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Can democracy survive austerity?

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review of

Schafer, A. and W. Streeck (2013) *Politics in the age of austerity*. Polity Press: London (PB, pp. 320, $79.95, ISBN 97807456-61681).

Armin Schafer and Wolfgang Streeck, two scholars at the Max Planck Institute for the Study of Societies in Cologne, Germany, have edited a remarkable volume that attempts to address a political-economic touchstone of modern democratic-capitalism: how to reconcile democratic political processes with the increasing governance of global economic life by economic institutions – corporate and transnational governmental – that are politically nonresponsive to the demands of ordinary citizens and which are dedicated to often unpopular economic policies of austerity (cf. Edsall, 2012). The two editors are among the leading figures of the past decade in the study of global economic policy as promulgated by the IMF and the World Bank and have assembled a stellar cast of contributors to explore these issues. While this book focuses mostly on the political dynamics of the economy of the European Union, it also has insights for scholars interested in studying austerity and democracy in the United States and Asia. The book is both a work of social criticism (the editors and chapter authors almost uniformly adopt a left-critical view on austerity's impact on governance) and a technical description of how austerity policies impact on political decision making. Given that, despite its alleged 'intellectual defeat' (Krugman, 2013), austerity measures in governmental fiscal policy are likely to be with us for some time to come; this book will help scholars of democratic theory apprehend this menace.

Politics in the age of austerity is organized into eleven chapters and no separate parts, each chapter addressing a dimension of the book's theme. The introductory chapter, written by the editors, lays out what they view as the central problems of fiscal austerity and representative democracy. The authors make clear that their primary goal is to trace the impact of the former on the latter, and they do not like what they see. They posit a fundamental contradiction in contemporary advanced capitalist societies between demands made by international bond markets with a stake in low inflation, low taxes on the wealthy and low public debt, and who desire budget cuts; and the demands of ordinary citizens who, faced with stagnant wages, rising unemployment, precarious employment, and pension cuts, want more governmental services. The authors provide evidence that when these contradictions come to the fore, financial markets have more power than 'the people', such that austerity measures are adopted despite their objections. As a result, more and more people view government as non-responsive to their basic needs, and thus do not see the point in participating in formal democratic processes such as voting, and will have to resort to forms of direct action, such as 'Occupy Wall Street'-type movements and even rioting in the streets, to make their voices heard. This is because not only are national governments increasingly less responsive to citizen demands, citizens perceive that their national governments are less capable of being responsive even if they want to be, since much decision-making about fiscal issues has been ceded to trans-national entities such as the IMF, the World Bank, and various European Union commissions.

Alongside this empirical history of austerity, the authors also trace the post-WW2 intellectual history of how scholars of political-economy have attempted to explain economic and political relationships, discussing for example the struggles among Keynesian, Hayekian, Institutional Economics, and theories of Public Choice for hegemony within the halls of academe and of governmental policy making, ably setting the stage for later chapters to flesh out these debates.

Chapters two and three address two effects of fiscal tightening on democratic processes. In chapter two (Streeck and Mertens) the focus is on the spending side, the 'maturation' of the welfare state, meaning the tendency of welfare commitments to accumulate according to the rule of compound interest. Since welfare commitments are often 'mandatory' spending, this means that the fiscal options of present-day legislators are often hamstrung by the policy commitments of yesteryear's who created the welfare programs that now gobble an ever-larger share of the national budget. The authors' analysis of the USA, Germany, UK, and Sweden indicate that discretionary spending has declined markedly over the past 30 years, and while tax increases on the wealthy could theoretically solve this problem, they doubt politicians have the will to do so and thus foresee a fiscal train-wreck in the near future. This chapter is noteworthy because unlike others, it argues that austerity measures have not affected mandatory welfare spending nearly as much as discretionary spending. Chapter three (Genschel and Schwarz) addresses the issue of 'tax competition', the tendency of countries to successively lower their taxes on corporations and the wealthy so as to attract foreign investment, resulting in a global 'race to the bottom'. These authors show that while there has been no race to the bottom with respect to taxes on wealthy individuals, small countries have undercut the corporate tax rates of larger countries, forcing larger countries to shift the tax burden from mobile to 'immobile' assets, such as labor, to make up the difference. The net result has been a positive effect on fiscal democracy in smaller countries (their politicians have freedom to determine tax rates) but a negative effect in larger ones, as their corporate tax policies are limited by the threat that firms will flee to smaller tax havens while their workers are compelled to shoulder more of the tax burden.

Chapters four through six have a more explicitly European focus, addressing the issues of the 'Swedish example', the European Union, and Parliamentary democracy respectively. Chapter four (Steinmo) examines fiscal democracy in Sweden, a country which has managed to maintain a generous welfare state and yet remain globally competitive. Steinmo argues that the keys to this success are (a) the willingness of Swedes of all classes to de-politicize fiscal policy, leaving it in the hands of technocratic experts, and (b) ethnic homogeneity, which has allowed Sweden to avoid many of the internal social problems that impact fiscal policy in other Western nations. Paradoxically, Sweden has achieved social welfare harmony without much direct democratic input, a notion that challenges the findings of other chapters, which tend to conclude that social welfare spending and democratic participation are positively correlated. The core class-compromise has been corporate willingness to tolerate a generous welfare state, as long as workers themselves fund it, largely through payroll taxes. Since workers perceive strong positive benefits from doing so, these taxes have remained popular. In the end, Steinmo argues that too many aspects of Sweden's situation are idiosyncratic to be of much help to other nations.

In chapter five, Fritz Scharpf analyzes the impact of EU monetary policy on fiscal democracy in the wake of the 2008 financial meltdown. This is a topic worthy of its own book or two, but Scharpf does a fantastic job of wading through the complexities. He explains how the austerity measures taken by the European Parliament (EP), guided primarily by Germany's demands for fiscal austerity in 'crisis' countries such as Greece, Spain, and Ireland, have failed to make these countries fiscally sound while imposing immense hardships on ordinary citizens. Scharpf explains that a major cause of public dissatisfaction with austerity policies is their lack of 'input legitimacy': Decisions related to austerity have not been freely chosen by the elected governments of these countries but rather have been imposed by more distal institutions such as the European Commission and EP. Scharpf argues that unless European institutions become more accountable to ordinary citizens, the monetary union and the entire European political project are at risk. Furthermore, from a technical point of view, European institutions are unlikely to make wise fiscal choices when those making them are shielded from democratic accountability for their failures. This concern with responsiveness, the connection between citizens and their representatives, is also taken up in chapter six, in which Peter Mair focuses on the example of the Irish government's agreement to implement severe austerity measures in the wake of the 2008 financial collapse despite upwards of 80% of the Irish electorate disapproving of the terms, which essentially forced Irish taxpayers to bail out Irish banks so as to repay European creditors of those banks.

This happened because the Irish government, like the governments of other smaller European states, has become more accountable to European and global institutions that insisted on the bailout, such as the European Commission and the WTO, than it is to its own voters. Similar to chapter two's findings, Mair does recognize that government flexibility to meet the demands of voters is also a function of the results of domestic political legacies as well, noting that in the mid-1980s, Margaret Thatcher's 'radical' conservative government was still running 207 of the 227 programs it had inherited from its Labour government predecessor. This combination of internal legacy commitments and external commitments to supranational agencies has made it difficult for contemporary governments to be responsive to voters even if they want to. This policy 'squeeze' should be troubling to anyone who believes that 'democracy' means not just being able to vote, but to influence policy decisions as well.

Chapters seven through ten shift the focus somewhat to a more explicit discussion of inequality of outcomes, as they analyze which social groups end up as winners and losers under austerity regimes. In chapter seven, Schafer offers an impressive analysis of how austerity policies have become widespread in the western world. Analyzing data from the 1970s to the 2000s across twenty-three American and European countries, he Schafer shows that welfare spending, tax rates, union participation, and voting rates have fallen, while income inequality among socio-economic classes has risen almost everywhere. Using time-series regression analysis, the author is able to show that rising income inequality has a powerful negative effect on voting rates: voter apathy sets in when people realize that their political preferences no longer stimulate government to enact policies that benefit their economic position. This is true foremost among the lower classes who stand to gain the most from redistribution policies, but also relates to the wealthy, the primary beneficiaries of austerity measures. Everyone cares less about politics when governments are committed to withdrawing from economic management.

This theme of voter participation as a problem for democracy is analyzed more theoretically by Claus Offe in chapter eight, who not only ties declining ballot participation to fiscal austerity, but unlike most other chapters in this volume, attempts to determine what should be done about it. Offe clearly considers it a 'bad thing' when voters don't vote, and discusses alternatives such as mandatory voting, removing procedural barriers to voting, and governmental policy responsiveness. He plumps for the latter, arguing that mandatory voting is undemocratic and elides the problem of why people aren't voting. Likewise, while there are processual barriers to voting in some countries that should be removed (e.g., restrictions on the voting rights of racial minorities and ex-convicts in the USA, as evidenced by the recent Supreme Court decision nullifying important parts of the 1965 Voting Rights Act), by and large procedural barriers across OECD countries tend to be minor. The real danger to democracy lies in government policies that have subsumed social imperatives to market imperatives. Until this approach changes, voter disaffection is likely to continue, a long-run threat to the democratic legitimacy of those governments, regardless of its economic merit.

One factor that all of the preceding chapters seem to share is the belief that 'neo-liberalist' ideology, as exemplified by the writing of economists such as Friedrich Hayek, has become the intellectual basis for austerity measures. But in chapter nine, Colin Crouch argues that austerity programs should raise the ire of neo-liberalists as much as that of Keynesian and social-democratic thinkers. This is because traditional free-market economics, dating back to the work of Adam Smith, emphasizes that markets should be free from state intervention designed to provide special benefits to workers or to corporations, as either introduces inefficient distortions. But Crouch makes the case that while the neo-liberals who are implementing today's austerity measures are keen to stop state policies that intervene in the market to benefit workers, they turn a blind eye to those policies that benefit corporations, such as sharp reductions in corporate tax rates and the privatization of public services. As an example, Crouch notes how in the USA, President Obama was only able to expand health care coverage to uninsured citizens by forcing people to buy health coverage from private corporations. Crouch argues that the most significant cause of rising corporate power is the mobility of capital: firms that do not get their policy privileges enacted in one country can shop around the globe for friendlier regimes, putting pressure on other countries to comply. His solution is the creation of international regulatory bodies that can rein in transnational capital, a less-than-ideal outcome, since international bodies are by definition more distant from, and hence less accountable to, citizens of any one country.

Chapters ten and eleven attempt to do something social science research has never been particularly good at: predict the future path of democratic development in the age of austerity. In chapter ten, Mabel Berezin argues that the first outcome of the 2008 financial crisis in Europe has been the 'normalization of the right', by which she means the ascendancy of right-wing fiscal policies and of nationalist parties across Europe. This chapter stands out for its analysis of cultural factors that influence the adoption of austerity measures. For example, Berezin argues that radical-Islamist terrorism has led to the emergence of strong xenophobic/nationalist movements in Europe and the USA that inherently favor right-wing fiscal policies, thus aiding global financial capital's quest for greater deregulation and austerity. The extreme right has also benefitted from deep ethno-cultural divisions across Europe that monetary and quasi-political union has failed to mask. Berezin argues that while the total dissolution of the EU is 'difficult to imagine', she predicts a long twilight struggle between the forces for European integration and for extreme nationalism, preventing for the foreseeable future the emergence of a leftist political movement that could challenge austerity regimes.

In contrast, chapter eleven, by book co-editor Wolfgang Streeck, adopts a quasi-Marxian stance that views the present austerity hegemony as just the latest stage in the dialectical movements of capitalist development in the West. Streeck argues that since World War II, elected politicians have been torn by the contradictory demands for social justice outcomes by workers and free-market outcomes by capitalists. Before 1970, strong economic growth meant there was plenty of wealth to go around for everyone, but since then, globalization processes have stifled growth, necessitating satisfaction of these competing wants by fiscal methods that allow for reaching in to the future to make economic resources available for present consumption. During the 1970s, this was accomplished via inflationary policies, which inevitably led to a crisis of economic incentives. With the defeat of inflation in the early 1980s, Reagan-Thatcher era governments accomplished capital-worker peace via deficit spending. When deficit spending created a private investment crisis in the early 1990s (the 'crowding out' effect) and forced cuts in government spending, Clinton-Blair era administrations resorted to deregulation of the home-finance markets (credit cards, mortgages), which enabled worker households to live beyond their means by piling up personal debt and delivering high rates of return to financial institutions and bondholders. However, the accumulation of easy-credit loans and mortgages resulted in the 'toxic assets' financial collapse of the late 2000s, leading to bailouts of 'too big to fail' banks at the price of fiscal austerity. Streeck is not optimistic about where all of this is leading. He argues that nation-states, rather than reflecting the will of the mass of their peoples, have by market-logic necessity become 'debt collecting agencies on behalf of a global oligarchy of investors' (284) and anticipates that street riots and insurrection may be the last resort for austerity-burdened citizens who no longer have faith in the capacity of democratic institutions to meet their needs.

Readers of *ephemera* interested in the implications of austerity regimes for democratic political processes will find *Politics in the age of austerity* to be a bracing experience. The editors and chapter authors have meticulously documented how austerity regimes have directly impacted on political participation by the mass of ordinary citizens (as spending is cut, voting frequency goes down), on the policy options available to elected officials (they find themselves hamstrung by the demands of financial institutions for deregulation, lower taxes, and bailouts), and on consumer choice (austerity means less money for everyone except the rich to 'vote with their dollars' via spending on goods and services). While these effects are primarily negative, meaning that austerity has had a constraining impact on the average citizen of advanced capitalist countries to elect officials who are able and willing to enact policies they desire and to enhance their quality of lives via consumption, austerity has also mobilized citizenry to forms of direct action that may ultimately prove to have a restorative impact on democratic responsiveness. These include burgeoning participation in NGOs and direct street action such as demonstrations, rioting and the Occupy movement. However, although the authors clearly espouse ideologies that are hostile to austerity, none of them sugar-coat the current situation by positing optimistic scenarios by which the reigning austerity hegemony is likely to be overturned. If anything, the book comes across as mildly defeatist, as several authors argue that there seemingly is no escaping austerity; much as Weber once saw society as being enveloped by an 'iron cage' of bureaucratic logic and institutions, the authors of this volume see a bleak future in which national governments are thoroughly constrained by global financial markets to be servants of the wealthy, while the poor and middle class both pay, the former by cuts in needed services, the latter by higher taxes.

However, there are recent indications that this pessimism may be unwarranted. One such development has been the intellectual damage done to the austerity movement by the revelations that some of the key research papers that underpinned austerity ideology are marked by significant methodological flaws that undercut claims that deficit spending inhibits economic growth (cf. Krugman, 2013). While intellectual setbacks do not necessarily translate into practical policy reversals, the IMF, historically an important transnational advocate of austerity, has recently acknowledged that austerity measures have failed to work in Greece as their economists had predicted, and have modified somewhat their advocacy of austerity as a solution to the economic growth woes that have persisted since the 2008 financial meltdown (IMF, 2013). That said, as of this writing, European Union policy continues to be dominated by austerity logic. Perhaps this is because economic policy has not only a technical dimension but also a moral one: Even if it can be proven that austerity does not lead to economic growth, some policy makers may continue to advocate such measures on 'moral' grounds. Expressions of this kind can be found in arguments by nationalistic political parties in some European countries that it is unfair to expect, e.g., German and Swedish taxpayers to bail out the banks and citizens of countries such as Ireland and Greece, on the belief that these latter countries got into trouble because their governments and citizens went on unwarranted spending binges and thus should shoulder the burden for their alleged profligacy.

Perhaps most challenging is the question of whether this book's central premise that advanced capitalism is characterized by a hegemonic austerity regime is entirely valid. For example, according to the OECD, what it categorizes as 'real social spending' (social spending adjusted for inflation and changes in GDP) by OECD governments experienced an overall increase from 17% of GDP in 2007 to 22% of GDP since the 2008 financial crisis and has not declined since (OECD, 2012), a finding that is inconsistent with the notion that governments have shrunk their welfare states in recent years.

Of course, this average figure masks some marked differences across countries. For example, Greece and Hungary, two of the countries hardest-hit by the financial crisis, experienced declines in real social spending of 14% and 13%, respectively, numbers that reflect imposition of austerity regimes. But other major democratic countries, such as the USA, UK, France, Poland, Korea, and Japan, have increased their real social spending during this time period, indicating that austerity has not taken hold of the fiscal policies of these countries. Perhaps this book's contributor list, short as it is on contributions from USA and Asian scholars, has contributed to its empirical assumption of austerity hegemony. However, on important measures of democratic vitality such as voter turnout in elections, many of these countries have still experienced a decline in participation, meaning that austerity itself may be just one cause among others as to why citizens of capitalist countries are becoming more disaffected with the efficacy of formal political activities. This calls for future research augmenting this volume's focus on austerity measures to determine other causes of democratic ossification in western capitalist countries.

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