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Introduction: Politics in the Age of Austerity

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Democracy depends on choice. Citizens must be able to influence the course of government through elections. If a change in government cannot translate into different policies, democracy is incapacitated. Many mature democracies may well be approaching such a situation as they confront fiscal crisis. For almost three decades, OECD countries have – in fits and starts – run deficits and accumulated debt. Rising interest payments and welfare-state maturation have meant that an ever smaller part of government revenue is available today for discretionary spending and social investment. Whichever party comes into office will find its hands tied by past decisions. The current financial and fiscal crisis has only exacerbated the long-term shrinking of the room governments have to manoeuvre. As a consequence, projects for policy change have lost credibility – at least if they imply the redistribution of resources from old purposes to new ones. This is clearly the situation in those countries that were hit hardest by the 'Second Great Contraction' (Reinhart and Rogoff 2009). In Ireland, Italy, Portugal, Spain and of course Greece, governments of any colour will for decades be forced to cut and hold down spending.

In a number of farsighted articles, Pierson has outlined what he calls a 'fiscal regime of austerity' (Pierson 2001a, 2001b). Permanent austerity, according to Pierson, results when the ability to generate revenues is limited while at the same time spending needs to increase. In the 1990s, three causes came together that were not present in the decades immediately following the Second World War: diminished growth rates, the maturation of welfare states and an aging population. The diminished growth rates had their start in the mid-1970s, and since then rates have been lower on average than during the *trente glorieuses*. After the 'easy financing era' (Steuerle 1996: 416) had come to an end, revenues increased more slowly and, with few exceptions, public expenditure since

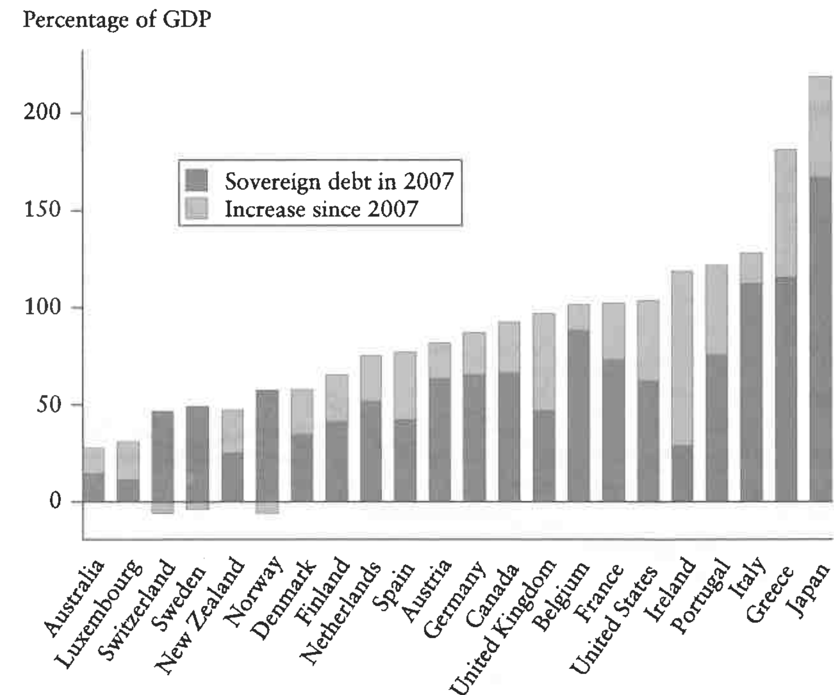
then has exceeded government receipts (Streeck and Mertens, chapter 2 in this volume). In principle, governments could have counteracted this tendency through higher taxes. However, growing international tax competition has rendered it more difficult to raise taxes on companies and top income earners (see Genschel and Schwarz, chapter 3 in this volume). At the same time, taxing ordinary citizens more heavily through higher indirect taxes and social security contributions has become politically more costly, since real wages have also grown more slowly, if at all, than in the past (Pierson 2001b: 62).

On the expenditure side, Pierson emphasizes the 'maturation' of the welfare state and demographic change, both of which he suggests are bound to keep expenditure at high levels. Welfare-state maturation means that today a much larger share of the population is entitled to receive pensions than when public pension programmes were created. In the beginning, a very limited number of people qualified for benefits, while the working population financed the welfare state through (payroll) taxes. This favourable demographic profile changes, however, once the first generation of contributors retires (Pierson 2001b: 59). What is more, in an aging society people will receive benefits for a longer period of time, whereas the number of contributors will stagnate or even shrink. In combination, these long-term trends lead to a mismatch of spending obligations and public revenue.

The financial and subsequent economic crisis of recent years has resulted in a vast deterioration in public finances. In all OECD countries except Norway, Sweden and Switzerland, the need to save banks and jobs has meant a sharp rise in public debt (figure 1.1). In some countries, it has more than doubled since the onset of the crisis, surpassing 100 per cent of GDP in eight countries in 2012 (Obinger 2012).[1] High levels of public debt make it even more difficult to allocate resources from old to new purposes, since mandatory expenditures will tend to consume almost the entire budget. This puts pressure on governments to make unpopular choices. 'Responsible' or, for that matter, fiscally prudent choices may be at odds with citizens' needs and demands, in effect rendering governments less responsive to their constituencies (Mair, chapter 6 in this volume).

In parallel with the faltering capacity for discretionary spending, public fatigue with democratic practice and core institutions has grown. Turnout in parliamentary elections has been declining almost everywhere (Franklin 2004); electoral volatility is rising (Mair 2006); trust in politicians, parties and parliaments is on the decline (Putnam et al. 2000); party membership is collapsing (Van Biezen et al. 2012); and there is a noticeable gap between democratic aspirations and satisfaction with the way democracy actually works (Norris 2011). As opposition parties in heavily indebted countries can no longer promise not to cut expenditure

Figure 1.1: Increase in sovereign debt during the financial crisis, 2008–2012



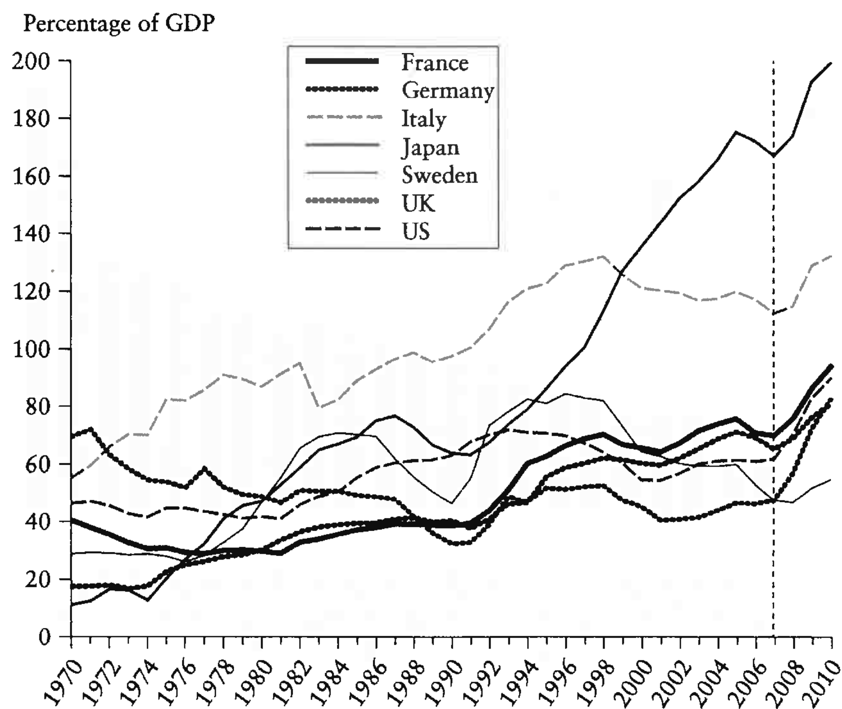
Source: OECD Economic Outlook No. 90.

in order to consolidate public finances, electoral choice becomes limited. At the same time, new anti-establishment parties have emerged or have gained new impetus in many countries (Norris 2005; Berezin, chapter 10 in this volume), and incumbent parties are finding it more difficult than in the past to stay in office. This book investigates what mechanisms may be at work to link rising debt and democratic disaffection. In this introduction, we focus more narrowly on the link between debt and falling turnout. After discussing each trend separately in the next two sections, we will discuss a number of direct and indirect pathways that seem to connect the two trends.

1 Rising debt

While the fiscal crisis of today's rich democracies became apparent only after 2008, it has long been in the making. Since the 1970s, almost all

Figure 1.2: Government debt as a percentage of GDP, seven countries, 1970–2010

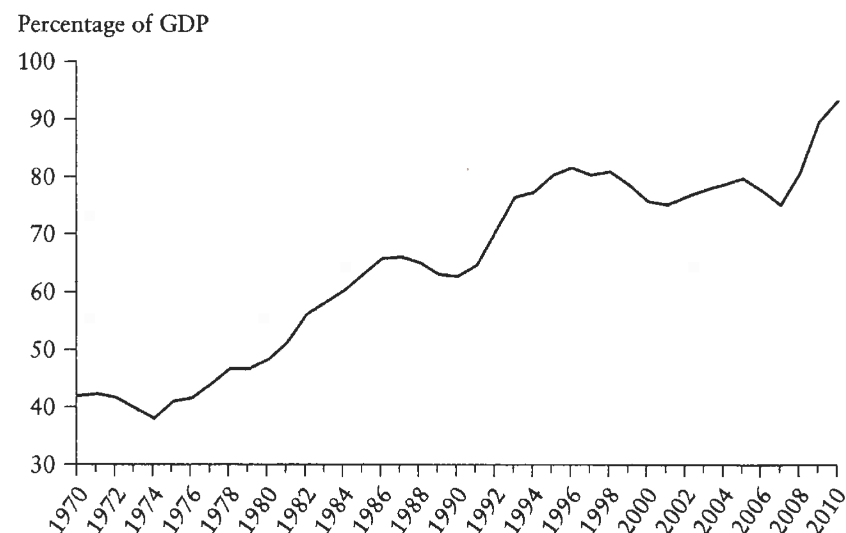


Source: OECD Economic Outlook No. 87.

OECD countries have had to borrow money to cover a chronic gap between public expenditure and public revenue, resulting in a steady increase in public debt. Like declining electoral participation, rising indebtedness was also observed throughout the OECD: in Social Democratic Sweden as well as in the Republican United States; in 'liberal market economies' such as the UK and in 'coordinated' ones such as Germany, Japan and Italy; in presidential as well as parliamentary democracies; under first-past-the-post systems and under proportional representation; and in competitive as much as in one-party democracies such as Japan.

Figure 1.2 shows the more or less steady rise of public debt as a percentage of GDP for seven selected countries over four decades, with the United States and the United Kingdom as the prototypical Anglo-American democracies, Japan as the leading capitalist democracy in Asia, France and Germany standing for the 'Rhineland capitalism' of continental Europe, Italy representing the Mediterranean pattern, and Sweden exemplifying the Scandinavian one. While there are differences between the seven curves,

Figure 1.3: Government debt as a percentage of GDP, OECD average, 1970–2010



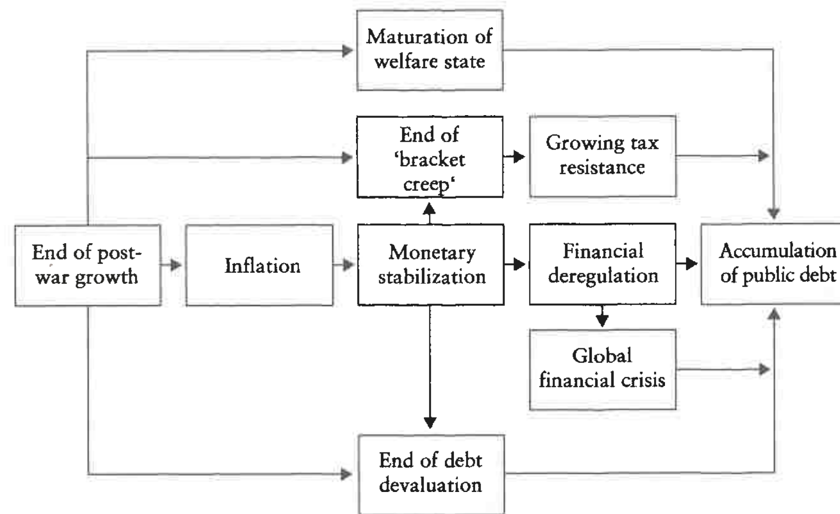
Note: Countries included in unweighted average: Austria, Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, UK, US.

Source: OECD Economic Outlook No. 90.

the overall trend is the same for all of them, and indeed for the OECD as a whole (figure 1.3). Initial questions as to whether rising debt levels were 'sustainable' in the longer term came up as early as the late 1970s in several countries, and there were various attempts by economists to determine a maximum level of debt beyond which macro-economic performance would suffer. In the meantime debt continued to increase, however, falsifying successive claims that the debt build-up had hit a ceiling.

In the 1990s, led by the United States under the Clinton administration, an OECD-wide attempt was made to consolidate public budgets, mostly through privatization and cuts in social welfare spending, with the hope of using the post-1989 'peace dividend' towards fiscal relief. It was at this time that Pierson saw a new age of permanent austerity on the horizon, one in which public spending would be cut back to match stagnant or even declining tax revenue. Much hope was placed by economists and political leaders, increasingly including those on the left, in institutional reforms of national parliaments' budgeting procedures, as strongly propagated by international organizations. Apart from Sweden, however, which went through a dramatic financial-cum-fiscal crisis in the mid-1990s (see Steinmo, chapter 4 in this volume), and the United States, which by the end of the century was running a budget surplus, not

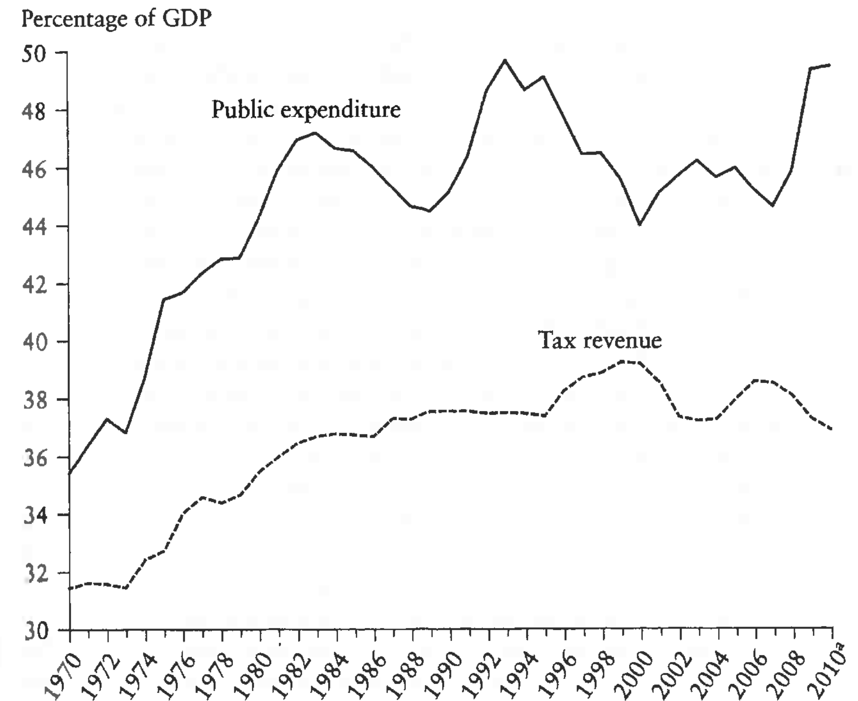
Figure 1.4: The causes of the fiscal crisis



much was achieved. It is important to keep in mind that the latest jump in public debt (which wiped out the gains of the – politically very costly – consolidation efforts of the 1990s and early 2000s almost completely) was caused by the financial crisis of 2008 turning into a fiscal crisis when governments needed to rescue financial institutions that had been allowed to become 'too big to fail' and had to reinflate the 'real economy' through 'Keynesian' deficit spending.

Naturally there has been and continues to be discussion on the causes of the long-drawn build-up of public debt in an entire family of countries in the absence of major wars. On the surface, we may observe that indebtedness began to develop with the end of the postwar growth period in the late 1960s (figure 1.4). At this time public expenditure continued to increase, while the rising taxation that had accompanied it up to this point began to come to an end (figure 1.5). The 1970s was a period of high inflation throughout the industrialized capitalist world, which for a while served to devalue national debt burdens, just as growth had in the preceding period. When OECD countries, under the leadership of the Federal Reserve Bank of the United States, ended inflation in the early 1980s, however, three developments coincided to push up public debt. First, structural unemployment ensued almost everywhere, resulting in rising demand on the coffers of the welfare state. Second, the end of 'bracket creep' – the automatic advancement of taxpayers with nominally increasing incomes to higher tax rates under progressive taxation – made for rising tax resistance. And third, with lower nominal growth rates, in

Figure 1.5: Government expenditure and revenue, as a percentage of GDP, seven countries, 1970–2010



Note: [a] Estimate.

Source: OECD Economic Outlook No. 87.

addition now to continuously lower real growth, past debt was no longer devalued with time. At this point, monetary stability encouraged holders of financial assets to lend money to governments, while governments felt encouraged to borrow by the low interest rates that followed the victory over inflation. Expanding asymmetries in international trade contributed as well. As surplus countries, first in the Middle East and later also in Asia, were seeking safe havens for their export earnings, the United States deregulated its financial industry to attract and absorb foreign capital, in an effort to finance the country's double deficit. Financial deregulation then resulted in the crash of 2008, which led to further accumulation of public debt and became the proximate cause of the current fiscal crisis in most advanced capitalist countries.

Expectations of an impending 'fiscal crisis of the state' have been around for some time (O'Connor 1973; Bell 1976). In the public finance theory tradition, the anticipated problem was that the revenue the

'tax state', or *Steuerstaat* (Goldscheid 1926; Schumpeter 1991 [1918]), would over time be able to raise ('confiscate') in a democratic-capitalist society whose assets were mostly privately owned would not be enough to cover the growing collective needs that social and economic progress were expected to generate. One can easily recognize the background to this argument in nineteenth-century debates on the future of capitalism and industrialism, where bourgeois-conservative *Kathedersozialisten* such as Adolph Wagner (with his 'law of expanding state activity') agreed with the Marxian diagnosis of a growing 'socialization of production' (*Vergesellschaftung der Produktion*) that required more and more collective regulation and support.[2] It was only in the 1970s and 1980s that the fiscal problem of capitalist political economy was redefined by the theory of 'public choice'. Rather than declaring that the fiscal means made available by society to the state were lagging behind growing collective needs, public-choice theorists now attributed the crisis appearing on the horizon to collective demands on the public purse having frivolously exceeded what was necessary and sustainable in a market economy, the ostensible result of pressures from competition between office-seeking politicians. Where public finance saw a potential fiscal crisis resulting from society being unwilling to pay for what it needed, public-choice theorists blamed society and its politics for excessively extracting resources from a private economy that would do much better if left in peace and to its own devices.[3]

The latest version of the public-choice account of the fiscal crisis of the state is the *common pool theory*, which has become established as the received opinion of the so-called new institutional economics. In essence it is just another version of the 'tragedy of the commons' story, which in turn is the riposte of standard economics to the Marxian analysis of primitive accumulation (Marx 1967 [1867, 1887]), in particular the 'enclosure' of the common land of English villages by the landed gentry, which is presented as prudent economic policy in pursuit of higher overall economic efficiency (North and Thomas 1973). Just as common ownership and the absence of private – i.e., capitalist – property allegedly resulted in irresponsible 'overgrazing' of common farmland, requiring a forcible modernization of the property regime, it is now being claimed that the public nature of government finance causes individually rational actors to take more out of the 'common pool' of state resources than they can sustain. In the popular version of the theory, democracy is the leading culprit, with its central actors – voters, interest groups and political parties – portrayed as being fundamentally irresponsible and unable to resist the temptations inherent in the free access to collectively owned resources. Vulnerable as its institutions are to popular pressure, so the story goes, democracy will inevitably result in irrational economic decisions, including commitments to public spending in excess of public revenues and resulting in ever rising indebtedness. Obviously the theory of the common pool has a strong Hayekian flavour in that it supports the conclusion that economic policy-making must be protected from electoral pressure and political opportunism and be vested in politically sterilized institutions such as independent central banks or regulatory authorities such as the European Commission. With respect to public finance and the fiscal crisis of the state, it was thinking along these lines that inspired the institutional reforms of the national budgeting procedures that were promoted in the 1990s, as well as the 'fiscal pact' that is currently being negotiated among European nations.

It is not our intention here to debate common pool theory in detail, as the main interest of this volume is to trace the impact of deteriorating public finances on democracy rather than vice versa. We may, however, note that the build-up of public debt since the 1970s did not exactly coincide with a parallel build-up in political participation and popular pressure on governments and markets. It was not only, as we have indicated, voter turnout that declined rather than increased during the period in question – and as we will see, disproportionately so among those at the bottom of our societies, who would be most likely to make demands on government spending. Trade union membership fell as well throughout the world of democratic capitalism, and often enough as a result of successful efforts at union-breaking by governments and employers (Visser 2006). Collective bargaining declined as a consequence, and with it the wages at the lower end of the labour market, while the earnings of shareholders and, even more so, managers improved dramatically, making for a stunning and sustained rise in inequality inside democratic-capitalist societies (Salverda and Mayhew 2009; OECD 2011; Schäfer, chapter 7 in this volume). Needs for 'restructuring' under alleged pressures of 'globalization' were and continue to be invoked to justify the retreat by governments from politically guaranteed full employment, the growing individualization of the employment contract, increasingly precarious employment, the renewal of managerial prerogative, the privatization of government services, and 'reformed' – i.e., recommodifying – social policy – all of which can be observed almost everywhere in rich democracies. Public debt, that is to say, accumulated alongside a long-drawn-out, pervasive process of economic *liberalization* rather than during a time of growing state intervention. The effective result of this was that capitalism withdrew from the commitments extracted from and entered into by it at the end of the Second World War. However this process may be interpreted or explained, it cannot possibly be conceived as having been driven by a rising influence over policy by democratically organized citizens.[4]

That the rise of public debt was not exactly due to a rise in the power of democracy may also be seen at present as governments, at the

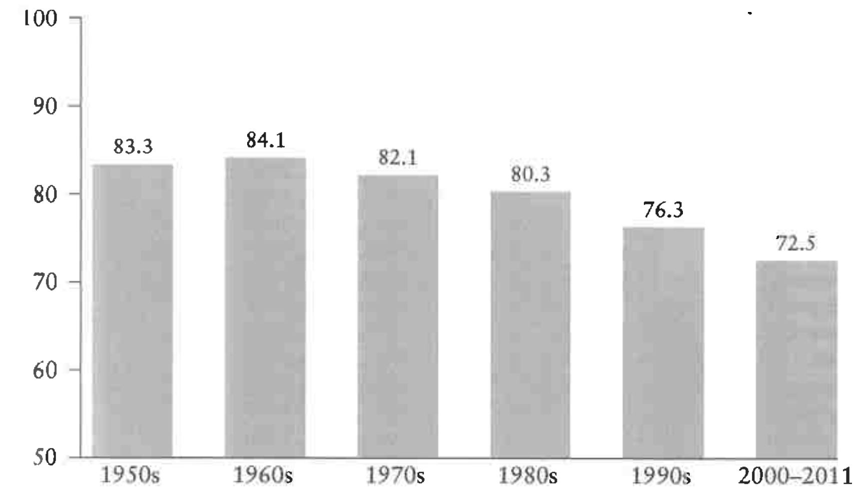
prodding of 'financial markets', jointly try to turn the tax and debt state that existed before 2008 into an *austerity* or *consolidation state* defined by balanced budgets and a (gradual) decline in public indebtedness. Everywhere the diagnosis is not that public revenue is too low relative to the functional needs of an advanced modern society, but that spending is too high on account of irrational collective or opportunistic individual behaviour. The cure, therefore, is more discipline in spending rather than in paying taxes – except perhaps for the taxes paid by ordinary people, such as social security or consumption taxes.[5] Consolidation is identified almost entirely with budget cuts. We know little as yet about how the austerity state of the future will work, and whether it will work at all – a few indications may be found in the following chapters. For example, according to Streeck and Mertens, chapter 2 in this volume, lower public spending will mean a higher proportion of it being devoted to more or less mandatory (non-discretionary) expenditure, resulting in less political choice and, probably, declining expectations in politics. Obviously spending cuts will affect mostly those who depend on public services and public assistance. They are also likely further to reduce public employment and depress the wages paid in the public sector, as a result of which the disparities in living conditions will continue to increase. Spending cuts will also set in motion further privatization and confirm the status of markets as the principal mechanism for the distribution of life chances.

In the next section we will look at the development of political participation, after which we will explore the possible influence that the determination of public finances and the rise of the austerity state may have had on the decline of citizen involvement in the public affairs of rich democracies.

2 Falling turnout

As debt has increased and the fiscal room for manoeuvre has diminished, electoral turnout has fallen. The declines have not always been dramatic, but they have occurred consistently across countries. With very few exceptions, electoral participation today is much lower than it was a few decades ago. As austerity has taken hold, it seems that many citizens now feel that electoral choices are limited and that turning out to vote is futile. This holds true for the less well-off in particular, as we will see. Average turnout rates rose for all Western democracies during the 1950s and 1960s. In the 1970s, a first slight decrease took place, which then accelerated considerably (figure 1.6). Each subsequent decade witnessed lower electoral participation. After 2000, voter turnout in parliamentary elec-

Figure 1.6: Electoral turnout in parliamentary elections, 1950–2011



Countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, US.

Source: www.idea.int/vt.

tions declined to 72 per cent on average – almost 12 points lower than in the 1960s.[6] What is remarkable about falling turnout is the universality of the trend throughout the Western world (Mair 2006). With the exception of Luxembourg – a country with strictly enforced compulsory voting – and Spain, turnout fell in all countries between 1970 and 2010 (table 1.1). Usually the decline ranges from 10 to 20 points, and there are no signs of a reversal. In fact, more than half of the elections with the lowest turnout rates since 1950 occurred in the 2000s. The more recent an election, the more likely is an all-time low in electoral participation.

Looking at general elections probably underestimates turnout decline. Nationwide elections are the most salient ones for most citizens, with participation rates that are much higher than those in 'second-order' – regional or local – elections (Reif and Schmitt 1980). Unfortunately there are few comparative studies of regional elections. One recent study has shown that regional elections tend to have lower turnout than general elections in eight out of nine countries, although there is considerable regional variation within states (Henderson and McEwen 2010). A number of studies also look at local elections. For example, Hajnal (2010:

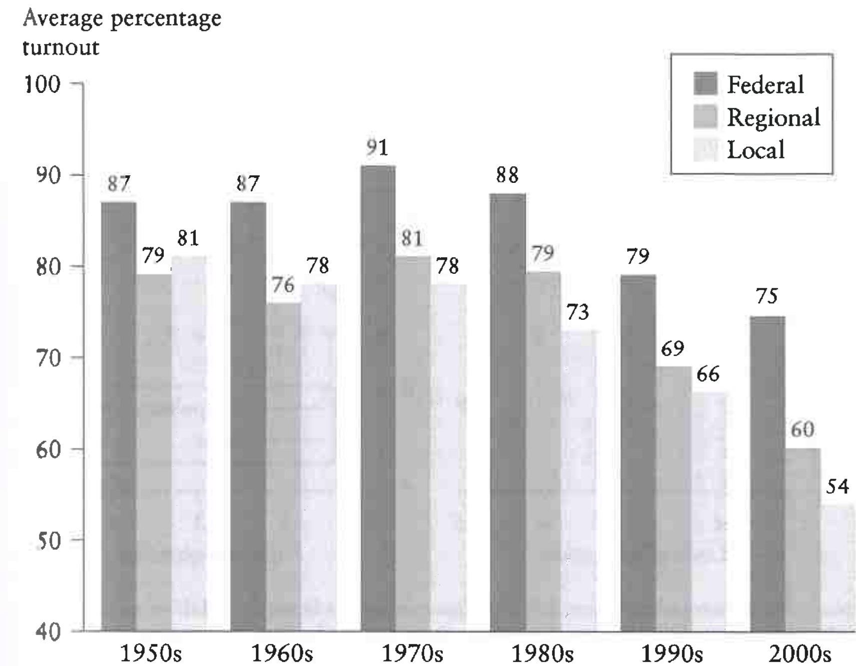
Table 1.1: Turnout change and record low turnout in twenty-two democracies, 1970–2010

	Yearly change in turnout (1970–2010)	Cumulative change	Years of lowest turnout	Frequency of record low turnouts		
				Period	*No.*	*%*
Australia	–.02	–0.8	1954, 1955, 2010	1950s	8	12.1
Austria	–.37	–14.8	1999, 2006, 2008	1960s	1	1.5
Belgium	–.08	–3.2	1968, 1974, 2010	1970s	2	3.0
Canada	–.41	–16.4	2000, 2004, 2008	1980s	3	4.5
Denmark	–.08	–3.2	1950, 1953, 1990	1990s	15	22.7
Finland	–.39	–15.6	1999, 2003, 2007	2000s	37	56.1
France	–.54	–21.6	1988, 2002, 2007			
Germany	–.50	–20.0	1990, 2005, 2009			
Greece (1974–)	–.27	–9.7	1956, 2007, 2009			
Ireland	–.30	–12.0	1997, 2002, 2007			
Italy	–.35	–14.0	1996, 2001, 2008			
Japan	–.24	–9.6	1996, 2000, 2003			
Luxembourg	.03	1.2	1989, 1994, 1999			
Netherlands	–.19	–7.6	1994, 1998, 2010			
New Zealand	–.26	–10.4	2002, 2005, 2008			
Norway	–.20	–8	1993, 2001, 2009			
Portugal (1975–)	–.86	–30.1	1999, 2002, 2011			
Spain (1977–)	.04	1.3	1979, 1989, 2000			
Sweden	–.26	–10.4	1952, 1956, 1958			
Switzerland	–.26	–10.4	1995, 1999, 2003			
United Kingdom	–.36	–14.4	2001, 2005, 2010			
United States	–.49	–19.6	2002, 2006, 2010			

Source: www.idea.int/vt. This table updates and expands Mair (2006: 13).

36) reports of the United States that turnout in local contests declined from 62 per cent of registered voters in 1936 to 39 per cent in 1986. For a random sample of fifty-seven American cities, Wood (2002) finds an average turnout rate of 34 per cent for local elections held between 1993 and 2000. Taking Germany as an example, figure 1.7 shows turnout rates for three kinds of elections for each decade since 1950. Until the 1970s, electoral participation was generally growing, surpassing 90 per cent in the general elections of 1972 and 1976. Regional (*Landtagswahlen*) and local (*Kommunalwahlen*) elections never quite reached these levels but still recorded turnout rates well above 75 per cent. Then, from the 1980s onwards, turnout began to falter for all types of elections, most dramatically at the local level. In comparison with the 1970s, electoral participation declined by more than 20 percentage points in local and regional elections. Today, turnout rates of around 60 per cent in regional elections and around 50 per cent in municipal elections are the norm.

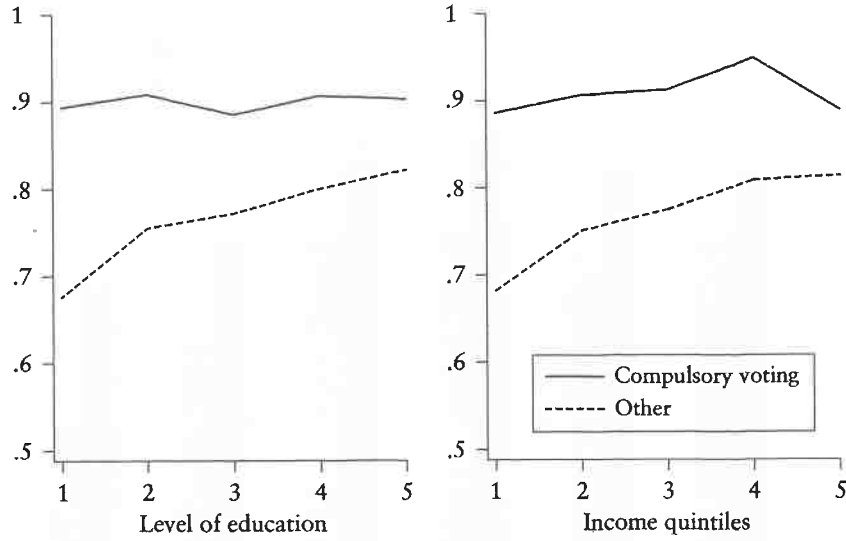
Figure 1.7: Turnout in Germany, 1950–2009



Source: Statistical office of Germany and of the federal states.

Although turnout decline is near universal *across* Western countries, it is by no means evenly distributed *within* them. Voters with more resources – education, income or social capital – participate much more frequently than the resource-poor. These differences tend to grow larger as turnout declines, because lower overall participation rates go along with more unequal participation. Given the regularity of this pattern, Tingsten (1975: 232) even speaks of a 'law of dispersion'. More recent studies have confirmed the basic pattern (Kohler 2006; Mahler 2008; Schäfer 2011). One way to show levels of dispersion is to compare countries with compulsory voting and those without. When the legal obligation to vote is strictly enforced, compulsory voting not only considerably increases electoral participation but also equalizes it. Figure 1.8 shows that, in four countries with mandatory voting (Australia, Belgium, Luxembourg and Greece), turnout rates are consistently higher across income and education groups. The effect is strongest at the lower end and less pronounced for those with high incomes or a high level of education. Without compulsory voting, the turnout of the less educated is more than

Figure 1.8: Voting probability of different social groups under voluntary and compulsory voting

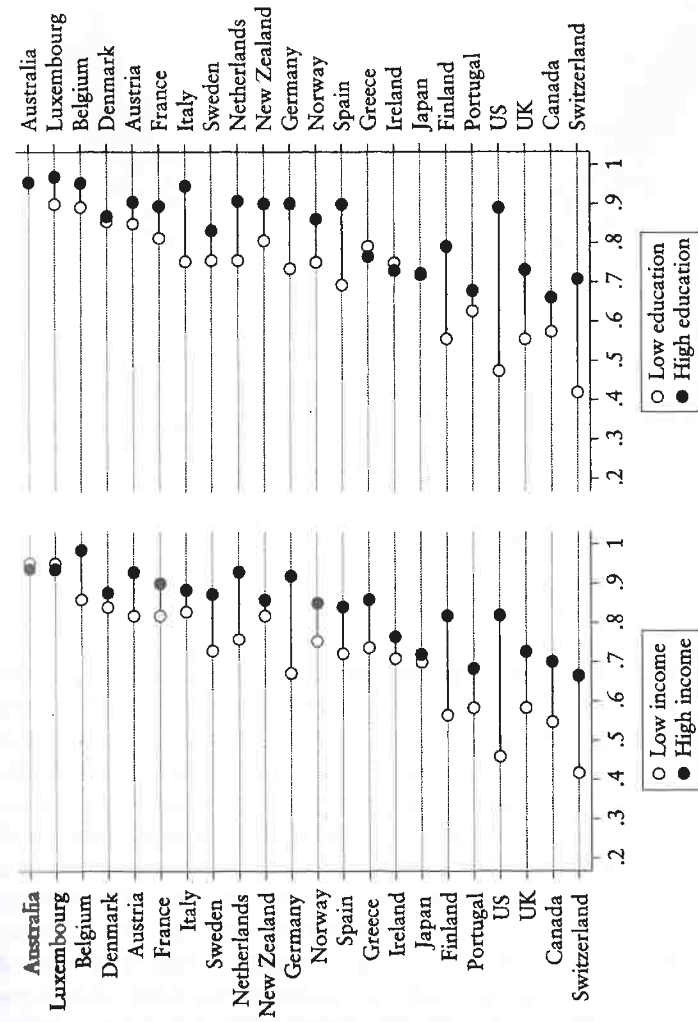


Note: For countries, see Figure 1.9. The figure shows predicted probabilities of voting calculated from a logistic regression (with robust standard errors) that controls for age, gender and political interest.

Source: International Social Survey Programme 2006 and European Social Survey, various years.

11 points lower than that of the highly educated. Exactly the same holds true for different income groups. Under mandatory voting, in contrast, nine out of ten people attend the polling booths across social groups.

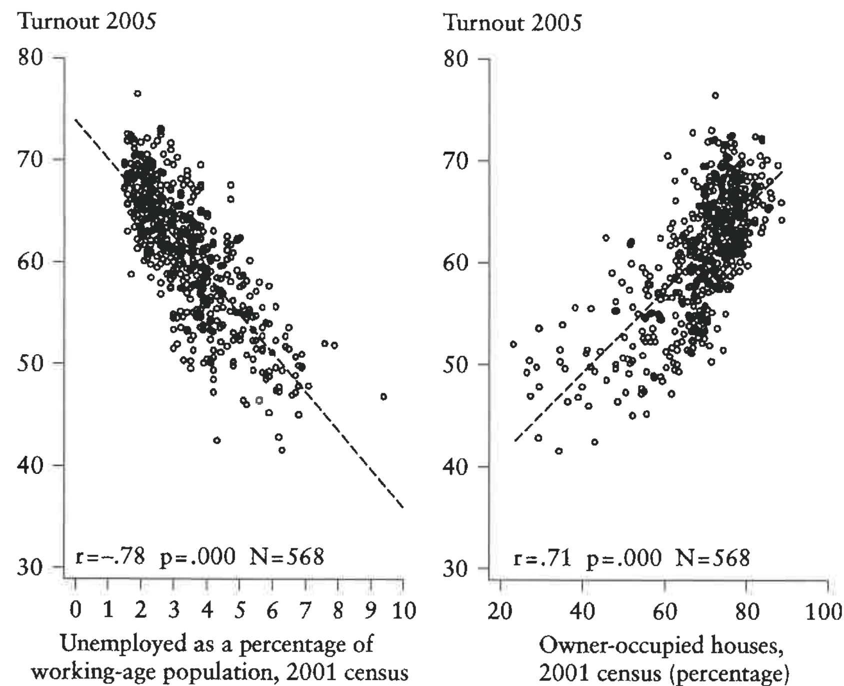
In a more fine-grained analysis, figure 1.9 shows the difference in voting for different income and education groups in twenty-two countries that are ranked according to their overall turnout level. Not surprisingly, electoral participation is again highest in Australia, Luxembourg and Belgium, as these countries strictly enforce mandatory voting (which is not true for Greece). Turnout is particularly low in three Anglo-Saxon countries (the US, the UK and Canada) as well as in Switzerland. Almost without exception, people with higher levels of education or income have a higher probability of voting (controlling for age, gender and political interest). These differences are small in high-turnout countries, as we have seen before, and tend to be larger in low-turnout countries. Not all countries fit neatly into the overall pattern, however: Germany has a higher level of dispersion than one might expect, whereas Greece, Ireland and Japan have levels that are lower than expected.



Note: The figure shows predicted probabilities of voting calculated from a logistic regression (with robust standard errors) that controls for age, gender and political interest. It contrasts the voting probability of the lower and highest quintile.

Source: International Social Survey Programme 2006 and European Social Survey, various years.

Figure 1.10: Constituency turnout in the 2005 British general election



Source: Pippa Norris, The British Parliamentary Constituency Database, 1992–2005, Release 1.3.

Finally, there are large regional differences in turnout (Johnston and Pattie 2006). For example, in the British general election of 2010, turnout ranged from 44 to 77 per cent at the level of constituencies. High and low participation rates are by no means randomly distributed. Figure 1.10 shows a strongly negative correlation between the regional unemployment rate and electoral turnout in 2005 (census data for the 2010 constituencies are not yet available). In contrast, turnout rises with the number of people who live in their own houses. These patterns hold even if we control for the closeness of the electoral race in a constituency (a strong predictor of turnout), the number of pensioners and the proportion of manufacturing workers. Economic hardship clearly goes along with low participation rates. No matter what data source we look at, then, the basic pattern is clear: turnout is falling almost everywhere and at the same time is growing more unequal. As a result, the participatory gap between different social groups increases. To us, this suggests strongly that the less well-to-do have in the past two or three decades progressively lost faith in their political efficacy and have grown sceptical

as to whether political participation serves their interests – and this view is not unfounded, as US studies show (Gilens 2005, 2012; Bartels 2008).

3 Debt and democracy

How could the deterioration of public finance in rich postwar democracies have undermined democratic participation and the democratic nature of politics in general? And how will the current transition from debt state to austerity state further affect democratic government? There is no simple answer to this, in particular because we have close to no historical precedents that could serve as guidelines.

Until the crisis, as Streeck argues in the concluding chapter to this volume, the build-up of debt, first public and then private, helped preserve liberal democracy by compensating citizens for low growth, structural unemployment, deregulation of labour markets, stagnant or declining wages, and rising inequality. The fiscal crisis of the state and the global economic crisis that followed it were the prices governments paid for their inability to prevent the advance of liberalization, or for their complicity with it. As governments increasingly gave up on democratic intervention in the capitalist economy, and the economy was extricated from the public duties it was promised it would perform when capitalist democracy was rebuilt after the war, it was through what came to be called the 'democratization of credit' that citizens were, temporarily, reconciled with the declining significance of democratic politics in their lives. This has now come to an end, as debt financing of public entitlements and private prosperity has reached a point where creditors are losing confidence that accumulated promises of repayment will ever actually be met.

With easy credit no longer available as a fix for liberalization and the associated democratic decline, the predominant theme of domestic as well as international politics in advanced capitalist democracies has become the consolidation of public finances through long-term institutionalized policies of austerity. How exactly the democratic austerity state of the future will work can only be guessed at. But some of its contours seem to be already visible. In the following we will summarize in nine short points what we regard to be the most likely future developments in the relationship between capitalism and democratic governance, and in particular between a tightening fiscal straightjacket for democratic politics, on the one hand, and the nature and extent of political participation, on the other.

1 Global liberalization, especially of capital markets, makes it highly unlikely that democratic countries will be able even partly to close the

gap between public expenditures and public revenues by setting higher taxes on corporate profits and high incomes. In the face of rampant tax competition, consolidation of public finances will have to be achieved overwhelmingly by spending cuts, apart from higher taxation of immobile assets – i.e., of consumers and low-income earners. As noted, spending cuts will tend to shift the structure of public expenditure in the direction of mandatory spending, at the expense of what has been called 'social investment' (Morel et al. 2012) in a more egalitarian distribution of the initial endowments of participants in market competition.

2 As liberalization-cum-fiscal discipline limits corrective intervention in the market, democracy will tend, even more than in the past two decades, towards 'post-democracy' (Crouch 2004), where public spectacles replace public action in pursuit of collective values and interests. With *panis* in increasingly short supply, more exciting *circenses* must be and will be provided in its place.

3 Institutionalized austerity will continue the privatization of government services that began in the 1980s and 1990s. Privatization forces or (as the case may be) allows citizens to rely on their own resources rather than on public provision, and to purchase in the market what they would otherwise have received from the state. The inevitable consequence is more inequality of access, for example to health care or education. Privatization should also reinforce tax resistance among the well-to-do, who are likely to be unwilling to pay both for the services they buy on their own for themselves and for the publicly funded services they do not use. It furthermore contributes to political apathy: among high-income earners, who, having effectively 'exited' from the community, no longer need 'voice' (Hirschman 1970), as well as among those at the lower end of the income distribution, who, in the presence of effective ceilings on public spending, cannot hope to get better services by voting for them.

4 Fiscal consolidation does not mean that democratic states will no longer need the confidence of financial investors, even under a regime of institutionalized austerity and with a primary budget that is balanced or in surplus. Given the huge amount of accumulated debt, governments will for a long time have to take up new debt to repay old debt. Buying sovereign debt will remain a lucrative investment for those with incomes high enough to allow them to save. As states finance public obligations by debt rather than taxes, therefore, they not only spare their well-to-do citizens from having their surplus funds confiscated but in addition offer them safe investment opportunities, paying them interest on assets that they continue to own rather than compelling them to contribute to the public purse. Since the financial capital invested in public debt can be passed on to the next generation, perhaps even with the interest it earns in the meantime, the debt financing of democratic states contributes to preserving and reinforcing economic and social inequality in civil society.

5 As states will continue to need credit, financial markets will in turn continue to keep them under surveillance, even after the stable institutionalization of a firm political commitment to balanced budgets and debt reduction. The most important challenge for democratic theory in the coming years will be systematically to realize that the austerity state that has taken hold in democratic capitalism has two constituencies rather than just one: in addition to its people, it has to face 'the markets' and their specific demands on public policy (table 1.2). While it has long been known that the interests vested in a capitalist economy require special attention from governments if they are to be successful (Dahl 1969), the rise of financial markets in particular seems to have made market pressures equally if not more significant to citizen pressures when it comes to everyday political decision-making. Democratic theory may therefore be well advised to consider and experiment with a model of contemporary democratic-capitalist politics that provides for symmetry between peoples and markets as rivalling constituencies representing different 'logics' of action, perhaps best circumscribed provisionally as 'social justice' and 'market justice', respectively.[7]

People and markets are different in a number of respects, making it difficult and sometimes impossible for governments to do justice to both of them at the same time. Whereas a state's citizenry is nationally organized, financial markets are global (table 1.2). Citizens are resident in their country and typically cannot or will not switch their allegiance to a competing country, whereas investors can and do easily exit. Citizens 'give credit' to their government by voting in general elections, whereas creditors do or do not give money. Rights of citizenship are based in public law, whereas the claims of creditors are regulated in civil or commercial law. Citizens express approval or disapproval of their government in periodic elections, whereas 'markets' make themselves heard in auctions

Table 1.2: The two constituencies of the austerity state

The people	The markets
National	International
Citizens	Investors
Voters	Creditors
Rights of citizenship	Claims to assets
Elections (periodic)	Auctions (continual)
Public opinion	Interest rates
Loyalty	Confidence
Public services	Debt service

that are held almost continually. Whereas 'the people' articulate their views through public opinion, 'the markets' speak through the interest rates they charge. There is an expectation that citizens will be loyal to their country, in contrast to the mere hope that creditors will have 'confidence' in its government and the fear that they could withdraw this confidence if they were to become 'pessimistic' or to 'panic'. Finally, where citizens are expected to render public service and expect to receive public services, 'markets' want debt service.

The new kind of politics that is unfolding as states and governments try to reconcile the often conflicting demands of their two constituencies still awaits exploration. Faced with international investors who unrelentingly police sovereign commitments to austerity – and, if necessary, will make their discontent felt by raising the interest rate on new loans – states may perhaps best be compared to publicly traded firms in a world of 'shareholder value'. Like managers of joint stock companies, governments are under pressure to deliver what in their case one could call *bondholder* value to increasingly activist capital providers. For this to be possible, they have to turn their citizens into a disciplined quasi-workforce who willingly produce market-compatible returns on the capital that has been invested in them, both by moderating their demands on the 'social wage' accruing to them as citizens and by continuously improving their productivity, even as what they produce is a civic surplus to be turned over to those states providing the operational capital that their home government cannot extract from its more affluent citizens.

6 The new tensions between the social rights associated with citizenship and the commercial rights deriving from private ownership of financial assets evolve not just within national polities but also and increasingly at the international level. Here 'financial markets', globally organized as they are, are at a profound advantage compared to nationally constituted citizenries, not least because markets are much better able than citizens to capture international organizations and turn these into instruments of market interests. Foremost among these interests is to prevent individual governments from cutting their debt burden by unilateral restructuring or sovereign default. To this end creditors can enlist the help of the 'international community' of states with the credible threat that a 'credit event' in one country will, as a side effect, push up the interest rates to be paid by all others on their debt, not to mention potentially force them again to bail out affected financial firms that have remained 'too big to fail'. 'Financial markets' thus become the foremost proponents of 'international solidarity', in the sense of providing investors with the collective deposit insurance guaranteed by the family of capitalist states as a whole, called a 'firewall' or 'bazooka' by political PR specialists and reducing the *de facto* risk of lenders to zero.

Making the job of 'global governance' easier, international central banking has at its command an abundance of tools by which to make subsidies to financial speculators appear as assistance to poor states or their impoverished populations, if not to make them altogether invisible. Monetary policy remains a book with seven seals to the vast majority of people, in particular those who will ultimately have to pick up the bill. For example, hardly anyone understands the far-flung implications for European workers and taxpayers of the loans at 1 per cent interest dealt out to banks, and only banks, at the end of 2011 by the European Central Bank, whose president is the former Goldman Sachs executive Mario Draghi. The task of national governments, whose ministers are unlikely to understand what is going on either, is above all to sell their people on the machinations of international money technocrats and the compromises produced by financial diplomacy. If this is not certain to work, the preferred alternative is to enlist the help of financial 'experts' to hide, as much as possible, the extent of the potentially gigantic welfare losses that citizens are being asked to absorb for the benefit of capital owners and bonus-collecting money managers.

7 Popular agitation around the international politics of public debt tends to express itself in terms of nations versus nations, rather than people versus financial markets. In its leftist or, better said, its social-democratic version, the politics of public debt is framed as a debate over the duties of rich nations to come to the assistance of poorer ones – i.e., over solidaristic international redistribution. On the right, countries unable to service their debt are presented as collective sinners against economic reason and fiscal prudence, and as less hard-working than the deserving rich, making it necessary to teach them a lesson by letting them suffer. Both perspectives are fundamentally nationalist, in that countries are conceived as unitary communities with collective economic entitlements or obligations, regardless of differences and distributional conflicts between the sectors and classes within them. Moreover, the two perspectives converge in political practice in their demand for strict international controls over the domestic politics of debtor countries, in particular limitations on their economic and fiscal 'sovereignty', which is obviously in line with the demands of 'the markets'.

When the complexities of international fiscal and monetary policy are reduced to a conflict between more and less economically prudent nations, the stage is set for a rich repertoire of symbolic politics. Populist pseudo-debates on the relative economic and moral merits of 'the Greeks' and 'the Irish', not to mention 'the Germans', provide an opaque veil of sentiments and resentments behind which 'the markets' and their 'technocratic' henchmen, in central banks and public relations agencies, can do their work basically undisturbed by popular interference. Here

as nowhere else, we may in the future be able to observe what it means when democratic politics runs dry and is replaced with more or less sophisticated social technologies for the procurement of mass acceptance of decisions for which 'There Is No Alternative', at least not under the auspices of the existing national and international distribution of power and privilege.

8 Further complications for the politics of consolidation result from the fact that some creditors are also citizens, especially since the 'reforms' of social security in the 2000s that introduced private pension insurance almost everywhere as a supplement to overburdened public pension systems. As insurance companies are heavily invested in public debt, those who now depend on them for part of their pensions have developed an interest in 'responsible' fiscal policies ensuring states' ability to live up to their financial obligations. At the same time, however, these citizen-creditors continue to need and insist on government services and citizen benefits, as well as low taxes on low or average incomes. More and more people thus find themselves on both sides of the defining front line of politics in the consolidation period of the debt state. On the one hand, this may expand the room of policy-makers to manoeuvre, potentially enabling them to mobilize support for austerity measures among citizens directly affected by them. On the other hand, paying for pension supplements with cuts to their pensions may not seem like too good a deal to a significant number of voters, and asking them to accept this may seriously detract from political support for privatization.

9 Perhaps most important of all, the interests not just of citizens but also of 'financial markets' seem to have deep internal contradictions. Holders of government bonds today require institutionalized austerity policies for reassurance that their claims to the assets of near-bankrupt, over-indebted states will enjoy priority over the claims of citizens. Austerity alone, however, is not likely to lower the public debt burden enough to make it reliably sustainable. There is wide agreement that what is also required is economic growth, although no one can say how this is to come about alongside deep cuts in public spending, higher taxes, a freeze on wages and rising unemployment, among other things. In fact, the fear is that austerity may drive countries under pressure to consolidate their public finances into a long-lasting recession or even depression, in effect increasing rather than reducing the size of their accumulated debt in relation to their economy, in spite and perhaps because of deep expenditure cuts.

How growth and austerity may be combined remains a mystery known only to the most faithful believers in supply-side economics, and clearly not to those social democratic politicians in Northern Europe who keep calling for 'a plan for growth', or even a 'Marshall Plan', for the

Mediterranean member states of European Monetary Union. Indications are, however, that a not insignificant number of those in 'the markets' and in international organizations subscribe to the Thatcherite belief that economic recovery requires two opposite sorts of 'work incentives': even higher profits and bonuses for the rich – investors and managers – and even lower wages and social security benefits for the poor. The far from unintended result will be a further increase in inequality between the top and the bottom in democratic societies. Whether this will be politically sustainable no one can say with any degree of certainty. We for our part refuse to rule out the possibility that the result will *not* be a further increase in political apathy, as in the last quarter century, but a reversal of this secular trend, in the direction of political radicalization.

We conclude this introduction by repeating that it is impossible to imagine what the politics of democracy-cum-austerity will be like – in (as yet still) rich democratic-capitalist countries co-governed by global capital markets – as there are no valid historical precedents. Balanced budgets have been or are presently being written into the fiscal constitutions of European democracies by international agreement or, as in the case of the UK, by national government policy. In a few years the United States may be the only country in the Western world that will still be adding to its national debt. What consequences this will have for international relations and the domestic politics and economics of both Europe and the US we cannot even speculate about at this point.

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