GLOBAL 24.10.2018 | Wolfgang Schroeder

Whatever it takes

After 2008, the left failed to end neoliberalism. Ten years on, it has to get its act together and prevent another financial crisis

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The worldwide financial, economic, and debt crisis of 2008 was nothing less than a fiasco. What could go wrong, did go wrong, sweeping away with it the naïve belief that financial markets could regulate themselves best and revealing the vulnerabilities of the global financial system. Besides its sheer size, the deeply integrated nature of this system made it impossible to contain the damage to one particular region or sector and, as a result, companies went bust, economies shrank, and unemployment rose.

Ironically enough, the forces which stopped this catastrophic event turning even nastier were the state and social partners like trade unions – two of neoliberals' favourite targets for ridicule. Yet it was the US government which produced a $700-billion rescue package within four days while its counterparts in Germany rushed legislation through the Bundestag in record time to mobilise €500 billion. Meanwhile, the good work of the social partners made it possible to stabilise the employment market, and in many quarters, hope was rekindled that the era of neoliberalism might be drawing to a close. The crisis felt like a turning point; the epochal transition seemed within reach.

Ten years on, and little optimism remains. Instead, the financial crisis has taken its toll on international solidarity and led to increased scepticism towards elites and the social market economy. In many countries, the state exchequer saw tax receipts decline as social costs rose. In several Eurozone economies, state spending went up so sharply that governments looked in danger of defaulting on national debt. The solution was a series of bailout funds which went hand in hand with requirements to make savings. In southern Europe in particular, the cuts led to profound social crises.

While some strong economies such as Germany or Austria were able to

stabilise themselves quickly and return to growth, weaker ones such as Italy and Greece have still to reach their pre-crisis levels. Even after all this time, the ECB's interest rate policy remains in crisis mode, favouring state finances at the expense of savers. In the not-too-distant future, our period now may turn out to have been a lull between two serious storms: after all, bad loans to companies, rising national debt in many emerging economies and a high concentration of banks considered 'too big to fail' (which is higher than it was 10 years ago) may well lead to another crisis.

The lack of real reforms

It's not as if far-reaching reforms weren't discussed after the last crisis. One of the first measures was increasing requirements on banks to back their balance sheets with liquidity. Yet in the end, the regulatory capital requirement was only increased from 3.5 to 4.5 per cent (15-20 per cent would actually be needed). Then there was talk of limiting bonuses for bankers, increased transparency and so on. Taxpayers should never again have to pick up the tab for an investment banking gamble gone wrong. At least, that was at least the idea, but actual regulatory initiatives have run aground. A Europe-wide tax on financial transactions, for instance, was agreed in theory in 2013. It would have made particularly risky deals unattractive by increasing their costs without weighing down real-world investment. However, after it had been watered down several times, Emmanuel Macron finally took it off the agenda for good.

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Another idea which never really saw the light of day was the separation of speculative investment banking from the operations of commercial institutions. In extreme cases, banks which had overstretched themselves could then have been allowed to go bust without endangering customer deposits or disrupting the supply of credit. For years, the EU talked and talked about a banking union, but not with the aim of making the financial markets more stable and more able to handle risk. It has rather become a vehicle unloading collective liability onto the Eurozone countries and their taxpayers for large banks based in the Euro economies. As such, it has no preventive effect. Essentially, we ended up with tranquilisers and sticking plasters. Real reforms to prevent the next crisis were never enacted.

Mario Draghi's famous words – 'Whatever it takes' – have become a

euphemism for an unpleasant truth: when it goes wrong, the state has to pick up the pieces. Certainly, the window of opportunity for a package of financial market reforms and a more sustainable approach to banking regulations seems to have closed back shut. Instead, there's again talk of deregulation as allegedly there's no other way of keeping financial markets running and securing global growth. The financial industry's defence strategies have been successful, and with every year of overall global expansion, a reforming approach to restructuring the markets has seemed to slip further out of reach. Experts are now assuming that financial stability has actually declined compared to 2008. Standards for corporate credit have been drastically lowered, with some estimates putting the number of junk bonds issued at two-and-a-half times the total in circulation in 2007. The end of neoliberalism that the crisis had put onto the agenda was quickly dispensed with.

The left's calling

Why was the left – and above all, why were social democrats – unable to create enough momentum for real reform in this central field of left-wing policy? Why were social democratic parties unable to give the state the regulatory role it needs to constrain the destructive power of the markets? Why do they talk a big game about 'the primacy of politics' only to roll over when faced with national banks and the financial-technical expertocracy? Is the 'financialisation' of all economic and societal processes now so advanced that it's irreversible? While the structural imbalance between labour and capital finds its expression in the weakness of the unions, the genuinely alarming development is that socio-economic issues have lost their attraction and their priority on the left. Sadly, these are precisely the kinds of questions for which the state can have very good answers.

It has become abundantly clear that moral outrage alone is simply not a strong enough for genuine reform. This begs the question of whether the role of state, the architecture of the financial markets, and economic power dynamics actually still carry much weight on the left at all. Outside of expert groupings, that is. Have left-wing politicians been simply patting themselves on the back for the (undoubtedly impressive) success of stabilising the situation in 2008/9? Isn't it high time for politico-economic literacy programmes and a new appreciation of the state and what it can do? Otherwise, it's hard to see how politics can regain primacy over finance. If social democracy contents itself with simply being defensive, it loses its appeal. To be attractive, it must show how it would be able to regulate competition.

In any case, the lack of

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democracy must be to push regulating competition right back to the top of the political agenda. It's hard to see how we can go on without more regulation of the financial sector, without sustainable ways of tying down multinationals into paying fair amounts of tax, without a state-led investment initiative with the aim of refitting infrastructure to be ecologically sound, and without a Europe-wide upwards harmonisation of tax rates. There you have a series of positions which need to be in the Social Democrats' European election manifesto.

Yet to date, the social democrats' approach of trying to tame and regulate the markets has not made a contribution towards preventing future meltdowns. In contrast, in the wake of the financial crisis and, above all, the ensuing Euro crisis, populists both left and right have been attracting enormous amounts of support – despite their lack of competence when it comes to regulating the markets and handling crises. They stoke fears of unemployment and financial loss, pointing the finger both at global finance and the international/national political elites as those responsible for the lack of concern about social questions. When confronted with the lack of an alternative, as postulated by the majority of the financial aristocracy and politicians, the hard-right parties play the nationalist card and cry out defiantly: 'Yes, yes there is!'

In recent years, social justice has been severely eroded, and even positive developments in the economy and on the labour market have not been enough to rectify the issue. Although Germany is currently experiencing increasingly harsh criticism of the social market economy and the current distribution of wealth, this moral outrage has not been enough to generate initiatives for structural reform. Without an acknowledgement of the fury at the politics of multinational corporations, however, little can be achieved – being part of the establishment robs credibility. In any case, the lack of structural reforms has only strengthened the causes of the crisis, perhaps even priming them to prompt the next one. This is where the left has to once again take up cudgels – and everyone who sees a regulated financial and real economy as the basis for social democracy.



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