3. The hegemony constraints in the neoliberal years of capitalism

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3.1 INTRODUCTION

When we use the historical method to understand a given society we combine economic and political elements to define historical phases, which share common features and usually end in a major crisis. Policy regimes – a concept that was defined by Adam Przeworski – are moments within a given historical phase in which the state and the respective political parties have similar policies independent of the ideological leanings of the political party in office. They are moments when a given class coalition exercises a full ideological hegemony, when a set of common understandings, assessments of reality, narratives, theories and policies become dominant during a certain period of time.[1] Thus, policy regimes correspond to historical forms of state, in so far as the state is the sovereign political institution defining the political regime in each country or nation state, but they require a level of ideological hegemony of the dominant groups, which is not always present in periods that we define as historical phases.[2] The last policy regime corresponded to 30 Neoliberal Years of Capitalism – the period that began around 1980 and came to a close with the 2008 global financial crisis. It was a time in which technical progress was strong, but economic growth lost momentum, financial instability soared, individual freedom suffered major setbacks and inequality increased everywhere; within this period, the neoliberal policy regime was strongly present in the 1990s.

Political power or domination always depends ultimately on the legitimacy of the government that is in office and of the corresponding political regime. This requirement is particularly true for policy regimes in democracies. When a policy regime is in force, a class coalition becomes ideologically hegemonic and we live in the times of the 'one best way.' We have the impression that there are no alternatives – that the value system and above all the policies adopted are the only rational ones. The set of policies that constitute this regime are said to respond to the economic and political constraints existing in that given society; but, as I argue in this chapter, many respond rather to what I call the 'hegemony constraints' – the constraints that are associated with the interests of the class coalition in power.[3]

In this chapter, I propose a fundamental distinction between two kinds of policy constraints that limit policymaking: the economic and political constraints, on the one hand, and the 'hegemony constraints,' on the other. I write the last expression with quotation marks because it is a concept that I am introducing and believe to be helpful in distinguishing between those policies that the economic and political conditions require adoption of from the policies that the hegemonic class coalition wants to be adopted.

3.2 POLICY REGIMES OR HISTORICAL FORMS OF STATE

In the 30 neoliberal years (1979–2008), and particularly in the 1990s, it was difficult for politicians and, more broadly, for citizens to see alternatives. Adam Przeworski (2001; Chapter 2, this volume) developed the concept of policy regime to explain this fact. His assumption is that a new policy regime becomes dominant because it proves to be initially successful. According to Przeworski, the history of economic and social policies may have the following dynamic: 'A government comes to office, makes a major successful policy innovation and develops a story about the secret of its success. The opposition party campaigns in elections criticizing the incumbent, but everyone knows that the new government would follow the same policy. The difference between the two parties is so small that voters base their decisions on accidental issues (a scandal, personalities, a television debate) and at one time the incumbent loses. The victorious party follows the policies of its predecessor. Having seen the success of the new policies other countries begin to imitate it' (Przeworksi, Chapter 2, this volume).

In this way, a new policy regime becomes dominant and no alternatives are left to the opposing political parties. 'Policy regimes are situations in which major parties, regardless of their partisan stripes, propose and implement similar policies' (Przeworski, 2001, p. 324). In this chapter, I adopt Przeworski's concept of policy regime, but I have reservations in relation to his explanation of how policy regimes change. His explanation for the similarity of the policies adopted by political parties, independently of their social democratic or conservative vocations, and for the change from one policy regime to another is simple: they derive from a successful innovation. According to Przeworski, neoliberalism resulted from the Thatcher–Reagan innovations after 1979, which were successful.

It is true that initially 'voters supported these experiments because they became disenchanted with the old policies and were thus receptive to the new ideas' (Przeworksi, Chapter 2, this volume), but this does not mean that they were successful unless we define success as political support, not good outcomes. Przeworski's explanation is clear, and is consistent with a democratic polity where people express their will in elections, where voters clearly evaluate policy successes and failures and vote accordingly. In consequence, a new policy regime would then be defined, and, thereafter, political parties would have no alternative but to espouse the new policy regime.

Yet, the Thatcher–Reagan experiments can hardly be termed innovations, and it is still more problematic to call them successful. If innovations can also be politically perverse, we may view Thatcher's victory over Britain's striking coal miners as a political innovation; at that moment she was able to break the spinal cord of organized labor with the support of the middle classes. But we should bear in mind that, at that moment, the unions were already on the losers' side in the developed world and particularly in Britain, in so far as the 1970s had been years of low rates of growth and increasing unemployment. A crisis was essential to open the space for the new policy regime, not the supposed superiority of the new policies. In the neoliberal years, political parties were left few alternatives. We lived in a time of the 'only best way.' When a social democratic political party won an election, once in power it found it difficult to adopt different policies from those of the previous neoliberal administration. But instead of using achievement or success as a criterion to explain policy regimes, it is possible to explain them with the combination of two concepts, 'constraints' and 'hegemony.'

3.3 SOCIAL CONSTRUCTION SINCE THE CAPITALIST REVOLUTION

Before discussing the concept of hegemony constraint in opposition to the concept of economic and political constraints, I want to remark shortly that since the 'capitalist revolution' (which is concluded in each individual country when it forms a nation state and realizes an industrial revolution), history ceased to be the narrative of phases of splendor and decadence of old empires or civilizations, but became a social construction – a narrative of progress or development, a political search for peace, security, freedom, economic well-being, reduction of inequality and protection of the environment. Since then, capitalist development may be seen as a succession of phases through which two forms of organizing capitalism – economic liberalism and developmentalism – alternate. In a first phase, in the framework of the mercantilist state, we saw the construction of the modern nation states and the industrial revolutions in Britain and France. Their successful mercantilist states were the first historic form of the developmental state – of the social organization of capitalism in which the state plays an active although moderate role in promoting economic development and defending the national interests. Latecomer countries such as the Germany of Bismarck and the Japan of the 1868 Meiji Restoration adopted more explicitly the developmental state. Beginning with Japan, the other latecomer countries had to defy the industrial or modern imperialism of Britain, France and the United States in order to realize their own capitalist revolutions. This can be seen in recent times in middle-income countries like Turkey, Mexico, Brazil, South Korea, Indonesia, Malaysia, Thailand, China and India.

In England and France, between the 1830s and the 1920s, where the phases of capitalist development did not overlap but were complete, economic liberalism turned hegemonic, and the liberal state – a state that limits itself to guaranteeing property rights and contracts – became dominant. In the eighteenth century, the affirmation of political liberalism – of the constitutional political system and the guarantee of civil rights by the state against a previously (and potentially actual) arbitrary absolute state – represented the conquest of humanity. These rights were compatible with a developmental state, but the liberal hegemony of the time meant making the civil rights exclusively associated with economic liberalism. Hegemony meant attributing the monopoly of civil rights to the liberal state.

In the first part of the twentieth century, still in the framework of the first economic liberalism, rich countries became democratic – democracy being understood minimally as the political regime that guarantees civil rights and universal suffrage. After World War II, particularly in Europe, the assumption that the liberal state had the monopoly of political liberalism proved false. The social democratic policy regime (which we may also call the 30 Golden Years of Capitalism or the Fordist mode of regulation) was the second historical form of the developmental state in rich countries. Besides actively regulating markets and investing in infrastructure and other quasi-monopolistic industries, the state also assured social rights by increasing the tax burden and government social expenditures. These were the times of the creation either of workers' entitlements directly associated with their work in each enterprise or the welfare state characterized by the state offering large social and scientific services in education, science, health care, social security and basic income arrangements. In the former case, business enterprises financed the costs, which were passed through to prices; in the latter, the state took responsibility in so far as social expenditures had to be financed by taxes. In international and financial terms, these were the years of the Bretton Woods regime. In broader terms, it was the period of organized or technobureaucratic capitalism – a capitalism where the capitalist and the professional classes shared power and privileges, and a social compromise prevailed between capital, knowledge and labor. It was a period in which rates of growth were high, financial stability was surprisingly strong and inequality was reduced in countries that were able to adopt a welfare or social state. In the 1960s, the social democratic policy regime was as hegemonic as the neoliberal regime of the 1990s. In the 1960s, when conservative political parties were in office, they were building the social state in the same manner that, in the 1990s, the social democratic political parties were clearly making flexible the labor laws.

Despite the positive outcomes of the second developmentalism, after a minor economic crisis in the 1970s (minor when compared with the present one) and the appearance of new competition coming from developing countries, which began to export manufactured goods, the world changed direction: the progressive political compact that had characterized the United States and Europe since the 1930s collapsed, and the 30 Neoliberal Years began. In developing countries, a major financial crisis put a halt to growth in the highly indebted countries ten years later, particularly in Latin America, and neoliberalism turned hegemonic around 1990. The old Fordist class coalition in the rich countries and the developmental class coalitions in developing countries were broad cross-class coalitions encompassing business entrepreneurs, workers and the new technobureaucratic middle class; the new neoliberal class coalition that had become hegemonic in the 1980s was a narrow one, comprising the rentier capitalists, the highly paid financiers and traders that manage their wealth, and the top executives of the major multinational enterprises. Instead of organized capitalism, the rentier–financier class coalition imposed an unregulated or savage capitalism. Instead of well-considered self-interest coupled with some degree of solidarity, the new troth offered 'rational' self-interest or unrestrained individualism. Instead of capital–labor compromise, we now had domination.

Since the 2008 global financial crisis we can no longer speak of a neoliberal policy regime. Since that crisis the core of the world economy – the rich countries – has been experiencing a protracted crisis, a Long Recession, which the ensuing euro crisis has only aggravated, and whose end is not yet in sight. Capitalism remains resilient because there is no alternative to it, and because it remains capable of reform; but the regressive and reactionary form that it assumed after the early 1980s has proved to be not viable neither economically nor politically. The attempt to replace the welfare state with a neoliberal or minimal state in Europe failed because voters resisted,[4] the European model of capitalism became weaker and its developmental characteristics, which were strong in the 30 Golden Years of Capitalism, were dismissed. Today, we live in a period of crisis and transition, where no class coalition is in power, no ideological hegemony is at hand.

In light of these considerations, in this chapter I explore why policy regimes or phases of development (or of regression) involve belief in some kind of 'one best way' or 'only one way.' I analyse the extent to which this lack of alternatives derives from real economic constraints or from a political hegemony that assumes the appearance of political constraints. Thus, the Gramscian concept of hegemony is central: the hegemony of a cross-class coalition or 'historical bloc' over society as a whole. This concept should not be confused with more general ideological hegemony that a dominant class is supposed to exercise in modern societies. In this chapter, hegemony is associated with a given ruling class coalition and the respective policy regime. It must also be clearly distinguished from the concept of a hegemonic country utilized in international relations. We may see some bridges between the two concepts. The 30 Neoliberal Years of Capitalism gained impetus from the hegemony of the United States after the collapse of the Soviet Union. But the compliance of citizens with a set of values and rules in the interest of a given dominant class coalition is one thing; another is the compliance of countries with a given country that wields soft or imperial power.

3.4 THREE TYPES OF CONSTRAINTS

Constraints explain policy regimes, not just the well-known economic and political constraints but also the 'hegemony constraints.' By economic constraints, I mean mandatory constraints that, if not observed, lead to bad economic outcomes or the malfunctioning of the economic system; by political constraints, I mean constraints that, if not observed, lead to increased tensions and to crises in the political system; and by hegemony constraints, I mean constraints that derive from the power and the interests of the hegemonic class coalition – constraints that if not observed will cause harm not to the economic or the political system but to the hegemonic groups. Observe that I am not using the expression 'hegemonic constraints' but 'hegemony constraints'; I am not referring to all constraints that are hegemonic because they always include economic and political constraints but only the constraints that derive from the hegemonic class coalition and specifically address their interests. All three kinds of constraints limit policymaking and legitimize policy choices, but while the first two types lead to reasonably required policies, the third is only effective by virtue of the capacity of a group that has become hegemonic to persuade people of how right is the policy choice it proposes. Economic and political constraints have to be recognized by all governments, independently of their ideological leanings, in promoting progress and maintaining political stability; on some occasions, governments may come to creative solutions that circumvent or bypass them, but they cannot ignore them. Hegemony constraints stem from ideological hegemony, from the alleged existence of an economic or political constraint, from the capacity of a dominant group to persuade or co-opt the majority in viewing the proposed policies as appropriate responses to a real constraint. Such policies work only so long as that hegemony prevails; they are not required by the economic or the political system, but a hegemonic creation.

Economic constraints are here understood as real constraints independent of political coalitions and their ideological orientation. They should be reasonably clear, but in practice they are the objects of much misunderstanding. Let me offer some examples. First, the balanced budget constraint: in the medium term, the state must balance its fiscal accounts; chronic public account deficits lead to increasing public debt and increasing risk of fiscal crisis. Vulgar Keynesianism often ignores the budget constraint; it assumes that it would be 'Keynesian' to incur budget deficits to stimulate chronically insufficient aggregate demand. But Keynes never favored chronic budget deficits. He argued only that in moments of crisis, when there is a deep fall-off in demand, an expansionary public policy is required. Once the crisis is overcome, policymakers are supposed to return the state finances to equilibrium. Keynes added that public investments, not public current expenditures, could be legitimately financed by permanent public deficits, provided that the total public debt remained under control.

A second example is the current account constraint. Chronic current account deficits necessarily involve the appreciation of the national currency, which usually reduces investment opportunities and lowers growth, as well as increasing the risk of a currency crisis. Nevertheless, orthodox policymaking ignores this fact, ignores that limits must also be posed on current account deficits. When a country is indebted in its own currency, a current account represents no immediate threat; but to accept high current account deficits is a bad mistake for developing countries that are supposed to finance these deficits with foreign money – money that they can neither issue nor devalue. In the present euro crisis, the rich European countries are discovering how hard it is to grow with the foreign savings attracted by current account deficits. A final example concerns the profit constraint, that is, the need to keep the rate of profit at a reasonable or satisfactory level. If it falls below such a level, business enterprises will stop investing. These are all real constraints.

Political constraints are related to a society's level of political and economic development. Governments that fail to respect them face crisis and loss of political legitimacy. While in pre-industrial societies authoritarian regimes were the norm and authoritarian leaders were not constrained politically, in developed capitalist societies democracy is the norm, and authoritarian politicians have little or zero possibility of exerting authoritarian rule. In countries where religion continues to play a major political role, the liberalization of abortion faces severe political constraints. More generally, we often hear that politics is the art of compromise, and so indeed it is, because in democracies political leaders are permanently making compromises in order to achieve governing majorities. Thus, the need to secure majority support is the fundamental political constraint in a democracy. Compromises are the way that politicians deal with this.

The third type of constraint – the hegemony constraints – is at the same time real and false. Real because citizens come to believe that they are required; false because non-compliance with them has no negative impact on the economic or political systems. They materialize when the dominant class coalition succeeds in persuading society to accept diagnoses, narratives, theories and policies as the best ones – as the ones that are in the interest of the majority – although they are only in their own interest. When this happens, a new hegemony is established, a policy regime is put in place, and institutional reforms are designed and implemented to make the state apparatus consistent with it. Some individuals may retain a certain freedom of choice, but the majority will be constrained to do what has come to be seen as 'common sense,' to accept what is agreed to be 'the truth.'

Hegemony constraints are not real constraints in the way economic and political constraints are: they don't define objective limits to policymaking, the economic or the political system will not be endangered if governments do not comply with them, but they are real constraints because they establish subjective limits to citizens, while creating the opportunity for the dominant class coalition to define with legitimacy the policies that are in its interest. Hegemony constraints powerfully conform to beliefs and behavior essentially because the dominant class coalition has achieved Gramscian hegemony, because it has created an ideological framework within which its proposed policies become legitimate. Hegemony constraints, not economic and political constraints, are the constraints that define the policy regime in each moment, because while economic and political constraints also change over time, they are relatively neutral in ideological terms, hegemony constraints are not so. But only hegemony constraints will not be enough to sustain or legitimize a policy regime. That is the reason why the organic intellectuals supporting the policy regime in place are so keen to co-opt economic and political constraints (as fiscal responsibility or the requirements that business enterprises achieve a satisfactory rate of profit) as if they were 'exclusive' to this policy regime. Regardless of whether their character is progressive or regressive, hegemony constraints are very likely to conflict with either economic or political constraints, because they are based on power and not on the effective functioning of the economic and political systems.

When a government observes an economic constraint, it is not being either orthodox or heterodox, but just doing what probably must be done. In normal cases, when there is not a clear lack of demand to be coped with, when a social democratic political coalition shows fiscal and exchange rate responsibility, it is not being orthodox; it is just complying with an economic constraint. Certainly, if unemployment is increasing and inflation is under control, an expansionary fiscal policy is necessary. If the profit rate is not satisfactory, the authorities are supposed to look for possible reasons (an overvalued currency, a high exchange rate, wages increasing faster than productivity) and act to correct the distortion; again, this is not bowing to orthodoxy, but doing what must be done. What is essential to understand is that good economic policies and orthodox policies are not the same; they are just policies that respond in a competent way to real economic constraints. Fiscal responsibility is not exclusive to orthodox policymakers; what is typical on their part is to demand that public expenditures be cut not to keep the budget under control, but to reduce the size of the state or the tax burden. Conversely, heterodox economists often defend budget deficits with Keynesian arguments, but actually they want to increase the size of the state; when they do so, they are just being bad or incompetent economists. In many cases, it is reasonable to seek an increase in the size of the state or the tax burden – for instance, in order to increase the provision of social and scientific services – but this reason should be explicitly stated.

3.5 ACHIEVING HEGEMONY

The process of belief change leading to ideological hegemony and to the formation of a policy regime is complex, the rationality embodied in it, limited. Change does not occur after a long debate in which one group has demonstrably better arguments than the others. The public discussion, which Habermas called 'communicative action,' is rather thin. The candidate class coalition to hegemony profits from the opportunity offered by an economic or a political crisis to offer solutions, which are alternatives to the ones being followed and seem superior. This group or class coalition must develop a simple narrative and good arguments. The capacity of a group of public intellectuals natural to this class coalition to develop theories that back the arguments is crucial. For the neoliberal hegemony, the role played by major neoliberal intellectuals in making the critique of the old policy regime and proposing alternatives was crucial. Economic crises and particularly acute financial crises are a required condition for change of policy regime, but they don't lead automatically to regime change. Change depends on the seriousness of the crisis, and on the existence of alternative ideas developing action to take the country out of the crisis.

In the case of the transition from the Golden Years to the Neoliberal Years of Capitalism, the achievement of hegemony was preceded by the work of major public intellectuals like Friedrich Hayek, Karl Popper, Milton Friedman and James Buchanan, who adopted the strategy of opposing economic liberalism to existing socialism or statism, instead of to developmentalism. After World War II, their critique was not heard because economic development was strong, and because the European countries particularly advanced in building their welfare or social states – an advanced form of developmentalism in terms of democracy, relative fairness and protection of the environment. Yet, in the 1970s, new historical facts became difficult for further development in this direction, especially the fall of the profit rate, due to three main causes: the exhaustion of the wave of innovations that began at the turn of the twentieth century and was renovated during World War II; the 'profit squeeze' caused by the mounting strength of the trade unions, which were receiving increases in wages above productivity; and the new competition coming from the newly industrializing countries (NICs), which in the following decades would prove to be the main beneficiaries of globalization.

These intellectuals were creating the hegemony constraints that define a policy regime; they were telling people which were the policies that make the economic and political systems work well. They were mixing up real economic and political constraints with invented hegemony constraints, taking for economic constraints what were hegemony constraints, because hegemony constraints alone have no power to define and create a successful policy regime. Achieving a new policy regime requires hegemony constraints to be complemented and supported by real economic constraints.[5]

In achieving a new hegemony, the role of financial crises that soon change into economic crises is crucial because they are an indication that the policy regime is facing major problems. Financial crises usually originate from fiscal irresponsibility, which are translated into large fiscal deficits, and from irresponsible exchange rate policies that are materialized into large current account deficits. In both cases, the country will need macroeconomic adjustment, which is not orthodox but just competent economic policy responding to an economic constraint. When the financial crisis turns into an economic crisis, which is normally characterized by an increase in unemployment, an expansive fiscal policy will be required, which is not developmental, but, again, just good economic policy. Thus, these policies alone are not an indication that the policy regime has changed. This will only happen when a new government representing a new class coalition is able to develop a critique of the previous policy regime and formulate a reasonably consistent system of policies to replace it.

Change to a new regime also depends on the control of the media. The media, particularly newspapers, are responsible for the diffusion of the new ideas. Besides major journalists, public intellectuals responding to the definition of the new regime together with academics, a legion of modest journalists diffuse these ideas that they suppose to be 'obvious.' Finally, a last mechanism of conformity to the new policy regime, principally in the case of developing countries that become indebted in foreign money, is the coercion or conditionalities created by international agencies like the International Monetary Fund (IMF) and the World Bank. The outcomes of the proposed institutional reforms are less important in comparison with the previous factors allowing for the formation of a new policy regime as institutional reforms always take time to produce results and because their proponents may argue that they are not producing results as they were not 'deep' enough. Nevertheless, once the new ideas start to become disseminated, most people are just co-opted into acquiescing in the new 'truth.' People used to think in the old way, but when the new hegemony is established, the dominant assumption is to agree with the new ideas, and people imperceptibly change their minds accordingly.

Policy regimes tend to be relatively stable for a large number of years. Opposition parties are always challenging the incumbent government, but their possible victory in election does mean a change of policy regime or of the form of state. In principle, the political system is porous and contradictory, meaning that the policy regime is relatively weak. Nicos Poulantzas (1978 [2000], pp. 141, 134) remarked that 'the state is not a monolithic bloc, but a strategic field' or 'the condensation of class struggles.' The hegemony of a class or of a fraction of a class permeates the balance of forces at the core of the state, but other classes are also present in so far as these forces are mutually contradictory, and the state reflects such contradictions or fissures: 'the definition of the state policy must be considered as the outcome of the class contradictions embodied in the structure of the state.' In saying this, responding to the crisis of the 30 Golden Years of Capitalism, he was referring to a moment (1978) where the social democratic policy regime was facing crisis, and a new regime was not yet in place.

In summary, the demise of a class coalition or the end of a policy regime is the outcome of a major financial crisis, of a crisis that the alternative class coalition is able to explain, attributing it to some central characteristics of the previous regime. It requires a political leadership to put together the new coalition; a group of major intellectuals that are able to develop a sensible critique and, more importantly, a set of policies that seem consistent; control of the media; and, in the case of non-core countries that resist change, pressures from international institutions through a conditionality system. Once the new hegemony is in place, people adhere to it not through public debate, but through co-optation; they are supposed to agree with the new ideas and the new policies, and gradually do indeed come to agree.

3.6 HEGEMONY CONSTRAINTS IN RICH COUNTRIES

Mixing up economic constraints and hegemony constraints is quite common on the part of the dominating as well as the dominated. For the neoliberal coalition, it was beneficial to take hegemony constraints for economic constraints because this is a way of legitimizing their own interests. For the dominated, the inverse should be the case, but left-wing or social democratic politicians and intellectuals have difficulty in accepting economic constraints that really exist, and tend to view all constraints as reflecting only hegemonic interests. Instead of distinguishing between the hegemony constraints from the economic and political constraints, they condemn the social democratic administrations (see Glyn 2001; Maureira and Farías 2012; Sánchez-Cuenca 2012).[6] In fact, the concept of policy constraint implies that the policies adopted by the opposing class coalition will often not be of common interest, but this does not mean that all the policies adopted will reflect political hegemony.

How did the new dominant class coalition react to these problems? Did the new policies adopt a response to real economic constraints, or rather a problem of hegemony constraint? It is not easy to offer an objective answer to this question. The fall of the profit rate was a real constraint to economic development because investments depend on a satisfactory expected profit rate, and because business entrepreneurs will not invest if their expected return is not clearly above the cost of capital. But were the neoliberal policies adopted a form of recovering the expected rate of profit, or were they rather in the interest of rentier capitalists and financiers?

In relation to the exhaustion of the wave of innovations, there was nothing to be done in the short run. A new wave of innovations was beginning in the 1970s – the information and communications technology (ICT) revolution – but it would take some time to produce results. During this time, the central fact was that the last major innovations of the previous technological revolution – television and jet air travel – had already produced the high profits associated with Schumpeterian innovation, and the national economies had reverted to competition and normal or quasi-normal profits.

The case of the profit squeeze was different. In the United States and in some European countries, wages had increased above the productivity rate in the 1960s. The policies that were adopted to reduce wages relative to profits, particularly the policies aimed at reducing the social costs that fell directly on the wage bill, made sense; they responded to an economic constraint. And they found in 'flexsecurity' a creative solution: Denmark, followed by other European countries, compensated the flexibilization of labor contracts while increasing state protection. In this way, the competitiveness of business enterprises was assured, while workers were offered new training and increased unemployment compensation.[7]

This explains why another neoliberal tenet – the reduction of the state apparatus – failed to materialize, if we ignore the privatization of state-owned enterprises. According to this view, another possible cause of the fall of the rate of profit in the 1970s would be 'the excessive growth of the state,' or 'the rise of the welfare state,' by constraining business firms to pay high taxes that were a disincentive to productive investments. But this contentious view made no sense; the 'need' to reduce the state was just a hegemony constraint to the ones who believed in it. The social or welfare state is a form of distributing income, of indirectly increasing wages that is more equitable and more efficient than a direct increase in wages because collective consumption (deriving from universal social services) is less costly than individual consumption paid out of wages.

In so far as the reduction of the state apparatus did not materialize, this hegemony constraint didn't work. The same cannot be said of other hegemony constraints, the ones related to privatization of monopolistic business enterprises, which markets are unable to coordinate, and financial deregulation. These were just hegemony constraints. Privatization of monopolies makes little economic sense but is in the interest of rentier capitalists who are able to capture the monopolist rents involved. As for financial deregulation, this was a major mistake; it was the direct cause of the 2008 global financial crisis and the condition for financialization or the creation of fictitious wealth.

Regarding the new competition represented by globalization and the

NICs, the problem faced by rich countries was serious, and, at that time, it was only just beginning. Competition among rich countries was limited because wages were equally high. This was not the case of competition originating in low-wage countries that had been able to industrialize. Initially the new competition was circumscribed to four Asian countries – South Korea, Taiwan, Singapore and Hong Kong – and two in Latin America – Brazil and Mexico. But these countries already posed a challenge that had to be faced – a challenge that would increase much more in the next decades by the addition of new and bigger Asian developing countries to the condition of exporters of manufacturing goods and also tradable services. To this problem neoliberalism was not able to offer any meaningful solution, except increasing by their institutional control on intellectual property rights, and attempting to compensate for the inability of rich countries to compete and achieve gains in the real economy by engaging in financial deregulation and financialization. Were the neoliberal policymakers in the rich countries adopting policies required for the effective functioning of the respective economic systems or just creating a policy constraint? In the case of intellectual property rights, the answer is doubtful, but in relation to deregulation and financialization, there is no doubt: the policies only attended the interests of the neoliberal class coalition, not the interests of the countries.

Another pure neoliberal hegemony constraint was the reduction of taxes, making them less progressive. Neoclassical economists and neoliberal ideologues were not able to persuade people about their 'flat tax' proposal, but they were successful in reducing the tax burden on the rich. They made taxes regressive, arguing that progressive taxes represented a disincentive to hard work and entrepreneurship. According to the simplistic model of human nature adopted by neoclassical economics, this argument makes sense, but when we consider real life, it doesn't. People don't stop working because taxes are relatively high; on the contrary, they may work more to compensate for the loss of income. And real entrepreneurs are not afraid of taxes. What they require is the existence of good opportunities for profitable investment – something that is weakly related to taxes and strongly related to the existence of demand for their goods and services, low real interest rates and a competitive exchange rate.

In summary, neoliberal capitalism proved unable to reduce the size of the state. In the period from 1979 to 2008, the tax burden in rich countries continued to increase (although at a slower rate than between 1950 and 1979). In the case of the Anglo-Saxon or liberal model of capitalism, there was not much to dismantle: particularly in the United States, workers were not protected either by labor regulation or by large social services.[8] In the case of the European or social democratic model, three reasons were responsible for greater national solidarity: first, because this model of capitalism involves a higher degree of solidarity; second, because voters demand the social services that define the welfare state; and, third, because collective consumption (consumption supplied by universal or quasi-universal social services) is more efficient or intrinsically less costly than individual consumption.

The greater national solidarity of the European model derives essentially from the fact that, contrary to what happened in the United States, the strength of organized labor against capital was not limited to the business enterprises, but was directly political in so far as unions long formed the backbone of social democratic political parties. It derives also from the fact that in Europe, not only workers but also capitalists are organized in a corporatist way (Schmitter 1974 [1979]). We may reason that this fact strengthens capitalists and limits workers' demands, which is true. But we may also consider that it transforms both sides' organizations into cartels that allow for more rational negotiations, and for concessions to workers that do not endanger the domestic competitiveness of individual firms (which is inevitable when labor negotiations happen at plant level). Kathleen Thelen (2012) surveys the debate on the varieties-of-capitalism interpretation (see Hall and Soskice 2001), which shares the corporatist emphasis on the role of employers in the social agreement, and the sociological or 'liberalization' approach of Wolfang Streeck (2009), emphasizing the political power of organized labor while acknowledging the larger defeat of the workers in the face of neoliberal hegemony. In fact, the two explanations of the resilience of the welfare state are complementary. The fact that the sociological interpretation stresses the decline in the number of employees and business enterprises covered by industry-wide bargaining since the mid 1990s shows that the social democratic state was threatened during the neoliberal years, but this does not mean its demise.

There is no doubt that in democracies, people don't accept reductions of the protection that public social services represent. Voters confirm it at every election. It is also clear that collective consumption is fairer than individual consumption; in the former, there is the equality or social justice that the latter denies. Not so evident is the more efficient character of collective consumption, because in the health sector, which markets coordinate poorly, collective consumption avoids the high fees charged by doctors and the high profits earned by private institutions. And I add one simple piece of empirical evidence: in the United States, a country that does not yet have a universal health care system and where the supply of services is mainly private, health expenditures represent 17 percent of gross domestic product (GDP), while in the more advanced countries of Europe, where a universal health care system exists and its supply is mostly public, health expenditure costs 11 percent of GDP. The efficiency of these services may be improved through the use of non-profit organizations contracted by the state as the direct suppliers of social services. The managerial public reform that began in the 1980s had essentially this objective. But, even without reforms in that direction, collective services tend to be more efficient than individual services.

Thus, the attempts to increase competitiveness through flat taxes and through the demolition of the welfare state did not respond to real economic constraints. They did not make business enterprises more competitive and profitable; they just made rentier capitalists and financiers richer. In other words, they responded to the hegemony constraint – to the fact that, although unjust and irrational, flat taxes and the demise of the welfare state were in the interest of the new hegemonic class coalition. The same applies to the other two major neoliberal policies: the liberalization of the international flow of funds and the deregulation of domestic financial systems. We know too well today that they make no sense; that the 'big bang' deregulation of the banking system in the late 1980s in Britain and the United States was the main cause of the 2008 global financial crisis. These financial policies were in the interest of rentier capitalists and financiers and of the banks and the other financial institutions that they manage.

3.7 SOCIAL DEMOCRACY AND HEGEMONY CONSTRAINTS

In the 1980s, in the developed countries the welfare state experienced a crisis, while the 1990s were a time of crisis for the developmental state. But the crisis of the welfare state did not imply its demise, while it did in the case of the developmental state, in so far as the Latin American (not the Asian) countries abandoned it in the course of the 1990s. The welfare state proved to be more resilient because it had the direct support of voters. In the developing countries, such as the fast-growing Asian countries, where the developmental state continued to produce growth, this form of state survived; but the same did not happen in the Latin American countries where, in the 1980s, a major financial crisis – a consequence of the mistaken policy of growth with foreign indebtedness – led to economic stagnation. Yet neoliberal ideologues succeeded in persuading most observers that the crisis centered on the import-substitution model was intrinsic to the developmental state, just as they had been perversely successful in making it 'true' that the inflation and low rates of growth of the 1970s had been consequences of the adoption of Keynesian policies.

The mechanisms that led to hegemony and to the respective consensus are complex. They suppose a crisis of the previous policy regime; they involve a strong intellectual elaboration; they involve rational persuasion; and, principally, they involve co-optation: after the new ideas have advanced, people start changing their views almost unconsciously. To think in a given way now becomes 'natural' to everybody.

Once the new hegemony was defined and the neoliberal orthodoxy prevailed, a curious and significant phenomenon materialized: the new policy regime was formed by the totality of economic and hegemony constraints, the latter taken as if they were the former, while its non-compliance was identified with economic 'populism,' 'mercantilism,' 'nationalism' – all these words became pejorative. This is absurd and, at the same time, logical: absurd from a rational standpoint, logical from a hegemonic one; absurd because Keynesians and structuralist or developmental policymakers also seek to observe objective economic constraints; logical because a pretense to a monopoly of rationality is a defining characteristic of hegemony.

During the 30 Neoliberal Years of Capitalism, social democratic political parties often adopted policies similar to those of liberal parties, but this does not mean that they were neoliberal policies. In many cases, they were just observing objective economic and political constraints, not hegemony constraints. Many studies that attempt to evaluate whether social democratic parties in power were faithful to a social democratic approach, or whether the developmental governments in developing countries were faithful to their commitments, are often mistaken when they discuss economic policies. It is true that politics is the art of compromise, and social democratic parties compromise. But the critiques of the social democratic 'betrayal' to progressive economic policies fail to distinguish between the policies that derive from economic constraints and the ones that are due to hegemony constraints.

In the neoliberal policy regime, hegemony constraints were imposed over economic constraints, and this is a basic explanation for its failure to assure growth, financial stability and reduction of inequalities. For instance, neoliberal policymaking was characterized by exchange rate or current account irresponsibility. It did not set limits to current account deficits because economists and politicians adopted the neoclassical (and absurd) assumption that 'private markets are always in equilibrium.' The euro crisis could have been avoided if the Maastricht Treaty had imposed limits not just on budget deficits but also current account deficits. The Treaty also failed with its proposals to deregulate the financial system.

Another example of the non-observance of economic constraints is at the core of the 2008 global financial crisis. In the 1980s, rich countries, led by Britain, engaged in the deregulation of financial markets, which reached its peak in the so-called 'big bang' bulk deregulation of 1986. We know today the evil consequences of such a policy. It did not respond to any real economic constraint; on the contrary, it disregarded a basic and old economic principle – that financial markets are intrinsically unstable because they are prone to speculation, fraud and herd behavior, and so require close regulation.

A third example of policies that responded to the hegemony constraint and violated economic constraints is the elimination of the progressive tax system that social democratic governments had put in place in the Golden Years. In rich countries, the top marginal income tax rates were cut by more than half, with the argument that progressive taxes discourage hard work and investment. This argument was false, historically and empirically, but it was consistent with a dominant ideology based on radical individualism and privilege; and so progressive taxes were cut.

Consider now a political policy that does not derive from political constraints but just from the hegemony constraint: the resistance to public financing for electoral campaigns and the liberalization of private financing. When neoliberals defend such a policy they are ignoring a basic democratic principle – that politicians should be independent from economic power. In this way, they are legitimizing the bribery of politicians by the rich. A second example of the disregard of political constraints in favor of hegemony constraints is the liberal resistance to forms of participative or direct democracy. It is true that in the large modern nation states, it is impossible to have full direct democracy, but this does not mean that only classical representative democracy – a form of liberal democracy where the representatives are not directly accountable to the electors – is legitimate. It is more difficult to find purely political policies that are constrained by the neoliberal hegemony, probably because neoliberalism is essentially an economic ideology.

In the neoliberal years, conservatives and neoliberals were associated with one another, but conservatism did not achieve the same hegemony as neoliberalism. The central concern of conservatives was to stop some of the great social and progressive achievements of the twentieth century, such as the movements against racism and ethnic nationalism and respect for minorities and the rights of women and homosexuals. Just as neoliberals failed to destroy the welfare state, conservatives failed in stopping the liberalization of morals. In the neoliberal years, some social democratic administrations, like that of Prime Minister Zapatero in Spain (2005–11), were able to advance in these matters (see Sánchez-Cuenca 2012).

3.8 DEGREES OF FREEDOM: ALTERNATIVES?

To summarize, in the 30 neoliberal years (1979–2008), economic and political constraints played their unavoidable role, while hegemony constraints played the autonomous role of imposing the values and interests of a given class coalition on the whole of society. This happened in rich countries, where the welfare state was under attack, as well as in developing countries, where the developmental state was the target. In all countries except the fast-growing Asian countries, the new and regressive policy regimes produced low rates of growth (even lower if we consider the four years of economic stagnation after 2008), high financial instability and a sharp increase in inequality. The Asian countries succeeded in keeping their developmental policies, but were not spared some neoliberal hegemony. The neoliberal policies that Thailand, South Korea, Indonesia and Malaysia adopted, particularly the policy of growth with foreign savings, caused an appreciation of national currencies, an increase in foreign debt and a financial crisis, although their budget deficits remained under control.

At the peak of the neoliberal years – the 1990s – governments had little freedom to act, not because they faced economic constraints but because the hegemony constraints were too strong. But even at that time, some developing countries were able to go ahead with their developmental states and even strengthen them (such as China and Vietnam), while most rich countries were able to conserve their welfare states, and complied with the demand from business enterprises for a reduction in the direct protection of labor. This was the case in the countries that, in the private sector, adopted the already mentioned flexsecurity policy. At the same time, their public management reforms increased the efficiency of the social and scientific services financed by the state, and, in so doing, legitimized the welfare or social state (see Bresser-Pereira 2010b). These two institutional reforms characterized the northern European countries. They were not implemented in the southern European countries (which are now at the core of the euro crisis) or in Japan, which was the first nation to form a developmental state in the late nineteenth century, although in the 1985 Plaza Accord it bowed to pressure from the United States, appreciated its exchange rate and five years later experienced a major asset bubble followed by quasi-stagnation.

This is history. At the peak of the neoliberal policy regime the alternatives seemed closed; today, not any more. After the 2008 global financial crisis, neoliberalism and neoclassical economics have been deeply undermined, and the neoliberal hegemony has crumbled. This setback is not definitive; conservatism (the primacy of social order) has not been touched; only neoliberalism (the primacy of markets); and we continue to hear neoliberal speeches from neoclassical economists, financiers and rentier capitalists. They have been defeated and demoralized, but they still have much power. On the other hand, people learned from the 2008 global crisis and continue to learn from the 2010 euro crisis and the present Long Recession that today there is a greater degree of freedom to seek alternatives. Karl Polanyi (1944 [1957], p. 130) saw that 'modern society was governed by double movement: the market expanded continuously, but this movement was met by a countermovement checking the expansion in definite directions' in order to protect society. For Polanyi, the liberal civilization of the nineteenth century disintegrated because of 'the measures that society adopted in order not to be, in its turn, annihilated by the action of the self-regulating market' (p. 249). Since 2008, modern society is again facing the same challenge. It is beginning to take necessary measures to avoid being destroyed by that same self-regulating market. In the 1930s, we had the Great Depression and the re-regulation of markets; now we have the Long Recession and, again, the re-regulation of markets.

Now an opportunity has opened up for a new narrative and for new policy proposals coming from a broader and more democratic class coalition around a social and environmental new developmentalism. Rich countries may now decide to renew the welfare state, making it more developmental, and middle-income countries are already trying to renovate the developmental state, making it more social and oriented to the protection of the environment. We can see this in China, a developmental state that, since 2006, has been trying to switch the focus of its economy from foreign markets to the domestic market and to the construction of a welfare state; Brazil, since the 1985 democratic transition, changed from a developmental to a social state, but, given the poor economic results, has recently tried to combine the social and the developmental states. Many intellectuals and politicians of middle-income countries are already involved in defining a new policy regime. Since the mid 2000s, they have been discussing a renewed developmentalism that they are calling 'new developmentalism' (see Bresser-Pereira 2006, 2010a; Kahn and Christiansen 2011). In 2010, 80 development economists discussed and subscribed to the 'Ten theses on new developmentalism,'[9] a clear alternative not only to liberal orthodoxy but also old developmentalism. It is a national development strategy that is supported by a broad developmental political pact involving business entrepreneurs, the public bureaucracy and workers, and in theoretical terms is based on structuralist development macroeconomics. It gives the state a strategic role, emphasizes the demand side of growth, acknowledges the tendency to chronic and cyclical overvaluation of the exchange rate and demands the firm administration of it, calls for fiscal and exchange rate responsibility, asks for wages to increase with productivity and is committed to social inclusion by gradually building a welfare state.

The problem of implementing real alternatives is more serious in rich countries because they face competition from middle-income countries, have been more severely hit by the crisis caused by neoliberal policies and have not been able to define a clear alternative to them. The United States faces a major and protracted moral crisis. Despite its wealth, it has not been able to construct a welfare state, and, since the demise in the 1970s of the broad (and reasonably developmental) class coalition that was Fordism, American society has become divided, with governments unable to formulate a new national strategy. We could have expected that the 2008 global crisis would have awaken people against neoliberalism, but it seems it did not. Since the federal government was constrained to expand expenditures to save the banks and shield them from greater losses, conservatives perversely attack the progressive Obama administration (the 'liberals' in US terminology) for increasing public debt and reaffirm their own neoliberal, minimal-state ideology. In Europe, the obstacle to a fresh start after the neoliberal regime is the crisis of the euro. This is a continuation of the 2008 global crisis, having the same origin, namely, neoliberal deregulation of the banks as recommended by neoclassical economists. But it has a specific cause: ignoring or minimizing the concept of the sovereign nation state, the economists who proposed the euro did not hesitate to substitute a foreign currency (the euro, which no member country of the Eurozone can either issue or depreciate) for national currencies. Starting from the absurd assumption that the private sector is always balanced because it is market-coordinated, they imposed limits only on budget deficits and left uncontrolled current accounts deficits (which indicate disequilibria also in the private sector). So long as the Eurozone fails to solve this major problem, either by building a federal state or by discontinuing the euro, its member countries and peoples will not be able to achieve a new developmental and social coalition and resume growth with stability. In Japan, the demise of the developmental state after the 1985 Plaza Accord and the enactment of neoliberal reforms, particularly in the Junichiro Koisumi administration (2001–06), were unable to recover growth. The poor quality of democracy during the long developmental regime did not improve in the neoliberal one, while corruption progressed.

In contrast, middle-income countries are today freer to define their national development strategies. Except for Mexico, all major countries in this category have already dismissed the neoliberal way. The Asian countries have done so more firmly than the Latin American countries because they are less afraid of espousing economic nationalism or developmentalism, because their elites, unlike their Latin American counterparts, do not share the illusion that they are Europeans.

All the rich and middle-income countries are well aware that we live in a globalized world, where nations have become more interdependent and new global challenges have emerged. This requires increased regulation of international affairs – something that will be possible only if each individual nation-state is ready to make compromises and cooperate with others. But putting this into practice is difficult, for the more rich and powerful countries because they are used to privileges, and for emerging countries because they believe they have the moral credit to promote their interests, which have been overridden for so long. Nevertheless, one thing is for sure: the new forms of state and capitalism and the new policy regimes that will succeed the neoliberal years will not be exclusive to this or that country. Each country will make its choices, all will observe the real economic constraints and all will share common traits that have their origin in global constraints and agreements.

NOTES

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1. The origin of this expression probably lies in economics. Macroeconomists have long been seeking the 'best' or ideal monetary policy regime. See, for instance, Bryant et al. (1993, p. 5), but the broader and historical concept of policy regime that we are using in this book was defined by Adam Przeworski (2001).
2. The term may also be used to refer to more specific power arrangements and policies related to such issues as environmental protection, civil rights or education, but here I am adopting its more encompassing definition.
3. Observe that I am not using the expression 'hegemonic constraints' but 'hegemony constraints', thus, not just the constraints that are part of the existing ideological hegemony (which include real economic and political constraints), but the constraints that are derived from the hegemonic framework.
4. We cannot say the same in relation to the United States because there a welfare or social state is still a project.
5. I owe to Adam Przeworski the observation that hegemony constraints alone are not able to achieve a new policy regime.
6. For a radical example of this critique to social democracy, see Ashley Lavelle (2008), whose title, *The Death of Social Democracy*, is revealing.
7. On flexsecurity, see Robert Boyer (1986), Commission of the European Communities (2007) and Wikipedia in English.
8. This is not true in relation to other countries of the Anglo-Saxon model like Great Britain and Canada. But this just suggests that most of the characteristics usually attributed to this model are actually characteristics of the American model of capitalism.
9. See http://www.tenthesesonnewdevelopmentalism.org (accessed 30 October 2013).

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