

# Are Capitalist Democracies Really Resilient?

A response to Torben Iversen

*By Jenny Andersson*

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**For Torben Iversen, capitalism is not responsible for the crisis democracies are currently facing. Responding to this argument, Jenny Andersson underlines the limits of this optimistic interpretation.**

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This text was written in response to Torben Iversen's article, "Reinventing Capitalism. The transition to the knowledge economy", taken from a conference given for the 10th anniversary of the [Centre for European Studies \(Sciences Po\)](#) in June 2019.

Iversen's "[Reinventing capitalism: the Transition to the Knowledge Economy](#)" makes an interesting argument that situates the 'knowledge economy' as an alternative narrative to the dominant idea of neoliberalism as explanation of the last decades of transformation of "advanced capitalist democratic societies". But it seems to me to be guilty of a common mistake, which is to argue against the concept of neoliberalism, without even citing the actual literature on neoliberalism, which in fact is much more nuanced and also relevant to the author's argument than he is aware or willing to acknowledge.

## The Interests of Capital

The paper thus begins with a non sequitur argument around the relationship between big business and neoliberal reform. It proposes that if industry had been able to shape developments according to their interests in the last three or four decades, it would have pushed for protection against competition, for a more regulated banking system, and for macro-economic expansion. Instead, business got its share of liberalizing reforms, including free trade, deregulated capital markets and price stability instead of full employment. The suggestion is that business had opposite interests to neoliberal reform and also acted against it and that what we normally understand as neoliberalism was thus implemented against the will of capital.

It is clearly so that the transition to a post-Fordist or “knowledge” economy has meant a serious challenge to industry, and a transition from the large nation based industrial companies of the 1950s to the Amazons, Microsofts and Facebooks of the global present. But from this does not follow that business was against what we usually refer to as structural adjustment policies (SAPs), beginning in the early 1970s and shaping an early neoliberal response to globalization. Historians have only begun— yes, we are always slower than political scientists—to study in detail the way that capital interests influenced neoliberal reform. In those studies,<sup>1</sup> a few things are pretty clear and they complicate Iversen’s argument. First of all, capital interests, including for instance oil and car companies, were majorly opposed to welfare statist regulation of the 1970s and thus embraced structural adjustment policies because they thought that the power of the Keynesian welfare state was growing too strong, and that this state was no longer a relatively industry friendly entity but rather captured by special interests such as trade unions. Industries and multinationals at this moment of time created lobby organisations and think tanks of their own, and they began in the period from 1967 on to actively shape both national and transnational policy processes in liberalizing direction. The transnational level, including both the transnational organizations of business and organizations such as the OECD or the EU become important here. At the same time, in the UK and Sweden for instance, employer organisations mobilized against trade unions and called for a halt to

<sup>1</sup> See for instance Ogle, V., *State Rights against Private Capital: “The” New International Economic Order and the Struggle over Aid, Trade, and Foreign Investment, 1962–1981*, *Humanity: An International Journal of Human Rights, Humanitarianism, and Development*, 5(2), 2014, 211-234; Andersson, J., forthcoming, “Ghost in a Shell. The worldmaking of Royal Dutch Shell”, *Business History Review*.

bargaining. These reactions had to do with the wage question, which is conspicuously absent from Iversen's text, while arguably key to the last forty-year period (particularly if one makes an argument about the prosperity of this period).

Secondly, it seems to me that this argument partly falls on the failure to distinguish business from capital. There is not one hegemonic capital actor. It seems very difficult to not make the distinction between manufacturing industries, rooted in the nation state and in historically entrenched capital labour relations, but also labour capital conflict, and 'foot loose capital' and propose that there was one business agenda. Historical work on business organizations is increasingly bringing out that old and new capital had very different interest positions to neoliberal reform.<sup>2</sup> Banks and financial actors were, as Ravi Abdelal<sup>3</sup> has best shown, together with social democrats and planners like Jacques Delors, key in influencing deregulation of capital markets in the EU. It is increasingly argued in the actual literature on neoliberalism that national intellectual traditions, bargaining structures, and decision hierarchies mattered much here<sup>4</sup> and that neoliberalism comes in at least two shapes—the distinctly market oriented and dogmatic kind that Iversen seems to be waving at, and a much more socially embedded kind which for instance in many European countries has made new monetary policies compatible with, say, investments in education and life-long learning.

## The Unequal Distribution of Wealth

This point introduces another argument which is more interesting and better founded and deals with the structural interplay between the nation state and the "knowledge economy". This is a structural argument, and as all such arguments, easy to criticize but also interesting in its own right. However, this argument also begins with knocking on an open door, at least from a non-American scholarship perspective. It is no longer entirely common place to argue that globalization has undermined the capacity of the state to regulate and redistribute.<sup>5</sup> Few scholars argue that states no

<sup>2</sup> See for instance Nevers, J., & Paster, T., "Business and the Nordic Welfare States, 1890-1970", *Scandinavian Journal of History*, 44(5), 2019, 535-551.

<sup>3</sup> Abdelal, R., *Capital Rules: The construction of Global Finance*, Harvard University Press, 2007.

<sup>4</sup> Ban, C., *Ruling Ideas: How Global Neoliberalism Goes Local*, Oxford University Press, 2016.

<sup>5</sup> King, D., & Le Galès, P., *Reconfiguring European States in Crisis*, Oxford University Press, Oxford, 2017

longer redistribute—they rather argue that the pattern of redistribution has changed decisively, and strangely the paper does not engage with this question. Iversen proposes on contrary that the capitalist democratic state has been strengthened by globalization, and developed democratic patterns that allow it to deal with changing capitalism.

In Iversen's paper, this is tied to the idea that the so-called knowledge economy demonstrates an increased power of state regulation and intervention, including investment and spending, that allowed to pursue a series of middle class oriented reforms that should not be labelled neoliberalism. I find this a very simplified argument. Geographers and innovation scholars such as Bengt Lundvall<sup>6</sup> have long argued that innovation takes place in clusters and that these are heavily dependent on investment because market failure problems require state action. This does indeed make the knowledge economy different from a fundamentally neoliberal, competition and deregulated state but that is an ideal type kind of reasoning. For instance, Bob Jessop<sup>7</sup> has argued that a new focus on competition and investment did fundamentally change the nature of the democratic capitalist state, which draws a central part of its legitimacy from investment in innovation and entrepreneurial activities, while it disinvests other fields, mainly in social protection. The knowledge economy may have created unprecedented richness, but it cannot be taken as a given that it was evenly distributed, rather it would have to be argued that effects of the knowledge economy somehow balanced out the documented negative effects on distribution and equality of neoliberal reform.

## **Another Take on Populism**

In the end, what is most convincing about this paper are its final sections on the turn to a middle class, actively boosted by a reorientation of the state, and the costs of this turn in terms of both a growing insider outsider cleavage, and, possibly, a disenchantment among the latter and a subsequent turn to populism. Somehow, and

<sup>6</sup> Lundvall, B. Å., *Innovation, Growth, and Social Cohesion: the Danish model*, Edward Elgar Publishing, 2002.

<sup>7</sup> Jessop, B., *The Future of the Capitalist State*, Cambridge, Polity, 2002.

through a logic that escapes me, both of these things are presented as good for democracy. Florida's 2014 arguments on the creative classes has been heavily criticized since its publication, so it appears as a bit of a shortcut in order to avoid going into the complexities of the argument, but the key point that the author makes is easy to substantiate in for instance Michael Storper's recent work<sup>9</sup> on the increasing separation between cities and peripheries that has also been the result of the separation between creative capitals and backwaters. It seems highly questionable that the emergence of this new cleavage, in which one side has access to both knowledge capital and financial capital, and the other to neither, would be conducive to democratic resilience.

More importantly, if this separation is a result of an active state led shift to a knowledge economy and an effect of an advanced capitalist democratic state, then is all really so well in the non-neoliberal democratic capitalist state? There is no reflection in the paper on what kind of a democracy advanced capitalism has created. There is also no discussion on those elites that were the main beneficiaries of neoliberal reform and who, in Piketty's account, appear as almost totally isolated from both democratic structures and the dangers of the capitalist economy.

We can of course always hope that the mainstreaming of populism is a healthy thing for the advanced capitalist democratic state, as the end of the paper cheerily suggests. It does not seem to me immediately correct to claim that extreme right or populist parties are embracing a social democrat economic platform. In fact in Scandinavia, they have often been among the most aggressively neoliberal proponents, and this is a core contradiction in their electoral platform. If they are not a massive antisystem movement in themselves, surely they are part of an antisystem trend in contemporary politics... The Nordic Resistance Movement, created by disenchantment with the too soft Sweden democrats, is a fascist movement and like a number of growing movements on the Alt Right would rather have no democratic state, see violence as a legitimate form of protest, and argue for the abolition of public media. Fascism in the knowledge economy does not come in exactly the same shape

<sup>8</sup> Florida, R., *Cities and the Creative Class*, Routledge, 2005.

<sup>9</sup> Storper, M., Kemeny, T., Makarem, N., & Osman, T., *The Rise and Fall of Urban Economies: Lessons from San Francisco and Los Angeles*, Stanford University Press, 2015.

as it did in the 1930s. For instance, it has entirely new platforms, the reach of which was unimaginable in the 1930s. I think that the causal relationships between such expressions and both conceptual entities of neoliberalism and knowledge economy are extremely complex, so I am not sure what populism in the end does in the paper apart from being the somehow hedonistic counterpart to an enlightened middle class—which is in itself a dichotomy many electoral sociologists would contradict.

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