Parties, Policy Convergence, and the Challenges of Finance Capitalism

Didi Kuo
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The rise of populisms across Western democracies has been driven by many factors, one of which is the failure of mainstream parties to respond adequately to the needs of voters (Grzymala-Busse 2017; Mudde 2016). Since the 1970s, parties—particularly those of the left, such as the social democratic parties of Western Europe and the Democratic party in the United States—have adopted neoliberal economic policies. These policies have not protected citizens “left behind” by trends of globalization and post-industrialism, leaving economically vulnerable voters feeling marginalized and resentful.

This memo argues that the postwar relationship between democracy and capitalism that produced high rates of economic growth alongside a strong welfare state relied not only on meaningful policy differentiation between parties of the left and right, but also on forms of capitalism that have since declined. It was not just the center-left and its advocacy of strong unions and regulations that protected workers, but also forms of capitalism in which corporations answered to a set of stakeholders that included government, workers, and consumers. In the 1990s, however, parties of the left embraced third way policies that deregulated many industries, while also scaling back social benefits. Meanwhile, finance capitalism changed many aspects of capitalist ownership and production, allowing tremendous profits to accrue to a small group of owners. Finance capitalism produces uneven economic gains and reduces the bargaining power of labor; financial institutions have also accelerated the rise of debt, both public and private. Parties will need to do more than simply reassert traditional policies of the left to mitigate the social and economic effects of twenty-first century capitalism.

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1 This work is part of a broader project on the decline of traditional parties across Western democracies that also examines changes to party organization and financing. While this memo focuses on economic policy, it is important to note that parties have also become organizationally weaker, and less capable of mobilizing voters through traditional political activities.
Neoliberalism and the Politics of the Third Way

After the economic crises of the 1970s, parties of the left were shut out of national elections across North America and Western Europe (Berman 2016). Blamed for stagflation and overreliance on statism, they redoubled their efforts to secure electoral victory after years of conservative rule in the nineteen-eighties. One solution was a shift to programs that triangulated between the social policies of the left and the economic policies of the right, forging a so-called Third Way in national politics.

In the United States, third way politics began with the Democratic Leadership Council, a group that formed after the Democrats’ third straight Presidential loss to Republicans in 1988. The DLC was inspired by calls for Democrats to “reframe” their policy positions, particularly in areas related to the economy, race, and security. William Galston and Elaine Kamarck’s research at the Progressive Policy Institute, for example, showed how Democrats could align their messages with the preferences of majorities of Americans through the “politics of evasion.” The DLC advanced an alternative to mainstream liberalism that emphasized fiscal discipline while preserving traditional social programs like social security and medicare. It focused in particular on areas of economic policy (e.g. welfare reform) and crime and safety (Baer 2000). The DLC relied heavily on pollsters and strategists to field-test campaign messages.

The DLC chose a little-known Southern governor, Bill Clinton, as its nominee for President. Once elected to office, the Democrats enacted policies that, while not explicitly conservative, often incorporated conservative positions. The 1994 Violent Crime Control and Law Enforcement Act toughened federal sentencing guidelines and enacted a “three-strikes” rule for repeat offenders. The 1996 welfare reform bill, the Personal Responsibility and Work Opportunity Act, reconfigured welfare benefits, conditioning them on employment. The Clinton presidency also deregulated the telecommunications industry (1996) and financial institutions (1999). Legislation that balanced the budget in 1997 also enacted tax cuts, including cuts to capital gains and real estate taxes (Stein 2010). At the start of his second term, Clinton proclaimed that “the era of big government is over,” heralding the center left’s move to the right.

Just as the DLC and Bill Clinton were developing strategies to move to the center in the United States, Anthony Giddens’ work heavily influenced Tony Blair and the Labour Party in Britain. Giddens argued for a third way between social democracy and liberalism; embracing
neoliberal policies such as globalization and rejecting reliance on statist programs could modernize social democracy. Tony Blair’s “New Labour” was elected in 1997, and his government pursued free trade, privatization, and welfare reforms. The new politics of centrisms were discussed in a series of Third Way dialogues, the first of which, in 1998, brought together Tony Blair, Bill Clinton, and Romano Prodi. A few months later, in April 1999, the third way conference also included Gerhard Schroder and Wim Kok.

The result of third way politics was an entrenchment of the policies begun by Reagan, Thatcher, and other conservative leaders (Glyn 2001; Roy 2004; Swarts 2013). Even at the time, the third way was derided for its elitism and disconnectedness. Jesse Jackson referred to the DLC as Democrats for the Leisure Class. Ralf Dahrendorf, critiquing the third way in Foreign Affairs, argued that the shifting policies of third way politicians were designed to “deflect criticism as if wearing an oilskin made of a curious mixture of diffidence and dogmatism.” While the third way indeed provided the left with a way to modernize social democracy—a project that proved electorally successful—it did so by alienating traditional social democratic and labor parties from their bases.

Looking back on the policies of the third way, Peter Mair (2013) argued that “the age of party democracy has passed.” Party leaders crafted their messages through public relations and marketing firms rather than developing policies in consultation with rank-and-file party members and stakeholders. The third way was a decidedly elite project, with parties of the center-left sidestepping their ideological commitments and, in some cases, catering to the preferences of the affluent or of narrow special interests (Bartels 2008; Gilens 2013; Page, Bartels, and Seawright 2013). Further, unions continued their steep decline through the neoliberal reforms of the 1980s and 1990s, weakening a crucial relationship between workers and parties. The effect of policy convergence was to leave center-left parties unable to deal with the economic and social challenges that new forms of capitalism brought to liberal democratic societies.

The Rise of Finance Capitalism

As political parties converged on similar economic policies, trends in global capitalism also reconfigured relationships between corporations, workers, and society. Beyond the obvious implications of the growth of a global market and lowered trade barriers, capitalism has also
been reshaped by increasing reliance on finance. The financial sector itself has grown, creating new financial products and services; this financialization has produced a “tendency for profit making in the economy to occur increasingly through financial channels rather than through productive activities” (Krippner 2011, 4). The finance industry has also produced new logics of corporate management and production that hold corporations accountable only to a small set of shareholders or financial managers, rather than to workers, consumers, or regulators.

Finance capitalism represents a shift from managerial capitalism, which had its origins in the second industrial revolution of the late nineteenth century (Chandler 1977). In the postwar period, large corporations were run by technocratic, trained managers making decisions over production while also considering the needs of workers and consumers. Managerial power, in Galbraith’s formulation, answered to countervailing powers of big government and big labor. Democratic institutions provided checks on corporate power, while corporations generated immense growth and productivity.

The neoliberal revolution ushered in deregulation and globalization, and reliance on markets—rather than states or politicians—to solve economic problems. Reliance on the market in turn reshaped the role of the firm in the economy. First, corporations became seen as bundles of assets that could be bought and sold on the market. As a result, the decisions of managers became increasingly subordinate to decisions of finance executives (Fligstein 1990; Useem 1996). Further, the shareholder value of the firm (the idea that firms’ foremost obligation is to increase profits for shareholders) and the efficient market hypothesis (arguing that a firm’s stock value reflects its true value) have changed corporate incentives; corporations now focus almost exclusively on short-term profits. These trends have led to excessive cost-cutting, wage reductions, and benefit cuts (Lazonick 2013; Gomory and Sylla 2013). Mature companies are also subject to takeover by private equity firms, which profit from selling corporate assets while saddling corporations with debt. Corporations rely increasingly on outsourcing and contracting, which further severs ties and obligations to employees (Appelbaum and Batt 2014; Weil 2014).

The financial sector has grown dramatically, but unsurprisingly, its gains have been uneven. By 2001, financial sector profits represented more than 40% of the United States’ total profits (Krippner 2011). Wages have stagnated or declined for low- and middle-class workers, while executive compensation has risen dramatically. Piketty and other scholars of inequality have shown an empirical relationship between income inequality and gains from finance.
Finance capitalism makes it difficult for social policy alone to bridge widening wealth and income gaps. This is because profits from finance accrue from the indebtedness of consumers, a phenomenon Crouch (2009) has termed “privatized Keynesianism.”

The Great Recession of 2008 exposed both the dangers of finance capitalism, as well as the state’s inability to successfully regulate the industry. Finance remains poorly understood by the general public, even by politicians; meanwhile, the profits from finance are highly valuable (Streeck 2014). The economic inequities that result from changes in capitalism therefore translate into political inequality as well. The financial industry’s deep pockets and lobbying activity result in favorable policies largely hidden from public view. Mettler (2011) has shown, for example, how the housing, health care, and student loan industries profit enormously from favorable policies written in to tax codes. Lax regulation and financial market innovations make it particularly challenging for governments to anticipate market failures or mitigate their effects (McCarty, Poole, and Rosenthal 2013). Paradoxically, the center-left has accelerated the rise of finance capitalism through its advocacy of corporate governance reforms (Cioffi and Hopner 2006).

Given the populist insurgencies across Western democracies over the past few years, parties of the left have acknowledged their deficiencies in addressing the needs of poor and working-class voters. The forces of economic anxiety that contributed to Trump’s election, Brexit, and the rise of far-right parties across Europe have led to calls for “better policies.” But the scope of policies available to parties seems to have narrowed just as the challenges presented by new forms of capitalism have grown (Hall 2014). In the late nineteenth century, when corporations engaged in corrupt politics, excessive rent-seeking, and labor repression, parties had to construct wholly new institutions to regulate them. The Sherman Anti-Trust Act and the Interstate Commerce Act of the 1880s paved the way for greater Progressive regulations of the early twentieth century. Similarly, social democracy of the twentieth century towed the line between liberalism and communism; the welfare state was a way to manage markets and to protect society (Berman 2006).

It is not simply “globalization,” but instead a significant reconfiguration of capitalism, that parties now face the challenge of regulating. Technological innovation, automation,

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monopolistic and oligopolistic economic sectors, and independent contracting (the so-called “gig economy”) further threaten jobs. Additionally, the rise of corporate social responsibility and private philanthropy furthers the idea that corporations should manage themselves, rather than the state (Reich 2007). As Panitch (2014, 1082) argues, “to understand the dynamics of class inequality…we need to start with capital and capitalism…and the processes through which state institutions were engineered by party and state actors to further promote and facilitate capitalist competition and accumulation.” For parties to regain the trust of electorates, they will need to find new ways—both new policies, and perhaps new state institutions—to mitigate the social and political consequences of financialization. This will require new ideological principles, as well as renewed commitments to state intervention in the market.

References


