A race between economics and politics, or, a liberal theory of crisis?

The ongoing crisis in Europe has made it obvious, if it was not already, that liberalism is not as simple as it used to be. If it was once a kind of knee-jerk dogmatism, one whose hegemony never really diminished the ease with which it could be ridiculed, it is no longer so straightforward. Liberals have gotten smarter—much smarter. And its ‘advancement’, if we can call it that, is a double challenge to liberalism’s critics. For it has both exposed the latent liberal in much that self-identifies as ‘radical’—witness the ‘left’ clamour for Keynesianism since 2008 (Unger, 2009)—and reshaped the political terrain on which any alternative political economic program, however minimal or grandiose in scale, must assert itself.

This renewal of what we might call critical liberalism, a project with a long but patchy history in which Keynes is a key player, is a much more daunting object of critique. Anyone who thinks that the current struggles in Europe are usefully understood as an opposition between *laissez-faire* austerities and nostalgic social democrats is missing the growing power of a ‘pragmatic’, ‘realistic’, flexible liberalism that has less and less time for the Troika (International Monetary Fund, European Commission and European Central Bank) and its small-minded fixation with market self-correction. This critical liberalism, which one might think of as the consciousness emerging from the dialectic of financial crisis and neoliberalism, is in the process of recasting everything from the function of the state to the *telos* of the international order to the role of the capitalist firm.

A recent editorial in the *Financial Times* (30 May 2013), perhaps the flagship publication of the new critical liberalism, serves as a useful staging point. In it, Philip Stephens (2013) denounced the ‘new’ threat to the project of European integration: populism. ‘Italy has Mr Grillo; France has its National Front; Britain its UK Independence party; Finland its True Finns; and Greece its fascists’. The problem with each of these forces, and their correlates in every EU member nation, is that they threaten to rip to shreds the carefully constructed barrier between what Nicos Poulantzas (1976, pp. 71-2) called the economic and political ‘regions’ of modern liberal-capitalist social formations. The stability of this regional separation—the clarity of the line that protects the economy from ‘political’ contamination—has been the central obsession of liberalism since at least the late eighteenth century. As Stephens puts it, the increasing power of these ‘anti-Europeans’ means the ‘eurozone is in a race between economics and politics. A year ago the bond markets were the enemy; now the threat to the euro comes from populists seeking to overturn the liberal order upon which all European integration depends’.

On this unquestionably liberal account, we might hear an ironic echo of an anti-liberal like Ernesto Laclau (2005), i.e. populism is a kind of ‘pure’ politics. Indeed, politics is populism, or tends inevitably toward it. But the echo dies quickly, since here it is clearly inferred that economics and politics are merely different names for reason and ‘populist’ irrationality. The real message is that no one in their right mind—no one who is ‘reasonable’, the key to John Rawls’ (1993) formulation of ‘political liberalism’—would challenge the necessity of integration, and integration is an eminently or even solely ‘economic’ endeavour. That said, this is clearly not another call to let the markets work it out. The struggle may be between economics and politics, but that does not mean *laissez-faire* should be cast in the ‘economic’ role. The efficient market hypothesis is wrong: the bond markets can be an enemy too.

One of the most compelling things about the *Financial Times* is that it is both well-written, and remarkably honest about its commitment to the ‘liberal order’. With very few exceptions these days, one searches in vain for liberals who self-identify as liberals (except when the term is used in the American sense of ‘tolerant’). To that extent, *FT* is an exceptionally useful resource—not because it somehow exposes the (neo)liberal project as an ideological offensive, but because its reportage demonstrates over and over again how real, and how entrenched, that liberal order is. It is, in my opinion, among the most important contemporary sites of liberal theorizing, especially regarding the current crisis. The economics/politics separation is particularly significant. It is not that liberalism tries to pass this separation off via an elaborate ruse, as if it did not in fact exist, and we need to be fooled into thinking it did (Dussel, 2008, p. 47). On the contrary, liberalism must be deemed among the most successful idealisms of all time: beginning from its own categories of thought, liberalism has made the separation true, and in so doing has fundamentally determined not merely our conception of the present and its appropriate governance, but our interpretation of the past as well.

Liberal categories are now not only the standard by which we judge liberalism itself (and, surprise surprise, it seems to do quite well!), they have become the standard by which we analyze all ‘political economy’. Hannah Arendt, who is often (and mistakenly) thought of as ‘outside’ orthodox traditions of political thought, exemplifies a critical liberal commitment to the regional division between politics and economics. Indeed, although one might say she did so to ensure the sanctity of ‘the political’, her first priority was to rid politics of economic distraction. She took the function of the state to the *telos* of the international order to the role of the capitalist firm.
individual and the survival of the species, was a non-political, household affair by definition" (Arendt, 1958, p. 29).

Poulantzas, in contrast, associated the division specifically with capitalism. According to him, the most fundamental instantiation of what he called ‘relative autonomy’ resides precisely in the regional separation of the political and the economic (Poulantzas, 1973). This division is not a trick, held up to hide the ‘real’ world. Rather, it is constitutive of capitalism, a real abstraction, a separation realized in the world (Poulantzas, 2008, p. 30). I think this is not quite right, for it connotes capitalism and its hegemonic liberal form. Forty years ago, this was perhaps an understandable mix-up; but today, as Slavoj Žižek (2008) likes reminding us, it is possible that illiberal forces like the Chinese Communist Party might be better at capitalism than liberals.

Liberalism’s defining characteristic, it seems to me, is in fact less a commitment to capitalism per se than it is a commitment to reverse, deny, shout down—even to go to war—to protect the truth of the regional separation in both thought and practice. US power was built to a significant extent on the fact that an international economy emptied of its politics—an economy that posits poverty, dependence, and inequality as technical problems, which literally cannot exist in the abstract realm of formal political equality—is a massive resource distribution machine, channeling flows toward those with ‘legitimate’ (i.e. apolitical) economic interests, and away from those whose claims are based on relative deprivation, powerlessness, or insecurity. More than in any other ‘truth’, it is in the obvious necessity of the separation that liberal hegemony is reproduced.

Threats to the regional division have thus been the constant fixation of insightful liberals since the French Revolution, and they have dedicated themselves to keeping government in its proper sphere—the ‘economic’—since the term ‘liberalism’ began to circulate around that time. Some liberals, following Hayek or Friedman, hold the line in the interests of a depoliticized, natural realm of economy; others, like Arendt or Jürgen Habermas, do so dreaming of a politics that concerns itself only with ‘freedom’, or debating the priority of the right or the good. But in all cases, it is essential that the one not contaminate the other; indeed, in liberal thought, challenging the separation between economics and politics is the defining characteristic of anything properly called ‘revolutionary’. Thus Marx’s great contribution to revolution, according to Arendt (2006, pp. 52–3), was turning poverty from a natural product of the social order into a ‘political’ problem.

Still, however true that is, he was certainly not the first to do so. Hegel (1991, §244, p. 266) named poverty the question ‘which agitates and torments modern societies especially’, and Keynes (1964, p. 30) directed his efforts to overcoming the ‘paradox of poverty in the midst of plenty’. In all cases the answer to the lamented corruption of the politics-economics division is, as it is for Stephens, the reassertion of reason. Hegel (1999, p. 150) said modern civil society was a victim of confusion upon confusion, Keynes (1963, pp. 135–6) rued the ‘colossal muddle’ produced by those in control of the ‘delicate machine’ of capitalism, ‘the working of which we do not understand’; Arendt (2006, pp. 84–5) railed against the irrational ways in which ‘suffering indeed breeds moods and emotions and attitudes that resemble solidarity to the point of confusion’.

Today, among other crises, the precariousness of the euro and the eurozone—what the Italian daily Il Manifesto aptly calls ‘Eurocrack’—is perhaps the most active front in the two-century-old liberal struggle to maintain the economics-politics division. This effort demands a total commitment to formal equality, to a multiscale equivalence—from individuals on up to the nation-states, we are all ‘the same’—posed as so natural that their disruption is only attributable to two possible forces: the unfortunate vagaries of history, which we confront as exogenous constraints, and politics. The former constructs the differences we have inherited from the past, and must be overcome: this is the problem of ‘convergence’—the liberal ‘watchword of the day’ (Landes, 1998, p. 518). The latter—lately in the form of the ‘populism’ Stephens decrees—is like a swarm of flies, an irrational irritant that keeps distracting and derailing us from more important tasks.

All liberals, then, defend ‘economics’ as the realm of objectivity and logic. The defining quality of the insightful liberal critic is that in contrast to the orthodox liberal, he or she recognizes the fact that the continual erosion of the politics-economics separation is in fact a product of liberalism itself, as are the forces that threaten it. Consequently, he or she has no illusions as to the naturalness of the regional division or its capacity for self-regulation. Orthodox liberals like Hayek think that ceteris paribus, the division always reasserts itself in the absence of ‘politics’. They consistently ‘misread’ history because they insist on ‘judging social events from the economic viewpoint’ (Polanyi, 1944, p. 36). Critical liberals know that the tide of politics, however much is must be contained, is nevertheless inevitable.

Consequently, the most theoretically (and politically) advanced front in modern liberalism is mischaracterized by the straw man of the Hayekian free-marketeer. Those folks are out there, but they are not where a modern critique of liberalization needs to focus its attention. For contemporary critical liberalism, it is not a question of state intervention vs. laissez-faire, austerity vs. stimulation. A wide range of state ‘interventions’ might very well be required at different times; the need for fiscal or monetary stimulus might outweigh the risks of indebtedness. On the new liberal account, classical laissez-faire orthodoxy is just as prone to ideological politicking as any anti-liberal position. The refusal to rescue Lehman Brothers, for example, stands for it as a far more pernicious leakage of politics into ‘economics’ than any effort to raise the minimum wage. What breaks the idealized held of pragmatic ‘reasonableness’—i.e. economics—is always politics.

All of this is of particular interest at present, because the ongoing upheaval in the Eurozone has arguably stimulated the most significant developments in critical liberalism since Keynes. What stands today for a liberal theory of crisis—indeed, the mere possibility of a liberal theory of crisis, something classical orthodoxy denied a priori—is a product of this critical position. And one of its most fascinating, and influential, interventions is the reconceptualization of sovereignty in a post-Keynesian world. This analysis is well-represented by a widely circulated commentary by Daniel Gros (2013b), Director of the Brussels-based Centre for European Policy Studies, first published in the Project Syndicate on 8 May 2013.1

The title of the piece perfectly captures new critical liberal wisdom: ‘Europe’s Irrelevant Austerity Debate’. Gros’ argument is not that austerity is a waste of time because it does not work. Rather, his point is that the debate—theapoliticizing of austerity vs. growth—is irrelevant. If we look at the problem practically, says Gros (2013b), and abandon doctrinaire attachments to either free markets or ‘Keynesian’ stimulus, we can see that the real trouble is that ‘the debate about austerity and the cost of high public-debt levels misses a key point:

Public debt owed to foreigners is different from debt owed to residents. Foreigners cannot vote for the higher taxes or lower expenditure needed to service the debt. Moreover, in the case of domestic debt, a higher interest rate or risk premium merely leads to more redistribution within the country (from taxpayers to bondholders). By contrast, in the case of debt owed to for-

1 Project Syndicate (http://www.project-syndicate.org), a web publisher of regular commentary by ‘distemed leaders and thinkers’, is a key site in the consolidation of critical liberalism’s effort to reconfigure hegemonic elite common sense. The Centre for European Policy Studies has since republished a slightly modified version of the piece, entitled ‘The Austerity Debate is Beside the Point for Europe’, available at http://www.ceps.eu/book/austerity-debate-beside-point-europe.
eigners, higher interest rates lead to a welfare loss for the country as a whole, because the government must transfer resources abroad, which usually requires a combination of exchange-rate depreciation and a reduction in domestic expenditure. This distinction between foreign and domestic debt is particularly important in the context of the euro crisis, because eurozone countries cannot devalue to increase exports if this is required to service foreign debt. And the evidence confirms that the euro crisis is not really about sovereign debt, but about foreign debt.

In other words, the entire political mire in which Europe has been trapped for more than three years is a distraction, a confusion, a 'colossal muddle'. The problem is not political, but technical, logical, i.e. economic. The debate about austerity is misleading because it suggests that state retrenchment is a unidirectional, non-contradictory force, and because it leads us to focus on universalizing rules of 'sound government finance' that do not in fact hold true always and everywhere, and 'key idiosyncratic characteristics and specific starting conditions that can make direct comparisons meaningless' (Gros, 2013a). As Keynes put it, the 'world in which we actually live' is not amenable to one-size-fits-all fixes. Thankfully, says Gros, politics' moment is passing, whether we wish it or not, and Europe's peripheral countries 'will regain their fiscal sovereignty' (Gros, 2013b).

Thus, if the Reagan-Thatcher-Mulroney years led its champions to assume the coming end of sovereignty, and its critics to bemoan the diminishing range of politics associated with the 'retreat of the state' (Strange, 1996), post-subprime crisis critical liberalism cheers the return of sovereignty (in the Eurozone it can only be 'fiscal', of course)—but in a radically renovated form. The new liberal sovereignty is conditional, and ultimately incompatible with politics. Sovereignty is not some Schmittian founding act in the constitution of the political, but is on the contrary compromised by politics. Critical liberals like Gros (or Joseph Stiglitz, George Soros, and Paul Krugman), posit sovereignty, i.e. the reterritorialization of state power to the domestic sphere, as a strictly 'economic' undertaking. Only via the dominance or victory of economics over politics can sovereignty be exercised in the space of the modern nation-state. This would seem to suggest that a properly 'political' domestic sphere is possible only insofar as it leaves 'economics' alone, and exists in a world ordered by 'economics'.

The new liberalism has successfully dissociated itself from the prophets of capitalist rigor, but the sanctity of the regional division at the heart of liberalism remains. Liberals may now have a theory of crisis, and the state may be welcome 'back' after years of 'retreat', but liberalism still cannot grasp political economy as anything other than an oxymoron.

References


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