

# Political Aspects of the Knowledge Society in Latvia: Neoliberalism, Schumpeterian Democracy and Populism

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## Abstract

The term Knowledge Society refers to the peculiar form assumed by the capitalist system in the last forty years, also representing its specific social, economic, ideological, and political systems. Although there is a strong rhetoric denying it, it is quite obvious that politics and economics are interconnected, at the same time their relationship influences the social dynamics, establishing specific patterns of ideological dominance. One characteristic of the knowledge society is the negation of any form of connection between these variables, denying at the same time its ideological character. The alleged separation of the political from the economic and the social forms the base to Schumpeterian democracy to becoming Knowledge Society's political model, which is based on neoliberalism by the economic side. This paper analyses the specific patterns of this model in Latvia.

*Knowledge society* refers to the specific form assumed by the capitalist system during the last forty years; it also represents its specific social, economic, ideological, and political systems. Although there is a strong rhetoric denying it, it is quite obvious that politics and economics are interconnected, at the same time their relationship influences the social dynamics, establishing specific patterns of ideological dominance. However, one characteristic of the knowledge society is the negation of any connection between these variables while denying its ideological character. This approach is supported by the ideological cycle of the academic mainstream. After the 1970's, mainly in Europe and the United States, the defenders of liberalism, which was then distorted and falsified as neoliberalism, began to question the Keynesian postulates. This resulted in acceptance of the neoliberal paradigms and the consequent rejection of intervention by the state as the ideal model of economic distribution. In economics, the mainstream turned out to be a neoliberalism based on Chicago's neoclassical microeconomic approach as its methodology, along with a process of theoretical standardization that resulted in dogmatization.

Three main axioms characterize neoclassical economics (Arnsperger and Varoufakis, 2008). First, methodological individualism reflects the idea that socio-economic explanations must occur at the level of the individual agent, from the micro level up to the social structure. Second, methodological instrumentalism is used as a means for maximizing preference satisfaction because it is assumed that all behavior is preference driven. Since every individual action is instrumental in preference satisfaction, there is no need to ask whether or not the individual will act on his/her preferences. The third axiom is methodological equilibration expressed by the axiomatic imposition of equilibrium: determinacy requires that the instrumental behavior of agents be coordinated in such a way that aggregate behavior is sufficiently regular to be the basis for solid predictions. After postulating the economic agents' utility functions, establishing their constraints, and stating their information and belief, the standard question is posed – what behavior can be expected in equilibrium? (Arnsperger and Varoufakis, 2008: 2 – 4)

An analysis of the philosophical foundations of this approach reveals its fragility, as most of them, such as individual rationality, are matters of philosophical faith. Nevertheless, sophisticated quantitative methods and econometrics create the necessary impression that this approach is scientific, shielding it from criticism. However, this

process of academic standardization based on neoclassical economics did not remain restricted to economics as a discipline. Rather, the basic assumptions of neoclassical economics became the main methodology of the social sciences, including anthropology, international relations, political science, and sociology; this established a process of intellectual standardization.<sup>1</sup> The problem, however, isn't with the neoclassical approach itself. Besides the problem that people made this approach a methodological dogma that had no place for intellectual dialogue beyond its boundaries, much more relevant is the fact that it turned out to be a political ideological instrument to justify a predetermined social, political and economic order (Freedman, 2008).

As a consequence, people's analytical ability become fuzzy and distorted by beliefs, while dialogue turned out to be ideological rather than academic. In spite of claims to pursue "truth", a scientific enterprise is often influenced by personal ambition, rigid defense of theories, and the weight of tradition, to the detriment of creative participation in seeking to achieve the universal objectives of science (Bohm, 2003). This leads to the establishment of a system of beliefs instead of a system of knowledge based on dialogue; that, in turn, results in the dogmatization of faith. This is similar to Hans Albert's idea that dogmatization is the expression of the tendency to give priority to the need for intellectual certainty over the need to achieve optimal solutions for actual important problems (Geach and Hołówka, 1991: 238).

The separation between the political and the economic spheres results in society's alienation from the process of decision making, and that represents a powerful form of ideological social control. This is a key feature of the chief ideology of the knowledge society, namely, neoliberalism. Besides the disjunction between politics and economics, the main characteristic of neoliberalism as an ideology is that it presents this process as natural and unavoidable and thus obscures the relation between political and social dominance and subordination, which are intrinsic to any form of socioeconomic organization. The result is the establishment of a model of democracy based on Schumpeter's view, according to which the electorate has increasingly less influence on significant matters because governments are subject and responsive only to powerful elites and/or to impersonal economic actors (Schumpeter, 2003). In short, this is not only the knowledge society's political model but also Latvia's.

### **Schumpeterian democracy**

Schumpeter's idea of democracy denies the neoliberal/neoclassical ideological conception that voters are enlightened, well informed and rational. Rather, democracy is "that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for people's votes" (Schumpeter, 2003: 269). Although this definition acknowledges the significance of political competition in democracy, it denies that the process of competition for people's votes has any substantive value. It presupposes that the work of policy development is all done within groups of elites constituted as political parties, which prepare policy packages to be offered to voters at election time. Thus, the role of voters is reduced to choosing among policy packages presented by competing groups. As a result, voters themselves

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<sup>1</sup> In view of the fact that most social scientists do not have sufficient skills to deal with basic quantitative and statistical models or with game theory, they usually produce methodologically invalid research.

have absolutely no input: they merely exercise control over outputs through their control over which team is installed in the government (Goodin, 2004). In other words, voters can exercise some form of control only at election time. This was very obvious in the last elections in Latvia.

The results of the municipal and European Parliament elections have perplexed Latvia's intellectual elite: some regarded it as a political crisis, others as a crisis of democracy. Undeniably, there is a political crisis, and there is also a serious problem concerning democratic practice in Latvia because Schumpeterian democracy, in practice, applies only to the elite of some political groups. On the one hand, a sharp difference between the interests of voters and politicians has been one of the most significant characteristics of Latvia's political process because the contrary would be considered populism. On the other hand, this, together with the low level of voter turnout (52.85% in 2005 and 52.95% in 2009), is sufficient to conjure a scenario of political crisis while democratic practice is developing slowly. However, the most important conclusion about the results of the elections and about the fact that Latvia is experiencing one of the most extreme economic contraction in the world's economic history is that the project of the Latvian political elite has failed. In other words, voters are punishing some parties by electing rival groups.

The roots of the problem are twofold: the Soviet cultural and sociological heritage, together with a specific understanding of the concepts of *liberalism* and *populism* by politicians and civil servants, the media and the pundits, the intellectuals, and, to a certain extent, academia. The confusion isn't solely about liberalism in general but also about what may be called "political liberalism" and "economic liberalism" and the way both ideas relate to each other. The interaction between both variables – the Soviet heritage and the Latvian notion of liberalism – reaffirms the gap between people/voters and the political process. As a consequence, the project of Latvia's political elite has been established by following the principles of Schumpeterian democracy. In this way, it is established as an alienated part of social reality, and that explains its failure.

The most important aspect of the Soviet heritage is the horror that ethnic Latvians feel regarding any political spectra other than those of the right.<sup>2</sup> In this case, the popularity of right-wing politics in Latvia is not a matter of ideology; it is the result of associating left-wing politics with the Soviet Union. Consequently, in the collective imagination of ethnic Latvians, any party which is not explicitly aligned with right-wing politics is automatically considered to be in favor of re-establishing the Soviet Union and of Latvia's occupation by Russians. At best, a left-wing party is automatically an ethnic Russian party. This results in a crisis of representation. Since right-wing policies are ideologically connected with neoliberalism as social and economic policies, all "Latvian" parties offer basically the same policy packages based on neoliberal ideology. Because they are all right wing, the voters have no choice; regardless of which party is elected, the same policies will be implemented. In conjunction with the fact they have no influence on the political process except during elections, Latvian voters don't have an incentives to vote. The same is happening in Western Europe (International..., 2005), as a result of the neoliberal standardization of politics. Political liberalism has become equated with

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<sup>2</sup> It is not the intention to discuss here the validity of this division.

economic neoliberalism, while any form of protest against neoliberal economics and Schumpeterian democracy is considered populism.

### **Liberalism as a political ideal**

The word *liberalism* has the same origin as the word *liberty*, and it has its origin in the Latin word *liber*, which means “to not be a slave; to be free.” Liberalism has been devised as a political philosophy, as an allied political movement, and as a way of thinking about the foundations and practices of government. Although ideas and definitions differ, there is a set of premises common to all liberal traditions: the valorization of the individual and of individual liberty, together with a debate about the conceptions of human nature that define these terms. Liberal thought has been preoccupied with questions about how individuals should govern and be governed with the least possible intervention or coercion. Struggles for the right to be free have been repeated throughout history: the conflicts between the plebeians and patricians in ancient Rome, the struggles of Italian city states against the papal states, the Dutch resistance against Spain during the 80-year war, the liberalism of the Enlightenment and modern liberal democracy, consolidated after the aftermath of the Cold War, and the actual dominant political and economic model.

Liberalism as we know it today is the result of the interaction between the French Enlightenment, on the political and social side, and the Scottish Enlightenment, on the economic side. Enlightenment tradition was established by a very rational conception of human nature, resting on the idea that individuals are able to reason and to direct change. The concept of individual reason and limited government may be found in the works of Voltaire, Condorcet, Kant and Humboldt. The French Revolution had a significant influence on liberal thought, but it was Adam Smith in his *Theory of Moral Sentiments* who discussed the ethical, philosophical, psychological and methodological aspects of liberalism and thus influenced all authors on economics after him.

Smith’s moral system, which is the basis of modern liberalism, is divided into two categories: “nature of morality”, which includes property, prudence and benevolence and “motive of morality”, which includes self-love, reason and sentiment. Using Hume’s appeal to human experience, Smith established the “moral principle of sympathy” as people’s innate desire to share the feelings of others, leading the individual to judge his/her actions on the basis of their effects on others, in addition to their effects on himself/herself. In the race for wealth, a person may run as hard as he/she can in order to outstrip competitors; but if he/she should ruin any of them, it is a violation of fair play, which society cannot accept. This kind of moral attitude is a prerequisite to the survival of human societies, which would not survive among those who are always ready to hurt and injure one another. That is why, accordingly to Smith, the liberal system is based on the assumption that the pursuit of self-interest on the part of a multitude of social agents in competition among themselves results in the well-being of society.

The second central element of Smith’s analysis is the notion of the “impartial spectator”: individuals evaluate their own actions by taking the viewpoint of an impartial spectator who, endowed with the knowledge of all the elements they know, judges such actions as an average citizen. This principle of moral behavior gives support to juridical institutions that guarantee the security of the existence of a liberal society – that is, a civilized society grounded in the general acceptance of the moral principle of sympathy

and endowed with the administrative and juridical institutions necessary to deal with the instances in which common morality is violated. The result is that private and public interests become irreconcilable only if private interest is understood as selfishness rather than self-interest, the latter implying attention to one's own interests moderated by the recognition of the interests of others. In other words, although in a liberal society people are individually free, they feel responsible for what is happening in society, or the collective. Thus, liberalism can exist only where individuals feel a sense of responsibility for the collective.

### **Neoliberalism and democracy**

Since the end of the USSR, neoliberalism has been considered Latvia's new demiurge. However, although there is a liberal rhetoric in society, in practice there is still a hiatus between discourse and reality. The formation of a liberal society is the result of a long process of establishing institutions which lend support to its existence; these institutions are not only juridical and administrative but also individually cultural, sociological and political, expressing personal views of the meaning of a liberal society. Institutions change quickly only in historical terms. This means that 18 years is not enough time to change all aspects of Latvia's social and institutional superstructure. While some are changing very fast, others persist in reproducing standards alien to liberal societies. This pertains not only to national but also to individual institutions, such as personal convictions which affect the notion of social responsibility. Thus, the first step in dealing with Latvia's notion of liberalism is to understand how rapidly institutions have been able to change from the Soviet to a more liberal model and to what extent these changes relate more to economic aspects than to political and social aspects.

Although the idea that all ideologies ended in the 1990's has been widely disseminated by several scholars in recent years, this doesn't mean that ideologies have actually ended. Besides, if the idea of the end of ideologies is an ideology in itself, it must be understood as the end of Soviet pseudo-socialist ideology and the victory of a specific type of liberalism based on economic assumptions called neoliberalism. Political and social liberalism became subordinated to a specific kind of economic liberalism subordinated to a specific ideology and not to reason, which is used to establish, maintain and justify power relations. One of the most important ideological aspects of neoliberalism is the notion that economic liberalism automatically means political and social liberalism, and thus democracy. History denies that.

Neoliberalism contains enough of classic liberalism to be called "neo"; but as a true "neo" it is a falsification. The first point to be considered is that egoism replaced self-interest, with the introduction of social Darwinism as key factor in social regulation. The second point is that the market or a market-like structure is seen as an ethic in itself, guiding all human action and replacing all previously existing ethical beliefs (Treanor, 2005). In this regard, it is much more than a process of liberalization resulting in a *laissez-faire* economy. It is a different form of social, political, and economic regulation in which society is highly regulated in order to reproduce an ideal situation of Pareto equilibrium in a free market.

Pinochet's Chile shows that economic liberalism is possible without political and social liberalism. Milton Friedman shaped Chile's economic policies on a strong liberal

base; at the same time, people disappeared and were tortured for opposing the government. More recently, Jeffrey Sachs, the ideologue of shock therapy and thus of the basic model of Latvia's transition, stated that economic reforms are more important than democratization itself. That is not to say that Sachs thinks that democracy isn't important. Rather, he believes that the establishment of economic liberalism would automatically result in the establishment of democracy, along with institutions that support political and social liberalism.

Thus, Latvia's history shows the falsity of the idea that economic liberalism always presupposes political and social liberalism and thus is tantamount to democracy. While Latvia's economy has undergone a strong and rapid process of liberalization resulting one of the most liberal economies in the world, Latvia's institutions aren't keeping up with the pace of liberalization. In other words, there's a gap between the level of economic liberalism and of political and social liberalism. The result is an absence of support by political and social institutions for the idea of responsibility and for establishing a true liberal society; that, in turn, results in a low level of effective democracy.

### **Latvian liberalism and the distortion of the notion of populism as its rhetoric**

The notion of liberalism in Latvia is a particular expression of the separation between economic and political and social liberalism. Although this is the main feature of the variety of liberalism known as neoliberalism, in other countries in transition the institutional framework that supports the establishment of political and social liberalism has developed differently than in Latvia and has forced the latter to occur together with the former. Three factors account for the gap between economic and political/social liberalism in Latvia. The first is the way the state was captured by the political elite; the second is the inner culture of civil servants; the third is people's mentality in which there is a gap between the level of political and social liberty they think they have and the one they actually have. The first and the second are interconnected, while the third is the result of the process of transforming the Soviet mentality into a liberal mentality – a process which takes an undetermined length of time.

The political elite, with the involuntary and naive help of the media and some academicians, distorted the concept of economic liberalism to something akin to market anarchy, while social and political liberalism became associated with the idea that the state and the politicians are not responsible for what happens in politics and thus in the social and economic spheres. What happens in the social and economic spheres is the result of concrete policies determined by politicians; it is not the result of a demiurgic market regulating society. Thus, the Latvian notion of liberalism has been used by the authorities to shield themselves from any criticism through its rhetorical expression, the distorted concept of populism, to reproduce a Schumpeterian democracy in Latvia.

*Populism* may be defined as “an ideology which pits a virtuous and homogeneous people against a set of elites and dangerous ‘others’ who are together depicted as depriving (or attempting to deprive) the sovereign people of their rights, values, prosperity, identity and voice” (Albertazzi and McDonnell, 2008: 3). However, in Latvia the term has undergone generalization of meaning – it is used to label anything that isn't in accordance with the peculiarly Latvian notion of liberalism. The idea is that since Latvia is a liberal society and the market is its demiurge, all social problems must be solved by the market

while the state is merely a spectator. As a result, social responsibility is equated with populism in a negative sense; it has become an alien concept to politicians, authorities, civil servants and people in general. This distortion has been combined with a deformation of Plato's idea of the philosopher-king and Lenin's concept that only a class of intellectuals and theoreticians can represent the real aspirations of the working class. Latvian politicians and civil servants think the same. They think – quite erroneously – that together they represent Plato's philosopher-king or Lenin's intellectuals, while their private interests are considered to be essentially the same as the interests of society at large; that has resulted in a classic case of state capture. Moreover, the term *populism* is being used to criticize something that is not understood or liked, something that causes disagreement.

This leads to the notion that the state cannot even perform the basic functions to ensure the existence of a liberal society through administrative and juridical institutions because it exists to promote the interests of specific social classes and not of the entire society; the contrary view is considered populism. The result is that private and public interests become irreconcilable, and the latter are labeled as populism. This is the primary cause of the progressive alienation that Latvia's political elite has caused, and it is also the primary source of the distortion of the concept of populism; both processes were set in motion in order to justify establishing a Schumpeterian democracy in Latvia. The consequence is that voters feel distant from politicians and the state. Since Latvian politicians and civil servants view the political process and the administration of the state as a way to achieve private goals, the rest of the population doesn't consider these groups and thus the state as legitimate representatives of their interests. The economic, social and political crisis that Latvia is facing right now proves that the political project of the Latvian political elite has failed.

### **Final Remarks**

As people lose confidence in the system, they start to look for alternatives. This makes possible for true populists and parties peddling obscure ideas couched in populist rhetoric to have a real chance of winning elections. The results of the last elections show that people are uncomfortable with the current state of affairs. Some are demanding changes; others doubt that their vote can change anything. The crisis is going to be deeper in the coming months because of the economic policies imposed by the IMF. Specifically, this means higher unemployment, reduced social guarantees, poor educational and health care systems, more corruption, robberies and assaults because of the increased poverty, among other problems.

It is time for Latvia's political elite to rethink their choices. It is time to understand that there is a difference between populism and social responsibility. It is time to understand that politicians and civil servants are responsible for what happens in the country and that such a view isn't populism as some pundits and experts claim. It is time for a new political pact to promote socio-economic development. And it is time for a more realistic and sophisticated view of politics, economics, and their interrelationship – a view that transcends the boundaries of the ideological neoliberal populism of the last 18 years. That is quite a daunting task as long as social responsibility continues to be regarded as tantamount to populism.

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