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Fabrizio Tonello

Desolation Row

**From Democracy
to Oligarchy, 1976-2016**

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UTOPIE

Desolation Row

From Democracy to Oligarchy, 1976-2016

by

Fabrizio Tonello



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About This Book

The neoliberal cycle (1976-2016) has produced a group of oligarchic regimes where the massive concentrations of wealth allow a handful of individuals to control the political process. What is surprising is the speed with which the traditional elites are accepting the idea of oligarchy not only as a form of good government but as *the only possible* form of good government.

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From Democracy to Oligarchy, 1976-2016

1. Prologue

It is a telling sign when popular culture adopts a concept and glamourizes it. In recent years “oligarchy” has become a fashionable word: art exhibitions, TV series, newspapers articles. A quick look is enough to find a rich exhibition in Palazzo Strozzi in Florence, *Denaro e Bellezza*, that celebrated more the creativity and entrepreneurship of bankers than the art of Botticelli (Sebregondi and Parks 2011). “The problem was how to do business. A unit of exchange was needed that really was worth something”, wrote one of the editors in the catalogue, joining the current idolatry of strong currency, one of the defining features of neoliberalism.

Italian public network Rai 1 goes in the same direction with a TV series starring Al Pacino, *I Medici*, a fiction about the family of oligarchs that dominated Florence for centuries, using the money accumulated in banking as an all-powerful political resource. The press clips about the series credit the Medicis with nothing less than “inventing the Renaissance and the myth of Italy”.

And then we have the founder of the daily *la Repubblica* using his Sunday column to claim that “[o]ligarchy is the only form of democracy, there is no other one, except so called direct democracy, the one that functions by referendum. Awful system that is, direct democracy (...). Olygarchy is the ruling class, at every level, in all times” (Scalfari 2016).

What is remarkable in this statement is not the author’s lack of familiarity with the entire modern political tradition, starting with Aristotle, who stressed the opposition between government by the few (oligarchy) and government of the many (democracy)¹. It is the rock-solid certainty that in today’s world “democracy” is a concept devoid of meaning, except the ritual of voting with some regularity, which is good for TV ratings. The mob could and should vote, but decisions firmly remain in the hands of the experts, as it must be. No wonder that “[a] strange thing happens to democracy: everybody seems to want it, but nobody believes in it anymore”, as historian David Van Reybrouck (2015, 9) puts it.

To the political scientist it is no surprise that the neoliberal cycle, 1976-2016, has produced a group of oligarchic regimes where the massive concentrations of wealth allow a handful of individuals to control the political process. What is a surprise is the speed

with which the traditional elites in the United States and in Europe are accepting the idea of oligarchy not only as a form of good government but as *the only possible* form of good government.

¹ Two days later, Nadia Urbinati (2016) gently corrected the record in the same newspaper.

2. *Where Democracy and Inequality are Discussed*

Let's start with a definition: from a systemic point of view, what is an oligarchic regime? According to Jeffrey Winters, an oligarchy is a regime where a small number of actors held a disproportionate power based on concentration of wealth. The oligarchs' need to defend their assets has two basic consequences: 1) it gives them unity of purpose in defending their power and privileges on a global scale; 2) it provides them with the power resources to shield their money. This author affirms that "democracy and oligarchy can coexist indefinitely as long as the unpropertied classes do not use their expanded political participation to encroach upon the material power and prerogatives of the wealthiest" (Winters 2011, 11). I will discuss below the limits of this position.

Today, citizens are asked to believe that holding elections – no matter how they are conducted or what constrains those who win them – is enough to consider the regime democratic: "[a] political system [is defined] as democratic to the extent that its most powerful collective decision-makers are selected through fair, honest, and periodic elections in which candidates freely compete for votes and in which virtually all the adult population is eligible to vote" (Huntington 1993, 7). On the contrary, free and fair elections are only the first step in a complex set of conditions, which must be present to label a country as a democracy².

We must stress that purely procedural definitions of democracy fail to take into account two essential dimensions: 1) popularly elected officials must be able to exercise their constitutional powers without being subjected to overriding (albeit informal) opposition from unelected officials, like military or civil servants; 2) the polity must be self-governing; it must be able to act independently of constraints imposed by some other overarching political system (Schmitter and Terry Lynn 1991, 106).

If we ignore these two conditions, many authoritarian countries like Kazakhstan, Singapore and Turkey would qualify as democratic. We have to take into account this dimension of self-rule if we want to have a meaningful debate about the current state of our political institutions. European citizens have been doing this for quite a while: governments are "ruling the void", to borrow the title of Peter Mair's last book (2013): why bother to vote if any government must operate under the same creditors-dictated constraints?

And self-rule is indeed a problem in the domestic dimension if just 158 families can basically decide who will be the candidates for president, senator or representative in the US, as noted by Nicholas Confessore, Sarah Cohen and Karen Yourish in *The New York Times* on October 10, 2015. This is a consequence of US Supreme Court's ruling *Citizen United* (2010), that allowed unlimited political contributions to candidates. The issue of wealth inequality is paramount in assessing the character of political regimes.

Inequality in industrialized countries has been explored by the IMF, put on center stage by Thomas Piketty, and we have a harvest of data and studies on the United States (Stiglitz 2012; Summers 2013; Piketty 2014; Formisano 2015). The bank Citigroup, already in 2005, informed its customers that "1) the world is dividing into two blocs – the plutonomies, where economic growth is powered by and largely consumed by the wealthy few, and the rest" (*plutonomy* was the corporate neologism for plutocracy). The newsletter went on: "the plutonomies (the US, UK, and Canada) will likely see even more income inequality, disproportionately feeding off a further rise in the profit share in their economies, capitalist-friendly governments, more technology-driven productivity, and globalization" (Kapur *et al.* 2005).

Is this process politically significant or not? The conventional wisdom is that there is a tradeoff between equality and efficiency: in other words, inequality would be an incentive to work more, and better, making the economy more efficient. Therefore, even if there were a spillover in the political sphere, inequality would not be a problem because the effects on general welfare would remain positive. Looking at the specific political choices made in the USA, the opposite seems true: one can see their rapid and strong effects in the rise of inequality, particularly after Ronald Reagan's election.

In 1973, the share of income going to top 1% of American taxpayers was about 9%, while to the bottom 90% went 68% of US national income. Inequality there was, but nothing compared to what happened in the following forty years. In 2013, the share of the bottom 90% of taxpayers fell to 53%, fifteen percentage points below the level of 1973, while the part of the top 1% doubled and then remained basically at the same level. The weakening of organised labor that started in the Seventies, and was never reversed, allowed net productivity to grow by 21.6%, from 2000 to 2014, while the typical worker's hourly compensation (wages and benefits) grew by just 1.8% in the same period. The federal minimum wage has stagnated or diminished since 1968, actually it was in that very year that it peaked at \$10.88 in 2014 dollars: in 2016 it still is \$7.25.

This is why I should differ from Winters in the evaluation of the political consequences of concentrated wealth: it has transformed national institutions, taking away the basic tools of popular accountability, not to mention democratic agency. Princeton political scientist Larry Bartels explained: "[i]ncreasing economic inequality may produce increasing inequality in political responsiveness, which in turn produces

public policies increasingly detrimental to the interests of poor citizens, which in turn produces even greater economic inequality, and so on. If that is the case, shifts in the income distribution triggered by technological change, demographic shifts, or global economic development may in time become augmented, entrenched, and immutable” (Bartels 2005, 286). And, as the Task Force on Inequality and American Democracy of the American Political Science Association (2004, 18) pointed out, “rising economic inequality will solidify longstanding disparities in political voice and influence, and perhaps exacerbate such disparities”.

We will not understand much of the profound political changes of the last fifty years without taking a look at how liberal democracies slowly withered in a process of de-constitutionalization that imperceptibly changed their nature into oligarchic regimes against helter-skelter and ineffectual opposition. This has been a long, stealth, process but it is now complete. We regularly vote, but it’s more and more difficult to see how the global capitalist system can be compatible with a democratic state, and we need “to grasp the implications of [liberal democracy’s] waning as a political form, and even to pose a question about whether democracy continues to have meaning as a term or aspiration” (Brown 2006, 691).

Institutions are rules to distribute power among actors. Today, are they designed to contain or to encourage political participation and democracy? In this pamphlet, I shall try to show how after 1968 new institutions have been created, or strengthened, in order to constrain and limit democracy, and that in this process the national state has been deliberately weakened in his economic powers and strengthened in his power of surveillance/repression. A great deal of its decision-making abilities in economic and social matters has been transferred to private entities, or international bodies where the oligarchs’ interests can be defended more efficiently.

This mutation started in the Seventies, when “the owners and managers of capital (...) opened a long struggle for a fundamental restructuring of the political economy of postwar capitalism” (Streeck 2014). The enthusiasm for the newfound “invisible hand” would probably have died of its internal contradictions if a major political development had not given it a new lease of life that lasts to this day: the 1989-91 collapse of the Soviet bloc.

While differences persist between American and British neoliberalism and German *Ordoliberalismus*, today the prevailing consensus among cosmopolitan elites seems to be based upon:

- The idea of the economy as a “natural” system, not to be tinkered with;
- The shift of many powers to technical institutions or international venues;
- A drastic reduction of governments’ will and ability to interfere with global markets
- The glorification of business and entrepreneurialism;
- The pursuit of disinflation to the advantage of creditors;
- The promise of consumerism as false equality that favors the acceptance of high levels of economically inequality;

· Resurrection of social Darwinism, “survival of the fittest” discourses, masquerading as meritocracy.

How did we arrive there? Neoliberalism is a constellation of concepts more than a rigorous, unified, doctrine. As Keynes aptly said, “[t]he disposition towards public affairs, which we conveniently sum up as individualism and laissez-faire, drew its sustenance from many different rivulets of thought and springs of feeling” (Keynes 1931, 136). While it is true that we have to “reckon with the incoherent, multiply sourced, and unsystematic nature of political orders and rationalities” (Brown 2006), I shall try to understand the *Zeitgeist* of our epoch (what Pierre Bourdieu called *doxa*) going back to the Sixties and then looking at how some ideas that had always been present in American thinking played out in the long run. I focus on the way chosen by global elites to strengthen and expand their power when 1968 movements put back on center stage the question of power. This “revolt of the elites” described by the late Christopher Lasch appears to be a long, sophisticated, increasingly authoritarian and violent backlash by the ruling classes against popular agency.

²The literature on this point is overwhelming. See, for example, Schmitter and Terry Lynn (1991). Classic references are Bachrach (1967); Dahl (1998); Tilly (2007). Of course, there is no shortage of cynicism in the long tradition of elitist thinkers who gladly offer definitions like this: “Democracy is a pompous word for something that has never existed” (Sartori 1987).

3. *Where the Fear of the Rabble Sparks a Reaction*

Nobody conveyed the combative relationship between elites and masses clearer than Baruch Spinoza when he wrote: “[n]ecessity is often the mother of invention, but she has never yet succeeded in framing a dominion that was in less danger from its own citizens than from open enemies, or whose rulers did not fear the latter less than the former” (Spinoza 1883). Certainly this was true in the streets of Paris in May 1968, when millions of students and workers together asked not only for a different government but for a different society, a different world. The most clear-sighted among the establishment’s publications, *The Economist*, observed at that time: “[f]or a few days in late May [the fear of government repression] almost vanished. The state itself gave the impression of vanishing”. It did not, but the *canaille* put the fear of god into many a ruler from Washington to Prague and beyond.

Was the French May just a historical quirk, an almost folkloric Parisian event staged to keep up the reputation of a barricades-prone city (1789, 1830, 1848 and 1870 insurrections come to mind)? Nothing could be further from the truth: it doesn’t matter if conservative parties won big in the parliamentary elections in June 1968, while the sit-ins and street fighting had ceased. Three months later, on August 25-30, Chicago exploded when thousands of young Americans protested against the Democratic presidential convention and the Johnson administration’s prosecution of war in Vietnam.

Even if the war continued for seven long years after 1968, the core of the world system was shaken, all the more so because young people had taken the streets West and East, from London to Rome and from Mexico City to Berlin. The crushing of the Prague Spring by Russian tanks in August 1968 didn’t stop the movement in the West, and in some countries like Italy the progressive wave was truly long lasting, with widespread demonstrations and important unions’ victories in the Seventies. In Britain, two militant mobilizations of coalminers against mines closures in 1972 and 1974 defeated Edward Heath’s Conservative government. In Spain a million and a half workdays were lost in 1973-75, even if strikes were considered illegal by the Franco’s regime.

In the first half of the Seventies, one point became clear in the mind of American and British elites: their vulnerability under the power arrangements shaped by the democratic-Keynesian compromise of the Thirties and the Forties. The threat was

perceived as coming from the *internal dynamics* of a highly educated, active, and “participant” society (see paragraph 5, below).

The compromise had been forged under Franklin Delano Roosevelt, whose administration shaped the postwar American middle class through the creation of social security and wartime wage controls, the era christened by Claudia Goldin and Robert Margo the “great compression” of wages (Goldin and Margo 1991). The end of the war and the economic expansion of the Fifties did not cause a return to the inequality of the Twenties: “[i]nstitutions, norms and the political environment matter a lot for the distribution of income (...) There wasn’t a major rise in US inequality until the Eighties” (Krugman 2007, 8).

For a generation, New Deal’s ideas that favored equality, progressive taxation (top incomes were taxed at 90%) and strong labor unions created a distribution of incomes that allowed part of the working class to stop living from paycheck to paycheck and consider themselves middle class. It’s only when the “battle of ideas” would be won by the oligarchs, and Ronald Reagan elected in 1980, that US government policies would start to consistently favor the 1% of tax-payers at the expense of working families, which has slowly translated in the shrinking of the middle class. This, of course, happened in the UK as well, after Margaret Thatcher’s rise to power.

After 1933, Keynesians ideas became hegemonic, while laissez-faire doctrines seemed largely discredited by the Great Depression, but orthodox economists never went away: on the contrary they found protection and encouragement in American universities. Ludwig von Mises taught at New York University, courtesy of his patron, businessman Lawrence Fertig, while Friedrich von Hayek took refuge in Chicago. In fact, the Austrian School’s thinkers never were marginal among economists and politicians: friends and students of von Mises included Wilhelm Röpke, an advisor to German economic Minister (and later chancellor) Ludwig Erhard, Jacques Rueff (monetary advisor to Charles de Gaulle), Lionel Robbins (London School of Economics), and Italian economist (and later President) Luigi Einaudi.

What Mises and Hayek basically did was to keep functioning the intellectual arms of laissez-faire in times when the prevalent *doxa* seemed to have discarded it forever. Their enemy was not the state, but the *democratic* state with its power of redistribution. In fact, both Austrian economists were obsessed by the possibility that workers could pretend to more than they “deserved” and in 1947 founded the Mont-Pelerin society as a lobby to restore the laissez-faire ideas hegemony.

4. Where the Nobel Prize's Symbolic Power Is Put to Good Use and Some 1968 Thoughts are Hijacked by the World Bank

1968's rebellions were a world phenomenon, and television allowed everybody to see them. If young Germans and young Italians took the streets to put an end to the American war in Vietnam, world elites were not behind in understanding the global meaning of the youth rebellion. There is a substantial consensus and strong common determination when vital interests are threatened. We should focus on long-term processes, and always look beyond the glitter of television images, or the daily quarrels.

In this perspective, we can understand the creation of a faux Nobel Prize as one of the earliest moves of the global elites' counter-offensive. It happened in 1968, when the Bank of Sweden established a prize "in memory of Alfred Nobel", to be assigned to an economist. In his lifetime, Nobel thought that medicine, physics, chemistry, literature and peace were really important disciplines for mankind, not so economics, whose status as a science is controversial at best. Of course, the point of having a prize dedicated to Nobel was to exploit the symbolic capital of the world-admired Nobel Prizes and put it to good partisan use. In plain speaking, to capitalize on the huge media exposure and public opinion influence linked to the prizes first awarded in 1901.

It is important, here, to understand how cultural mechanisms work in the political field: French philosopher Louis Althusser (2001, 125) put the question this way: "[t]he ideology of the ruling class does not become the ruling ideology by the grace of God, nor even by virtue of the seizure of State power alone. It is by the installation of the ISAs [Ideological State Apparatuses] in which this ideology is realized and realizes itself that it becomes the ruling ideology". This appears to be a rather rigid and oversimplified description: the victory of a new ideology is always the fruit of a complex interplay between ideas, material resources and external events. In the case of the resistible rise of neoliberalism it was the combination of these forces that produced the now-dominant fetishism of the market.

Public opinion is what emerges always from a strongly contested field of competing ideas and the Bank of Sweden's prize gave huge legitimacy to the works of Friedrich von Hayek, who received it in 1974, of Milton Friedman (1976), Gerard Debreu (1983), James

Buchanan (1986), Ronald Coase (1991), Gary Becker (1992) and Robert Lucas (1995). The prize contributed greatly to resurrect the credibility of laissez-faire, and to create the new *doxa*, the idea of efficient, self-regulating, markets that had seemed dead and buried in 1929.

Swedish elites did their part, but it's worth noting that Germany had always been resistant to Keynesian ideas, because in *Ordoliberalismus*, it is the economy that produces sovereignty. Michel Foucault (2004, 85-86) pointed out: “[t]he economy produces legitimacy for the state that is its guarantor. In other words, the economy creates public law (...). There is a permanent genesis, a permanent genealogy of the state from the economic institution. And even this is not saying enough, for the economy (...) produces a permanent consensus of all those who may appear as agents within these economic processes, as investors, workers, employers, and trade unions”.

In building neoliberal intellectual hegemony, a text often overlooked is Garrett Hardin's 1968 article *The Tragedy of The Commons*, which would later have a disproportionate influence upon the thinking of economists and policy-makers (published in a popular magazine, as of October 2016, it had been quoted by 30,965 academic publications). The article began with the example of a pasture open to all: “[i]t is to be expected that each herdsman will try to keep as many cattle as possible on the commons. Such an arrangement may work reasonably satisfactorily for centuries because tribal wars, poaching, and disease keep the numbers of both man and beast well below the carrying capacity of the land. Finally, however, comes the day of reckoning, that is, the day when the long-desired goal of social stability becomes a reality. At this point, the inherent logic of the commons remorselessly generates tragedy”.

The tragedy, continues the author, springs from the fact that “the rational herdsman concludes that the only sensible course for him to pursue is to add another animal to his herd” because the gain of having a larger herd is his, while the loss due to overgrazing is the village's. And if he doesn't expand his flock another shepherd will. “This is the conclusion reached by each and every rational herdsman sharing a commons”, wrote Hardin, “[e]ach man is locked into a system that compels him to increase his herd without limit – in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. Freedom in a commons brings ruin to all”.

Sound economic management was not Hardin's central interest: the article's main issue was a neo-Malthusian view of the dangers of overpopulation. Indeed, the one-line abstract simply stated: “[t]he population problem has no technical solution; it requires a fundamental extension in morality”. Moreover, the author was swimming in “progressive” intellectual waters: he was skeptical of Adam Smith's invisible hand, he stressed that our planet is limited, and he mocked the economists' totem of the rational individual whose

free choices would bring the best for the whole society. He went on saying that “our particular concept of private property, which deters us from exhausting the positive resources of the Earth, favors pollution”, a line that today would bring quick dismissal to the unfortunate young economist that would dare to repeat it. And yet his arguments were hijacked by supporters of free trade and laissez-faire.

This happened because Hardin was more brilliant than rigorous, more intellectually sophisticated than historically sound. His acceptance of the paradigm of *homo oeconomicus*, the idea of the individual always rational in his decisions, fatally weakened his conclusions. As Elinor Ostrom has shown, small communities have tried to solve the problem of the commons for centuries with a combination of democratic practices, cultural or religious commandments, and self-imposed restrictions (Ostrom 1999). Mostly they were successful, some failed, and the lesson we should learn from an historical investigation on this matter is precisely the opposite of what the World Bank has claimed for decades: small, democratic, communities can efficiently manage their resources for long periods and even survive exogenous shocks such as climate changes. The misinterpretation of Hardin’s work, on the contrary, led many international institutions to spread the idea that any kind of common resource would be quickly depleted, and therefore the only solution is to split and privatize it, shifting to the individual economic agent the burden of deciding what to do with his land, fishing rights, or other economic assets.

The IMF and the World Bank have never been democratic institutions: voting rights are proportional to the capital subscribed and to the political strength of their members. Since their birth in Bretton Woods, their unwritten goal was to integrate the elites of all countries into the capitalist world system of rewards and punishments. However, for decades they were staffed by mostly Keynesians economists and it was not before the late Seventies that both institutions were coopted by the high priesthood of Hayekyans and Friedmanites. Harding’s article became the rationale for privatizations as a tool of development in the countries where World Bank’s intervention was requested. The reasoning was faulty but, as in the case of other economic doctrines, this was not a concern.

In the Washington-based international institutions, another important theoretical influence came from the work of Anne Krueger, an American economist teaching at the University of Minnesota. She became the World Bank Chief Economist in 1982, and the first deputy managing director of the International Monetary Fund (IMF) in 2000, but her role in shaping the neoliberal economic thinking goes back to her 1974 article in which the term “rent-seeking” was coined.

Her point was simple: “[i]n many market-oriented economies, government restrictions upon economic activity are pervasive facts of life. These restrictions give rise to rents of a

variety of forms, and people often compete for the rents”. In other words, regulations (that Krueger call “restrictions”) produce advantages for some groups (rents) that diminish the general welfare. Her conclusions were sweeping: “[w]hile import licenses constitute a large and visible rent resulting from government intervention, the phenomenon of rent-seeking is far more general. Fair trade laws result in firms of less-than-optimal size. Minimum wage legislation generates equilibrium levels of unemployment above the optimum with associated deadweight losses (...). Ceilings on interest rates and consequent credit rationing lead to competition for loans and deposits and/or high-cost banking operations (...). And so on” (Krueger 1974, 301).

The article had an ambitious title, *The Political Economy of the Rent-Seeking Society*, but was concerned with an extremely narrow and specific case: import licensing in two developing countries, India and Turkey. On this base, Krueger developed “a formal model of rent-seeking under quantitative restrictions on trade” and then she went on theorizing about minimum wage, bank loans, taxi fares and apartments overbuilding all over the world. Historians of capitalism know that regulations are part and parcel of the functioning of markets: conceptually, it is simply impossible to have a “market” without regulation and defence of property rights. It should also be plain that regulations could have positive effects, and that they are not neutral but country, class and time-specific: defending consumers from food poisoning or air pollution certainly harms bad producers but it helps the society.

Krueger’s academic success and professional career in international organizations were helped by the new consensus forged in the stagflation crisis of the Seventies, when mainstream economists started to abjure Keynesian economic theory in favor of a microeconomic vision of individual choice and frictionless markets. Material consequences of this ideology on daily life of real people were, and are, of no concern.

For decades, the World Bank and the IMF have lent money to debtor countries with solid economical and political strings: their policy prescriptions, blandly called “structural adjustments”, require that governments open their economies to foreign corporations, generally allowing these neocolonial actors low-cost access to the natural resources of the country, including labor³. Other policies usually requested include balancing the government budget by cutting social spending, privatizing publicly owned assets, and allowing global corporations to repatriate profits. The indebted countries lose control over their own tax systems, welfare services, land, factories and other resources, while the most vulnerable parts of the population, women and children, are deeply penalized. In other words, there is a strong anti-democratic bias in the adjustment programs advocated by the IMF, the World Bank, the OCDE and other multilateral agencies. Their governance strategies seem designed to close off and insulate the market from political processes, a key point on which I shall return below. At least as important as the faux-Nobel, Hardin’s

and Krueger's articles was a memorandum written by a little-known American corporate lawyer in 1971.

² A policy the USA has supported since commodore Matthew Perry entered Tokyo Bay with his ships in 1853.

5. *Where Gramsci's Ideas are Adopted by the Chamber of Commerce*

In August 1971, a confidential memorandum with the rather Hollywood-sounding title, *Attack on American Free Enterprise System*, arrived on the desk of a director of the US Chamber of Commerce. The author, Lewis Powell, who a few months later would be appointed to the Supreme Court, was somehow apocalyptic in his diagnosis: “[n]o thoughtful person can question that the American economic system is under broad attack (...) the assault on the enterprise system is broadly based and consistently pursued. It is gaining momentum and converts”.

What is important here is not whether Powell's assessment of the political situation was correct, which obviously was not, but his prescriptions to “save the system”, a list of actions clearly designed as a cultural, long-term strategy. In Gramscian terms, a program to obtain hegemony. Free market ideas would not prevail without a full commitment: “[i]ndependent and uncoordinated activity by individual corporations, as important as this is, will not be sufficient” – wrote the author – “[s]trength lies in organization, in careful long-range planning and implementation, in consistency of action over an indefinite period of years, in the scale of financing available only through joint effort, and in the political power available only through united action and national organizations”.

Powell, as a first step, proposed to hire a staff of “highly qualified scholars in the social sciences who do believe in the system”. More specifically, “[i]t should include several of national reputation whose authorship would be widely respected – even when disagreed with (...). There also should be a staff of speakers of the highest competency (...). The Chamber should have a Speaker's Bureau which should include the ablest and most effective advocates from the top echelons of American business (...). The staff of scholars (...) should evaluate social science textbooks, especially in economics, political science and sociology”.

These authors should not rest: “[i]t is especially important for the Chamber's ‘faculty of scholars’ to publish. One of the keys to the success of the liberal and leftist faculty members has been their passion for ‘publication’ and ‘lecturing’. A similar passion must exist among the Chamber's scholars”. Incentives might be devised to induce more publishing by these reliable scholars: “[t]here should be a fairly steady flow of scholarly

articles presented to a broad spectrum of magazines and periodicals – ranging from the popular magazines (*Life, Look, Reader's Digest, etc.*) to the more intellectual ones (*Atlantic, Harper's, Saturday Review, New York, etc.*) and to the various professional journals". Publications and propaganda, continues the memorandum, should not be a substitute for "more direct political action, while awaiting the gradual change in public opinion to be effected through education and information. Business must learn the lesson, long ago learned by labor and other self-interest groups. This is the lesson that political power is necessary; that such power must be assiduously cultivated; and that when necessary, it must be used aggressively and with determination – without embarrassment and without the reluctance which has been so characteristic of American business".

If one looks at the ferocious, and as a rule successful, history of lobbying by business groups in American history, this late discovery of political power seems rather disingenuous, but that is not the point. What is interesting is how detailed were the prescriptions and how complete would be the implementation of Powell's memorandum in a short time. Eighteen months were enough to incorporate the Heritage Foundation, whose stated mission was to "formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense". In a few years, a galaxy of other think tanks, lobbyists and friendly scholars became busy in every nook and cranny of the US universities, media, and government agencies.

Old family foundations and some billionaires' personal funds were redirected to support the collective effort: Richard Mellon Scaife, Joseph Coors, John Olin gave millions to small groups like the American Enterprise Institute or the Center for the Study of American Business, while financing far more ambitious intellectual venues such as the Hoover Institution at Stanford University and the National Bureau of Economic Research in Cambridge, Massachusetts. A respected research institution, NBER, was run in the late Seventies by Martin Feldstein, from Harvard, who will go on to become chairman of the Council of Economic Advisers to President Reagan in 1982. Feldstein's theories about inflation and unemployment were particularly important in winning the "battle of ideas" in the US.

By the end of the Seventies, "the business community had achieved virtual dominance of the legislative process in Congress. The rise of the corporate sector is a case study in the ability of an economic elite to gain power by capitalizing on changes in the political system" (Edsall 1984, 107-8). To gain power, one must add, changing the shared cultural imaginary of the country, promoting a vision of the world *naturally* governed by market logic.

The history of nationalism has abundantly shown the power of propaganda: in every

age some words take on magical properties, and quickly shut down any debate, regardless of their truth. This is the case of economic doctrines, too, and in the Seventies and the Eighties no word “flew higher or assumed a greater aura of enchantment than ‘market’”, as Princeton historian Daniel Rodgers (2011, 41) acutely observed.

Collective action in 1968 and later had taken some ideas about equality and freedom and given them a new legitimacy, threatening to use them politically to enlarge the space of liberty for ordinary people. The Sixties’ slogans would have remained a scholars’ curiosity if not adopted by citizens building ephemeral barricades. Participatory democracy ideas were defeated not because they were wrong but because of the strength of oligarchs’ intellectual and political counteroffensive was amplified with the seizure of state power when Margaret Thatcher and Ronald Reagan assumed office. As Michael Walzer noted, “[p]olitics is the sphere through which all others are regulated” and we would not be here discussing the history of neoliberalism if the strong arm of the state had not been used by Ronald Reagan against air traffic controllers in 1981 and by Margaret Thatcher against miners in 1984 (Walzer 1983, 310; Cartosio 2012; Cartosio 2014). Ideas assume a different weight when reinforced by police batons.

6. *Where Global Elites Reject Democracy in the Name of Democracy*

Today, the 1975 Trilateral's report, *The Crisis of Democracy*, commissioned by Zbigniew Brzezinski and written by Crozier, Huntington and Watanuki, appears as a strange document: while it contains perfectly sensible statements such as "a social structure in which wealth and learning were concentrated in the hands of a very few would not be conducive to democracy" (Crozier, Huntington, Watanuki 1975, 5), its main thesis was that industrial countries suffered of "intrinsic threats" because "in recent years, the operations of the democratic process (...) have generated a breakdown of traditional means of social control, a delegitimization of political and other forms of authority, and an overload of demands on government, exceeding its capacity to respond" (*ibidem*, 8).

If this was the common background, subtle differences are clearly visible between the authors, particularly between the more sophisticated approach of Michel Crozier and the frankly elitist take of Samuel Huntington. Crozier, stealing a page from Sartre, wrote that "[o]nce people know that things can change, they cannot accept easily anymore the basic features of their condition that were once taken for granted" (*ibidem*, 22). To Huntington, the problem was that "the effective operation of a democratic political system usually requires some measure of *apathy and noninvolvement* [my italics] on the part of some individuals and groups". For him, the "mobilized, and participant society" that had appeared in the Sixties in the US was simply too dangerous, there was "an excess of democracy". Not surprisingly, his conclusion was that "[t]he arenas where democratic procedures are appropriate are, in short, limited".

The author expanded on this topic writing that "a significant challenge comes from the intellectuals and related groups who assert their disgust with the corruption, materialism and inefficiency of democracy and with subservience of democratic government to 'monopoly capitalism'. The development of an 'adversary culture' among intellectuals has affected students, scholars, and the media (...). In some measure, the advanced industrial societies have spawned a stratum of value-oriented intellectuals who often devote themselves to the derogation of leadership, the challenging of authority, and the unmasking and delegitimation of established institutions (...). This development constitutes a challenge to democratic governments".

This vision of the revolutionary role of the intellectuals, which was later to become a major issue for American neoconservatives, sounds today empirically indefensible: the millions of people who are daily engaged in non-manual occupations hardly qualify as a class or group, being as different as millionaire Oprah Winfrey and a free-lance reporter in New Orleans. Today, it's easier to find intellectuals who are unpaid bloggers in France, or impoverished members of a local theatre group in Italy, than tenured professors in the US, lately an endangered species. At the theoretical level, back in 1935, Gramsci stressed that *as a group* the intellectuals are "the dominant elite 'errand boys' exercising the subaltern functions of social hegemony and political rule" (Gramsci 1975, 1519), which of course doesn't prevent individual thinkers from developing critical, and even revolutionary, ideas.

Huntington's conclusion was that "[d]emocracy is more a threat to itself in the US than it is in either Europe or Japan, where there still exist residual inheritances of traditional and aristocratic values" (Crozier, Huntington, Watanuki 1975, 114). It's no surprise, then, that elites' reaction was more determined and more ferocious in America than in Europe (where the Seventies were still touched by the progressive waves of 1968). However, the prescriptions offered by Trilateral's report were completely out of touch with the strategies put together by the Heritage Foundation and other conservative think tanks, and remained under the spell of the "historical compromise" between capital and labor struck in the Thirties. *The Crisis of Democracy* proposed nothing less than "effective planning for economic and social development", when the strong shift toward Hayek's and Friedman's approaches was well under way. The Trilateral considered that "[d]emocracy work[s] best – indeed, it may only work – when there is a gradual but relatively constant increase in the economic well-being of society", a statement that today could be found only in *Occupy Wall Street!* tracts.

7. Where the Source of Government's Legitimacy Shifts From the Citizens to International Venues and Organizations

Perhaps the most important legacy of 1968 was the widespread collapse of trust and confidence in government: if in 1958 76% of Americans believed that the government was run “for the benefit of all”, in 1966 the percentage had plummeted to 53% and in 1972 the figure was 38%. At the same time, the citizens who thought how government was run “by few big interests looking out for themselves” climbed from 18% in 1958 to 33% in 1966, and to 53% in 1972. In 2012 this last percentage had skyrocketed to 79% and god only knows where it is now (ANES 2010).

The situation was hardly different in Europe: in 1973, Germany registered 44% of citizens more or less satisfied “with the way democracy works”, while 55% were not satisfied. In France, the percentages were 41% and 46%, respectively. In the UK, 44% of people polled gave a positive response, while 54% were negative. In Italy, not surprisingly, barely 27% approved of “the way democracy work[ed]” while 72% expressed their dissatisfaction. Only small countries like Belgium, Luxembourg and the Netherlands had a majority of citizens content with their governments.

The first shock came in 1971 from the US when president Nixon abandoned the system of fixed exchange rates created at Bretton Woods and announced that the dollar would float against the other currencies. “If the dollar was to float, then so must the European currencies, and in that case all of the carefully certainties of the postwar monetary and trading systems were called into question (...). The cost of this liberalization, predictably enough, was inflation (...). Between 1971 and 1973, the world price of non-fuel commodities increased by 70 percent, of food by 100 percent” (Judt 2006).

Then the oil shock came, plunging the world economy into a deep recession, and with it political confusion spread. The foreign policy success with China did not permit Richard Nixon to escape his fate at home: in August 1974 he was compelled to resign. For the first time in its history, the republic had a president not elected and it was in an almost desperate tone that German chancellor Helmut Schmidt addressed Gerald Ford at their first encounter: “[t]his is the greatest depression since 1932 and in some countries we can expect social unrest. I am deeply worried” (Piers Ludlow 2014, 142).

Schmidt was nominally a social democrat, but first of all he was a Cold War politician, obsessed by the weakening of American leadership, hypersensitive to the then border position of West Germany with the Soviet bloc, and nervous because of the strength of communist parties in France and in Italy. More than that, he was a former Minister of finance, a pure product of German deep mental structures created by a language where “debt” and “guilt” are just one word, *Schuld*. Helmut Schmidt was strongly influenced by *Ordoliberalismus*, a doctrine that made the 1923 episode of hyperinflation the very materialization of hell on Earth. Not surprisingly, when he told a European Council session that “the failure to get a grip on inflation” was “the root of all current evils”, the Labour foreign secretary Anthony Crosland commented that his economic views were “miles to the right of Mrs. Thatcher” (Romero 2014, 132).

So, in 1975, it was Schmidt and Giscard d’Estaing who launched the idea of a summit of the five more industrialized countries (US, Japan, UK, France and Germany, later Italy was added) to “coordinate” economic and monetary policies. Three years later, it was the German chancellor who, more ambitiously, promoted the European Monetary System, the grandfather of the Euro, and it was a group of German experts who wrote the rules of the monetary “snake” first, and of the Euro later.

What assessment of the Rambouillet’s gathering of six heads of state, or government can be made, forty years later? An honest evaluation appears in the writings of a British sherpa: “[w]hatever the economic solution to our problems, it is obviously politically important that European communists should not conclude that Western government have lost control. The Summit meeting must *give the impression* [my italics] that Western leaders are united and confident and that they are able and determined to create conditions which will arrest economic decline and in time restore prosperity and social progress” (*ibidem*, 124). The rhetoric of a “united and confident and determined” West was launched.

From the very beginning, the G6 (later G7) forum was a propaganda tool, but it would be a mistake to dismiss its meetings as pure photo opportunities for the leaders. On the contrary, they were a tool to build the “globalization” discourse, the idea, now seen as common sense, that the interlocking of world economies was a good thing, and that in any event nothing could be done to escape it. Mrs. Thatcher’s motto “There is no alternative” (TINA) was born in the rarefied atmosphere of Rambouillet’s posh salons four years before she became Prime Minister.

The G7 accelerated a process toward global governance, something that “implies change in what states are and what they can do as new ways of making decisions and acting on collective problems develop”. Global governance, as Timothy Sinclair points out, “can develop along multilateral and democratic lines, or it too could devolve into a more dictatorial or autocratic form” (Sinclair 2012, 1). The problem is that, since the

Seventies, it clearly took the most undemocratic possible path, as the industrialized countries' elites embraced a shift of power from national venues (where the voters could expect some accountability) to impersonal, transnational institutions that promote "technical" solutions and are out of reach for citizens. The Seventies' anti-government bias opened the road to the shift of substantial powers from national, democratic, institutions to faceless international or supranational fora.

This process had been prophesied back in 1939 by Friedrich Hayek, who anticipated the direction taken after 1989 by the European federalism: the goal was to find the best way to tie democratic states' hands. In an era of strong economic national control, at the eve of the war, Hayek published *The Economic Conditions of Interstate Federalism*, where he analyzed the possibility of a federation of different European states. The point was that a common economic regime with capital mobility would prevent the states from imposing excessive costs on business: every country must "avoid all sorts of taxation which would drive capital and labor elsewhere". It was in a tone of clear approval that he wrote that freedom of movement "limit to a great extent the scope of the economic policy of the individual states".

Hayek continued stating that "the states within the Union will not be able to pursue an independent monetary policy". With a common monetary unit (like the Euro today) "the latitude given to the national central banks will be restricted at least as much as it was under a rigid gold standard – and possibly rather more". The members would lose fiscal powers because of "considerable difficulties with many kind of [direct and] indirect taxation" (Hayek 1948, 258-60).

And here was the crucial point: "in the national state, the submission to the will of a majority will be facilitated by the myth of nationality" while "people will be reluctant to submit to any interference in their daily affairs when the majority which directs the government is composed of people of different nationalities and different traditions" (*ibidem*, 264). Remove the "myth of nationality" and the obnoxious will of the majority will go away. It took several decades, but now it's done: highly technocratic and anti-political solutions are now enforced through international institutions and treaties, no matter what the Greek, Spanish, French or Italian will of the majority.

To compare what happened before and after the Seventies, we may note that today European Councils are almost monthly routine, while in the seventeen years between 1957 and 1974 only six were held. The concentration of powers in the UE has withered national parliaments, all the more so in the countries belonging to the Euro zone. It's no surprise that voting turnout has headed south.

Democracy was never "a primary concern for the founders of the European Union" and we have a vast literature about its history, particularly after the post-1989 enlargement (Hobolt 2012, 88). In short, the core of the matter is simple: the treaties of

Maastricht, Nice and Lisbon created a space where economic policy cannot be touched by the peoples: no need to return here to the Greek 2015 referendum and the response by the European institutions.

It is worth noting that the EMS, and later the Euro, were designed as disciplinary mechanisms that would compel national governments to make unpopular choices escaping democratic accountability: they were accepted by strong countries such as Germany for the direct economic advantages they could gain, and by weak countries such as Italy, Spain and Greece because local politicians wanted to blame painful choices on impersonal rules and faceless foreign institutions. These monetary arrangements “steadily depri[ved] national governments of their initiative in domestic policy. This was a momentous shift, of greater consequence than was sometimes appreciated at the time” (Judt 2006). There is a large literature on the flaws of the Eurozone and the fact that, in a system of national states, it is impossible to have *at the same time* a common currency coexisting with freedom of capital movements, free trade, and autonomy of national economic policies. This is well known and, if the Euro was nevertheless created, one must look at the reasons outside the realm of economy and inside the neoliberal project of stripping the democratic states of the necessary tools to act. Wolfgang Streeck has aptly called the neoliberalism regime the “splitting of democracy from capitalism through the splitting of economy from democracy” (Streeck 2014a; Streeck 2014b).

8. *Where We Look at Capitalism Without Democracy*

We have been brought back to an era in which “the repayment of foreign loans and the return to stable currencies were recognized as the touchstone of rationality in politics; and *no private suffering, no restriction of sovereignty, was deemed too great a sacrifice for the recovery of monetary integrity* [my italics]. The privations of the unemployed made jobless by deflation; the destitution of public servants dismissed without a pittance; even the relinquishment of national rights and the loss of constitutional liberties were judged a fair price to pay for the fulfillment of the requirement of sound budgets and sound currencies, these a priori of economic liberalism”. These lines sound quite contemporary but in fact their author is Karl Polanyi and they were written in 1944 with reference to the nineteenth century prevailing conceptions (Polanyi 1944, 148).

The point is that social progress had been “the Master Narrative of the twentieth century; and when its core assumptions began to erode and crumble, they took with them not just a handful of public-sector companies but a whole political culture and much else besides” (Judt 2006, 559). The elegant style of the British historian captures here an important point about the intellectual earthquakes of the Seventies and Eighties, but he neglects to add that American and British elites developed a well-funded and long-lasting effort precisely to see the “core assumptions” of the democratic welfare state “erode and crumble”, while European institutions were taken over by a particular brand of German ordoliberal thinking that *de facto* converged in the same direction (Nedergaard and Snaith 2015, 1094-1109).

We can clearly see that, when the economic arena is depoliticised, democratic institutions mutate not in the dream world of *Ordoliberalismus* but into a kind of “authoritarian legalism” (Jayasuria 2001, 108-124) akin to the Singapore model: property rights at the top of society are strongly defended, and elections may take place regularly, but ordinary citizens have no say in the important choices of the polity, including those affecting their most basic living standards: work, pensions, housing, health care. It is what Sheldon Wolin (2008) labeled “inverted totalitarianism”.

This approach has been made explicit by a document by J. P. Morgan bank that decried the fact that in some European countries “[c]onstitutions tend to show a strong socialist

influence, reflecting the political strength that left wing parties gained after the defeat of fascism. Political systems around the periphery typically display several of the following features: weak executives; weak central states relative to regions; constitutional protection of labor rights; consensus building systems which foster political clientelism; and the right to protest if unwelcome changes are made to the political status quo. The shortcomings of this political legacy have been revealed by the crisis” (Mackie *et al.* 2013). Clearly the “constitutional protection of labor rights” is considered incompatible with the Singapore model viewed as ideal by Wall Street.

Out of Asia, however, this kind of oligarchic, authoritarian rule seems unlikely to produce stable political regimes, quite the opposite: a strong backlash has been visible for some time now. It is true that capitalism has been a global system for centuries and it has, as Giovanni Arrighi pointed out, an “eminently adaptable nature”, but its blossoming happened within two important constraints: a limited ability to damage the planet, and the ability to have agents defending property rights, namely city-states, empires or national states.

Today, industrialization creates a destructive potential almost beyond belief, while regulatory agencies (the price capitalism had to pay to defend property rights) have been efficiently dismantled or coopted. As Wolfgang Streeck points out, “disorganized capitalism is disorganizing not only itself but its opposition as well, depriving it of the capacity either to defeat capitalism or to rescue it”. This is what creates “desolation rows” from Flint, Michigan, to Aleppo, Syria. When the forces that historically had put some brakes to regulated capitalism are destroyed, it is not clear what the future has in store for our civilization (Sassen 2014).

We need not to revisit here what a large body of literature has shown about the origins of 2008 crash and its economic consequences. Suffice to say that in the last eight years clueless governments (with the partial and timid exception of the Obama administration) have invoked the creation of money by central banks as the only solution to prevent a general collapse of world economy. This has been useful in buying time but it is now apparent that the crisis’ origins lied in the contradictions of neoliberalism itself, not in American *subprime* mortgages. The “easy money” policy of central banks has created an assets bubble similar to a monstrous organism looking for quick returns, which makes violent volatility of stock and bond markets the new normal (the quasi-collapse of world stock markets in January 2016 being the latest example).

Worse still, the neoliberal form of capitalism shies away from long-term productive projects and creates a “secular stagnation” in a moment of apparent great technological dynamism⁴. In fact, the rise of finance and the neglect of manufacturing seem to validate Giovanni Arrighi’s analysis pointing to the end of the United States-led “systemic cycle of accumulation” (Arrighi 2010).

The combination of these negative factors with governments' economic weaknesses stretches to the limit the legitimacy of political regimes: it is no surprise that in the European Union's most recent elections twenty out of twenty-eight incumbent governments have walked the plank, while new parties have popped up, shaking consolidated political equilibriums from Finland, where in 2015 the Finns Party (formerly True Finns) became the second largest party and joined the government coalition, to Italy, where the Movimento 5 Stelle obtained 25% of the popular vote in 2013, the largest single party, or Spain, where Podemos rose from zero to 20,7% of the popular vote in 2015, and to 24,5% in 2016.

Mainstream parties have reacted closing ranks in minority governments or *Grosse Koalition* (in ten European countries out of twenty-eight, and Spain may soon join the group). The situation was different before the economic crisis: in 2007 only 5 countries were governed by a *Grosse Koalition*. The strengthening of the executives vis-à-vis the parliaments is visible everywhere and is the open goal of the constitutional reform imposed by the Renzi cabinet in Italy, on which citizens will vote on December 4, 2016.

These processes are themselves a byproduct of the weakening of democratic practices, with the cartelization of parties, the decline of voting participation and of citizens' political agency (Katz and Mair 1995). All that is linked to the feeling of powerlessness that comes precisely from the transfer of powers to non-democratic, non-accountable bodies. Beside its being nondemocratic, this kind of political environment based on technocratic management is extremely fragile for obvious reasons: citizens expect to be protected by the state, not only from earthquakes and floods but also from economic hardship, and no propaganda about "meritocracy" can last forever.

On philosophical grounds, neoliberalism refuses to take responsibility for the collective well being, but this is a recipe for chaos, not prosperity (not even for tiny, cruel and greedy elites: modern societies need a modicum of stability). In the twentieth century, national states had (somehow) regulated capitalism, mitigated economic dislocation, and created more or less efficient welfare systems. Stripped of the power to protect vulnerable citizens, the state becomes something different: a purely repressive apparatus where human rights and civil liberties are at risk. Not only that: corruption becomes systemic, parliaments sink into irrelevancy and parties metamorphose into ghosts, which rattle their chains only during electoral campaigns. Social demands increase while responses are meager.

If leaders compete for the favors of their country's oligarchs, and treat their relations with citizens as an exercise in storytelling, this may work only to a point. As long as there are no wars, terrorism is subdued, the economy grows, and the appearance of social mobility is preserved, apathy may prevail. When unemployment soars, the middle class feels threatened, and problems like immigration appear unsolvable, there are good

chances that the political regimes first crack, and then collapse. The rise of movements in 2011, and the birth of new parties like Syriza, Podemos, Bloco de Esquerda, Movimento 5 Stelle, and others on the left has been parallel to the electoral successes of xenophobic parties like UKIP, Front National, True Finns, Danish People Party, Law and Justice in Poland and Fidesz in Hungary.

The United States's political gridlock has been old news for more than twenty years but the anger of a substantial number of citizens seems to have reached a boiling point, well represented by the quasi-fascist rhetoric of Donald Trump (and sustaining also Bernie Sanders's mobilization). It is the European Union, and inside it the Eurozone, with its maze of treaties, entities, organisms, bureaus, summits and regulations, that could be the first victim of the coming political tsunami, as we have seen with the not-really-surprising result of the referendum in the United Kingdom, a vote that shook the British establishment, put an end to Prime Minister David Cameron's career and opened a deep split in the Labour Party.

Most European elites are sincerely attached to the founding values of the Union but they seem completely incapable of understanding that the suffering they have been imposing to the continent's societies for many years can have only one political issue: the birth of political regimes promising to re-regulate economy and society, after forty years of dominion of faceless, non-accountable institutions. Unfortunately, given the weakness of the left, the end of neoliberalism's cycle could well take the form of some kind of twenty first century fascism in a process akin to the one described by William S. Allen in his still unsurpassed *The Nazi Seizure of Power*. We can only look at interesting political experiences such as Podemos in Spain, Corbyn's Labour Party, and Bernie Sanders in the USA to find hope of a different endgame.

⁴ As Streeck (2014b) points out, "capitalism is about profit, not productivity. While the two may sometimes go together", they may part company as well. Profit and productivity can split for different reasons, not only the expansion of the public sector mentioned by Streeck. See also Summers (2013).

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