiny through a purposeful control of social institutions, and particularly 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 natural environment? How would it be possible to overcome the inefficiency of the system, resulting from such reckoning?

These problems turn out to be also, or principally, political problems. The crisis increases the need to question the most fundamental characteristics of the existing social setup; but it also fuels the opposition to policies, surveys and social organizations trying to meet this need. Referring to the crisis of liberal capitalism and to the troubled interwar period, Polanyi maintains that, on one hand, a "real" democracy, a widespread participation in relevant social choices, would have been the condition for enabling society to face its problems. On the other hand, the reaction of the ruling class implied a so deep attack against democracy, as to determine a situation where "Capitalism and Democracy have become mutually incompatible" (Polanyi 1935: 392).

We should be particularly worried about the state of democracy. In Polanyi's view, in fact, both individual freedom and our social ability "to enlarge our freedom of creative adjustment and thereby improve our chances of survival" (1977: xliii) depend on the degree of democracy.

The decay of democracy is a basic characteristic of the neoliberal transformation. The so-called "privatization of politics" consists in the fact that big corporations, financial élites 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 "checks and balances" – are bypassed, or thwarted and even destroyed.

The current crisis makes more obsolete than ever the reduction of freedom to its so-called "negative" aspect, and for a better reason, as Polanyi pointed out 68 years ago, to market freedom and to "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). However, the reaction of dominant elites succeeds in imposing "market fundamentalism", in spite of any evidence. For example, the first legislative measures approved by the government installed in Italy on November 16, 2011 promote privatization of public utilities, "flexibility" of labor market, "liberalization" of economic activity. This government is rightly called "technical". Formally, it is not composed by elected members of Parliament; substantially, its mission is to put a ready-cooked policy into practice, a conservative neoliberal policy, primarily corresponding to the interests of big financial institutions and *rentiers*. We could say, with reference to John K. Galbraith's *The New Industrial State* (1967), that a new-style "technostructure" dominates, not simply on functionless shareholders and consumers, but on functionless citizens – in the absence of effective "countervailing powers".

The blind confidence in the virtues of the "market" acquires – in the Italian case, but not only – marked illiberal traits. Both monopolistic powers and the thick interlacement of business and politics – which is always contrary to transparency and efficiency, and often gets off legality – will remain untouched. Basic principles of the Italian Constitution of 1948 risk instead to be endangered, such as that envisaged in the article 41, concerning limits to be imposed to free economic initiative for the sake of "security, freedom and dignity of people" and "public utility".

The freedom of trade-union organization, sanctioned by article 39, has already been infringed: the January 2011 agreement imposed by the FIAT automobile industry includes a norm according to which unions refusing to sign are no longer allowed to propose their own candidates at the election of union representatives.

The very problem of defining general interest and, correspondingly, "the *Agenda* of government", raised by John M. Keynes in his pamphlet on *The end of laissez-faire* (1926), is overlooked: this means, in fact, that it is tackled according to predominant and exclusive corporate interests.

2. 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 bound 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: "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", "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 over-accumulation of capital, the slowing down of productive investment, and the unequal distribution of the wealth annually produced.

Remedies adopted have been 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. Besides, to this first contradiction of capitalism, consisting in the tendency to capital over-accumulation, a "second contradiction" is added (O'Connor 1991), as a consequence of business enterprises shifting costs onto their human and natural environment (Kapp's "social costs"). Economic growth has been supported, according to James O'Connor, 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, so that there is the risk of a runaway process. In fact, 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 neoliberal era.

As to the new fields of investment, they are of two sorts. Some only allow an illusory or temporary increase of occupation and income, as is the case of financial and real estate speculation. Others actually widen the scope of capitalist investment. For this purpose, 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.

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 has concerned not only financial speculation, but also scientific research, leisure activities and commodities, real estate, public utilities, health care, education 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: 159).

Knowledge has been added to labor, land and money as a fourth "fictitious commodity" (see e.g. Azam 2005, Jessop 2007). 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.

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 people into poverty (Sachs 2008), provoked irreversible damages in the natural environment, and augmented, together with warmongering, military expenditure.

After that of 2007-2008, new food crises risk to compromise living conditions and even the very survival of the poorest on the global stage. Such crises show that 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 corporate investment in agriculture, in particular in view of producing agrofuel, caused prices to grow, to the point that people could no longer afford to buy their food (see McMichael 2009, George 2010, and Drèze and Sen 1989).

Moreover, with regard to the food crisis, "financialization" and deregulation displayed their cruelest effects. The relevance is clear, for instance, of the Commodity Futures Modernization Act, passed by the United States Congress in December 2000, which replaced New Deal laws limiting and controlling speculation on agricultural products.

Polanyi (2001 [1944]) maintains that only in the market-capitalist society labor, land and money generally and typically acquire the nature of *commodities*. In the course of this society's development, such unprecedented cultural innovation has been bounded by a "countermovement". Neoliberal globalization tends instead to suppress political, socio-cultural, and geographical limits to the functioning of the market system. This does not involve a fading of state's role; indeed, it becomes clearer that governments are always constrained by economic powers and often subservient to them. It is also true, however, that the reforms starting in the 1970s have given 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, money and knowledge tend to be mere commodities, instrumentally employed in view of monetary gain, which constitutes – together with hunger, as Polanyi, and Max Weber before him, affirm – the basic motive of the economic activity in that system.

In the 1980s Structural Adjustment Programs were imposed on "developing" countries, as a remedy for the "debt crisis". International institutions undertook a sort of economic tutelage. Governments were asked to reduce public expenditure, to privatize government-owned industries, to keep wages low and to address production to export. Restrictions to capital investment and circulation were to be removed. In fact, putting these neoliberal prescriptions into practice reinforced the asymmetries and contradictions of capitalist development at the world scale. Moreover, for example, opening its border to the penetration of international finance did not save Mexico from near bankruptcy in December 1994. A rescue plan was prepared by the IMF and the United States to protect foreign creditors (mainly North American). Budgetary controls and a mortgage on oil export further limited the sovereignty of Mexico.

Restrictive monetary and budget policies were also recommended to "central" countries, the purpose remaining that of reassuring international financial investors. Profits (and losses) of the latter – enormously augmenting together with a deregulated financial activity – were to be paid for by drawing resources from lower- and middle-income people and social expenditure, even at the risk of a deflationary runaway. The crisis started in the second half of 2007 made recommendations become impositions and grow harder. Presently they are imposed on the countries of the euro area, where monetary policies are again the stake of a class conflict, as during the long crisis of the gold standard.

In the neoliberal era, 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 labor and financial 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). Though becoming even more "obsolete", indeed unreal, the "market mentality" (Polanyi 1947) remains effective as an ideological and political weapon.

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, as well as their "close links with financial markets" and therefore with

dominant financial interests (Stiglitz 2008: 52). The tendency Stiglitz 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). Recently, commenting on the 2011 Spring Meeting of the IMF, Stiglitz has pointed out a little "switch" in the attitude of that organization: "the crisis showed that free and unfettered markets are neither efficient nor stable"; they "*need* regulation", especially financial markets (Stiglitz 2011). (Unfortunately, on May 18, only a few days after Stiglitz's comment, Dominique Strauss-Kahn had to resign from Managing Director of the IMF, as a consequence of a scandal – probably, an organized plot. He was substituted by Christine Lagarde, who has a more conventional policy in mind).

Others go a step further than Stiglitz. For example, Vandana Shiva and Walden Bello interpret Stiglitz's requirement of "environmental and social sustainability" in a radical way, emphasizing the requirement of a democratic control of resources. In addition, they make reference to the growing opposition to the current global system by a series of movements and struggles.

The strategy of multiplying regional experiments in social organization and economic development was already envisaged by Polanyi during the Second World War. He conceived that strategy as a way of contrasting through democracy the project of "universal capitalism" supported by free-market ideology and implemented under the leadership of the United States (see Polanyi 1945).

Shiva, in her 1993 book *Monocultures of Mind*, 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 resources and knowledge – that is to say, of their conditions of existence. In the neoliberal epoch, the market system's tendency to undermine self-government, and thereby liberty, becomes stronger and clearer.

Bello, in his turn, maintains that the crisis of global economic governance is a systemic one, and asks for a "deglobalization". Production – especially agricultural production – should be prevalently oriented to local markets and not to exports, within an alternative, pluralistic system of global governance and through a democratic "people-oriented sustainable development" (Bello 2002: 117). These requirements, in Bello's opinion, 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 Karl 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: 17).

With "financialization" we make reference to important institutional developments, on which the crucial role played by financial markets depends. The new forms, relevance and unaccountability of financial activity are a typical development of the neoliberal setup; they have started the current crisis and continue to dominate the economic and political perspective. The enormous growth of finance compared to "real" economy has direct and indirect consequences on the

latter. In particular, a high level of ROE (Return on Equity) is imposed on firms by the power of financial organizations and the primacy acquired by the so-called shareholder value. Managers are therefore compelled to limit investment to the most profitable opportunities in the short term and to cut down the cost of labor, by reducing both the number and wages of workers. Besides, non-financial big companies have diversified their activity; part – often a great part – of it is dedicated to financial business.

However, financialization has also to be understood as functional to capitalist accumulation in a situation of systematic tendency to stagnation. 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. 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.

The result is that, all along the neoliberal era, growth has remained low, unemployment has not diminished, and inequality has risen. Financialization has revealed itself as a paradoxical attempt at getting over stagnation, finally leading to the current dramatic crisis.

3. ECONOMIC CRISES AND THE CRISIS OF DEMOCRACY

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

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 can be found for instance in the history of the Twentieth century by Eric Hobsbawm (1994), as well as in Polanyi's reflection. The major and definitive crisis of liberal capitalism, culminating in WWI, made change inevitable: a "great transformation": but, which way? As the solution of a radical and therefore socialist democracy could not be realized, Polanyi maintains (1935: 367), capitalism continued its existence under a new institutional arrangement: "in its non-Liberal, i.e. corporative forms". 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. Polanyi was aware of this aspect of the crisis, as is evident, for instance, in the article he wrote in 1931 when a coalition government, the National Government, was set up in the United Kingdom. The pound abandoned the gold standard the same day, September 19, of the publication of Polanyi's article, which is meaningfully entitled "Democracy and Currency". To sacrifice the Labour government in order to strengthen the pound did not save the pound, but allowed a more exclusive control by the ruling class on the anti-crisis measures to be taken. The damage to democracy caused by this political manoeuvre is not considered, Polanyi comments; what matters is to impose the dismantling of the unemployment benefit and thereby a reduction

of wages and a balanced budget as the only possible strategy for economic recovery (Polanyi 1931: 124).

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: 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 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". When the neoliberal transformation was in store, the Report to the Trilateral Commission (Crozier, Huntington and Watanuki 1975) was issued. It confirms – not only implicitly, through "monetarist" arguments, but also openly – that this is again the case in the 1970s: wage and normative gains obtained by unionized workers, and democratic institutions allowing such achievements, 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 present 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) 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, in particular but not only of Greece, show that the EU is incapable of escaping from the menace of speculation on the sovereign debt of European states, which must borrow from private banks. Even the increase of public debt caused by the need to rescue financial corporations risking failure constitutes an opportunity for larger private financial gains through higher interest rates and speculation. Governments are obliged to cut public spending. The ensuing reduction in the number and salaries of civil servants, the cut of investments and social security benefits not only clashes with the increase of unemployment and poverty, but accelerates it. 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 imposed by the financial market. The financial market, in fact, is inefficient, not simply because of emendable "market failures", but by its very nature; not only it tends to cause positive feedbacks, but it is purposefully directed by a limited number of big financial investors. 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 big 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: more than € 4,000 billions according to the esteem concerning the EU, while the entire Greek debt amounts to 350 billions only.

What matters is that an increased "dispossession" of middle and lower classes corresponds to the "rationality" of the current finance-dominated capitalism. The aim is to cover the losses of banks, and to make high financial gains possible, even in case of economic stagnation or recession. Banks can borrow from the European Central Bank at 1%; interest rates payed – mainly to banks – by over-indebted states of the EU are much bigger. According to the statistics bureau of the European Central Bank, in January 2012 the "secondary market yields of government bonds with maturities of close to ten years" were 6.54% per annum for Italian bonds, and reached 13.85% in the case of Portugal and 25.91% in that of Greece. This throws some light upon the conditionalities imposed by the so-called Troika of the European Union-International Monetary Fund-European Central Bank on the countries of the eurozone, which are temporarily rescued – to be furtherly trapped in the vicious logic of indebtedness. Those conditionalities – massive layoffs in the civil service, the dismantling of social protection, increase in indirect taxes, the lowering of the minimum wage, privatization of public services, utilities and common goods – not only perpetuate economic troubles, but undermine people's right to self-determination. This tendency has been confirmed by the proposal of a balanced-budget constitutional amendment to be approved by EU members. Besides, the Fiscal Compact Treaty agreed on by 25 EU Leaders on January 30, 2012, which should come into force on January 1, 2013, takes fiscal sovereignty away from parliaments, to which it had been entrusted by bourgeois revolutions.

What has happened, and is going to happen in the foreseeable future, is that both the economic crisis and the decay of democracy will continue. It has widely been recognized that the very measures taken by governments to meet the interest of big finance make recovery harder. Even Standard and Poor's report of January 13, 2012 has justified on this ground the lowering of long-term ratings of several European countries. But governments continue to turn a deaf ear. S. & P.'s report argues that "a reform process based on a pillar of fiscal austerity alone risks becoming self-defeating, as domestic demand falls in line with consumers' rising concerns about job security and disposable incomes, eroding national tax revenues".

This statement follows the recommendation that the "rising external imbalances and divergences in competitiveness between the eurozone's core and the so-called 'periphery'" should be amended.

Precisely because we can basically share the rating agency's argument, we have the impression of an insult added to injury. In fact, both the need for austerity measures and their ineffectiveness are also caused by the influence of rating on financial markets. Moreover, rating agencies are not independent of big financial corporations; how could they seriously recommend a policy which would be different from the austerity policy imposed by the neoliberal drift and big financial interests? Do these interests not constitute the "virtual senate" constraining governmental choices – and even determining the very composition of governments? To escape such "double bind" situation in which they are caught, governments should recover their sovereignty by breaking with their privileged relationship with big business and recovering their democratic constituency, citizens, who could in their turn recover the sovereignty owing to them.

The gravity, resilience and paradoxes of the crisis lead us to question not only the neoliberal transformation but also the most basic traits of the market-capitalist society. We cannot then avoid the problem raised by radical institutional economics – and eminently by Polanyi: why does the specific social organization of the current economic system not allow a rational use of resources from the point of view of social well-being and ecological equilibrium, which is – should be – the general purpose of the economic activity? Furthermore, if, as Polanyi maintains, the attainment of that purpose would only be possible through a democratic control of the economic system, the political dynamics inherent in neoliberalism has to be considered. In fact, the neoliberal transformation is inherently characterized by the dominion of managerial elites and technocratic and unaccountable institutions, while institutions trying to counterbalance asymmetries of power and information (e.g. trade unions) or of safety and "capabilities" (welfare state) have greatly weakened. For instance, in the United States, union membership has declined, especially since the early 1980s. According to a 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%).

Political representative institutions tend to be by-passed or undermined by a growing and more direct influence of economic corporate power on lawmaking and governmental policies. The removal of the institutional separation of the economic and political spheres, analyzed by Polanyi with reference to the decay of the 19th century utopia of self-regulating markets, is an irreversible achievement of "great transformation". Neoliberalism, in spite of its name, does not mean free market, but a tighter intertwining of economic and political powers. Indeed, 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; I shall limit myself to a hint to some of them, dealing in particular with the evolution of politics in the United States of America. Robert Reich (2007) asks for a "battle for democracy". Noam Chomsky more radically maintains, referring in particular to global finance, that democratic procedures are bypassed and jeopardized, because the "virtual senate" of lenders and investors generally prevails (see e.g. www.democracynow.org/2009/7/3/noam_chomsky).

The opposition electoral control/business control concerning *The Policy-Making Process* is a central issue in the book so entitled by Charles Lindblom and Edward Woodhouse (1993). An important consequence is that the political power of business renders "the task of intelligent, democratic governmental policy making" – and therefore an efficient problem solving in the interest of society at large – "extremely difficult" (*ibid.*: 102).

According to Colin 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. Moreover, in Crouch's opinion, 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 a recent book (2011) Crouch maintains that the financial crisis increases rather than to diminish the dominance of big, and in particular financial, corporations on both the market and the states. He sets his hopes on making corporations socially accountable. Vain hope for the moment, and till the evidence will be that of a self-reinforcing contrary tendency.

Besides the concentration of power and the decay of representative institutions, specific state policies have also been relevant. For example, fiscal policy in the U.S.A. increased inequality, 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).

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. Paul Krugman (2007) points out that eighty years later the situation is similar, with the richest 10% of the population receiving about 44% of U.S. revenue. In a recent comment, entitled "Oligarchy, American Style" (NY Times, Nov. 3, 2011), Krugman observes that between 1979 and 2007 the income share of the top 1% and the bottom 80% of the population augmented and, respectively, diminished of about 10%. The term "plutocracy" is also sometimes employed in this connection (see e.g. Kurz 2000). According to a survey by OECD (OCDE 2008: 38), the income share of wage- and salary-workers undergoes an average reduction of 10% from the second half of the 1970s to 2007 (USA from 70 to 63 percent, France from 76 to 65, Italy from 68 to 53). From 2007 on, the crisis has reinforced this trend. A "growing income inequality" is the subject of a recent survey by OECD (2011).

A crucial question could be raised at this point: why democratic vote has never been able to reverse this kind of social and political trend? A tentative explanation could refer to a series of factors, such as the following: economic troubles and 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. Other factors are the absence of real political alternatives offered by different parties, and the use of mass

media and Public Relations techniques in view of "manufacturing consent" (to borrow Chomsky's expression).

In conjunction with "the liberalization of policy toward corporations" – Robert Prasch maintains (2011: 279) – individual freedom is, on the contrary, directly endangered, and not only as a consequence of the decay of democratic institutions. While social costs are increasingly shifted onto society, corporations causing them obtain tax reduction and other benefits. Resources are correspondingly taken away from public utilities and welfare services. Prasch also points out that controls on citizens' public and private life have risen, together with job and income insecurity. Employees are asked to adopt the outlook and priorities of their employers, and to submit not only to longer and intensified work, but also to monitoring via closed-circuit cameras and to alcohol and drug testing.

The list of attempts to freedom could continue; suffice it to mention the criminalization of dissent and the underrating of social, political and even civil rights as a part of the general tendency to authoritarianism, which has spread in recent years, and has been often supported by instrumental justifications, such as the "War on Terror". There is the risk of a mass adhesion to extreme right-wing and populist movements, because, as it already happened, critical conditions of life added to propaganda can induce people to adopt self-damaging political attitudes.

To conclude, a further reference can be made to Polanyi, who maintains – in two manuscripts of the end of the 1930s, entitled "The Fascist Virus" – that the tendency to contrast democracy and freedom is deep and permanent in the market-capitalist system. In the neoliberal era, that tendency takes new shapes and grows stronger. Trying to strike a balance of the historical development of neoliberalism, 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".

REFERENCES

- Azam, G. (2005) "L'utopie de l'économie de la connaissance", *Sciences de la société*, n. 66, pp. 15-28.
- Bauer, O. (1936) *Zwischen zwei Weltkriegen? Die Krise der Weltwirtschaft, der Demokratie und des Sozialismus*, Bratislava: E. Prager Verlag.
- Bello, W. (2002) *Deglobalization*, London: Zed Books.
- Bello, W. (2007) "The Post-Washington Dissensus", *Focus on the Global South*, Sept. 14 (www.waldenbello.org).
- Chossudovski, M. (1997) *The Globalisation of Poverty*, London: Zed Books, Penang: Third World Network.
- Crouch, C. (2003) *Postdemocrazia*, Bari: Laterza. (Enlarged version of *Coping with Post-democracy*, The Fabian Society, 2000).
- Crouch, C. (2011) *The Strange Non-Death of Neo-Liberalism*, Cambridge: Polity Press.
- Crozier, M., Huntington, S. P. & Watanuki, J. (1975) *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission* (with an introduction by Z. Brzezinski), New York: New York University Press.
- Drèze, J. & Sen A. (1989) *Hunger and Public Action*, Oxford: Clarendon Press.
- Foster, J. B. (2007) "The Financialization of Capital", *Monthly Review*, 58, 1.
- Galbraith, J. K. (1955) *The Great Crash, 1929*, Boston: Houghton Mifflin.
- Galbraith, J. K. (1967) *The New Industrial State*, Princeton, N. J.: Princeton University Press.
- George, S. (2010) *Whose Crisis, Whose Future?*, Cambridge (UK) and Malden (USA): Polity Press.
- Hackett, J. S. & Pierson, P. (2010) *Winner-Take-All Politics*, New York: Simon & Schuster.
- Harvey, D. (2005) *A Brief History of Neoliberalism*, Oxford: Oxford University Press.
- Hobsbawm, E. (1994) *Age of Extremes. The Short Twentieth Century 1914-1991*, London: Michael Joseph Ltd.
- International Forum on Globalization (2002) *Alternatives to Economic Globalization*, S. Francisco, CA: Berrett-Koehler Publishers.
- Jessop, B. (2007) "Knowledge as a Fictitious Commodity: Insights and Limits of a Polanyian Perspective", in Buğra, A. & Ağartan, K. (eds) *Reading Karl Polanyi for the Twenty-First Century*, New York & Houndsmills (England): Palgrave Macmillan, pp. 115-133.
- Kapp, K. W. (1978) [1963] *The Social Costs of Business Enterprise*, Nottingham: Spokesman.
- Keynes, J. M. (1926) *The End of Laissez-Faire*, London: Hogarth Press.
- Krugman, P. (2007) *The Conscience of a Liberal*, New York: W. W. Norton & Co.
- Kurtz, P. (2000) "The New American Plutocracy", *Free Inquiry*, XX, 4.
- Lindblom, C. E. & Woodhouse, E. J. (1993) *The Policy-Making Process*, Englewood Cliffs (N.J.): Prentice Hall.
- Magdoff, H. & Sweezy, P.M. (1987) *Stagnation and Financial Explosion*, New York: Monthly Review Press.
- McMichael, P. (2009) "The World Food Crisis in Historical Perspective", *Monthly Review*, LXI, 3, Jul.-Aug.
- Mills Wright, C. (1956) *The Power Elite*, New York: Oxford University Press.
- O'Connor, J. (1973) *The Fiscal Crisis of the State*, New York: St Martin Press.
- O'Connor, J. (1991) "On the Two Contradictions of Capitalism", *Capitalism Nature Socialism*, II, 3, pp. 107-9.
- OCDE (2008) *Croissance et inégalité. Distribution des revenus et pauvreté dans les Pays de l'OCDE*, Paris: OCDE.
- OECD (2011) *Growing Income Inequality in OECD Countries: What Drives it and How Can Policy Tackle it?*, Forum, Paris, 2 May.
- Polanyi, K. (1931) "Demokratie und Währung in England", *Der Österreichische Volkswirt*, Sept.

19. Now in Polanyi, K. (2002) "Chronik der großen Transformation", Band 1, ed. by Cangiani, M. & Thomasberger, C., Marburg: Metropolis-Verlag, pp. 120-8.
- Polanyi, K. (1935) "The Essence of Fascism", in Lewis, J., Polanyi, K. & Kitchin, D. K. (eds) *Christianity and the Social Revolution*, London: Gollancz, pp. 359-94.
- Polanyi, K. (1945) "Universal Capitalism or Regional Planning?", *The London Quarterly of World Affairs*, January, pp. 1-6.
- Polanyi, K. (1947) "Our Obsolete Market Mentality", *Commentary*, 3, pp. 109-17.
- Polanyi, K. (1977) *The Livelihood of Man*, ed. by Pearson, H. W., New York: Academic Press.
- Polanyi, K. (2001) [1944] *The Great Transformation*, Beacon Hill, Boston: Beacon Press. (First edition, New York: Holt, Rinehart & Winston, 1944).
- Prasch, R. E. (2011) "Capitalism, Freedom and Democracy Reprised; Or, Why is the Liberalization of Capital Associated with the Increased Repression of Individuals?", *Journal of Economic Issues*, XLV, 2, pp. 277-88.
- Ramonet, I. (1995) "La pensée unique", *Le Monde Diplomatique*, January, p. 1.
- Reich, R. (2007) *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life*, New York: Alfred A. Knopf.
- Sachs, W. (2008) *The Archaeology of the Development Idea*, Kolkata (India): Earthcare Books (First published by Interculture, 1990).
- Sen, A. (1999) *Development as Freedom*, Oxford and New York: Oxford University Press.
- Serra, N., Spiegel, S. & Stiglitz J. E. (2008) "Introduction: From the Washington Consensus Towards a New Global Governance", in Serra, N. & Stiglitz, J. E. (eds) *The Washington Consensus Reconsidered*, Oxford: Oxford University Press.
- Shiva, V. (1993) *Monocultures of the Mind*, London: Zed Books; Penang: Third World Network.
- Stiglitz, J. E. (2008) "Is there a Post-Washington Consensus Consensus?", in Serra, N. & Stiglitz, J. E. (eds) *The Washington Consensus Reconsidered*, Oxford: Oxford University Press.
- Stiglitz, J. E. (2011) "The IMF's Switch in Time". Available HTTP: <http://www.project-syndicate.org/commentary/stiglitz138/English>, May 5.
- UNDP (2006) *Human Development Report*, Houndmills, Basingstoke, Hampshire and New York: Palgrave Macmillan.