

# The Elites and the People: The rise of populism and the crisis of democratic capitalism **Martin Wolf, Chief Economics Commentator, *Financial Times***

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# Elites and the people

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“The best lack all conviction, while the worst are full of passionate intensity.”

William Butler Yeats

“[D]emocracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full.” Dani Rodrik

# Elites and the people

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- Democracy and global capitalism
- Stresses on the synthesis
- What might happen

# 1. Democracy and global capitalism

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- Globalisation is our contemporary form of economic organisation – its thrust is to equalise prices of goods, services, capital and labour across the globe
- Democracy is our contemporary form of politics – it vests control rights in national electorates
- Rodrik's argument is that deep integration – free trade, free movement of capital and labour and regulatory harmonisation – hollows out democracy
- This is certainly true in the eurozone

# 1. Democracy and global capitalism

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- But, in all advanced economies, electorates enjoy an inherited “citizenship rent”. This citizenship rent is most valued by the least successful.
- As globalisation erodes citizenship rent, the people become angrier with the elites that promoted it
- They get even angrier when they conclude that the elites are: indifferent; incompetent; and even corrupt.
- The result, to be seen everywhere in the West, is populist rage. Can this be managed?

# 1. Democracy and global capitalism

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- We tend to take for granted the symbiosis between democracy and capitalism (the market economy)
- There are good reasons for believing that this symbiosis is a natural one:
  - Historically:
    - The rise of capitalism was associated with the elimination of serfdom and slavery and by successful movements for extensions of the franchise
    - Behind this pressure were widely-shared prosperity, the spread of education, emergence of organised labour and the mobilisation of the adult population (male and female) for war

# 1. Democracy and global capitalism

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- Also rising prosperity created the opportunity for “positive-sum politics”
- Ideologically:
  - The underlying idea of capitalism – that of the people engaging in “truck, barter and exchange” under the protection of the law – implies that the choices of individuals have an inherent value.
  - The underlying idea of democratic citizenship – that of individuals engaged in collective decision-making – also rests on the assumption that individual choices have value, this time in making public choices.

# 1. Democracy and global capitalism

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- Yet there are also conflicts between democracy and capitalism:
  - Democracy is egalitarian (one person one vote); capitalism is inegalitarian (one dollar, one vote);
  - In Albert Hirschman’s phraseology, democracy is the domain of “voice”, while capitalism is the domain of “exit”;
  - Inequalities risk turning democracy into plutocracy
- Remember; modern democracy is quite young
- Maybe, the existence of the United States allowed democracy to survive the 20<sup>th</sup> century

## 2. The stresses

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- Globalised capitalism
- Inequality
- Immigration
- Crises
- Secular stagnation
- Ageing
- Media
- Authoritarian capitalism
- Public goods

## 2.1. Globalised capitalism

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- One element of the hollowing out of sovereignty is supra-national decision-making
- Another is the increasing effectiveness of “exit” by owners of capital and labour.
- This shrinks the state’s revenue and so its ability to respond to economic pressures
- Yet another element is the rise of supra-national business entities that no longer “belong” to a country
- National capitalism has become global capitalism

## 2.2. Inequality

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- A second and related challenge is rising inequality
- While this is not a universal phenomenon, it is quite general
- Inequality may well be a bad in itself
- But it also has political implications, since the possession of great economic resources can be – indeed, historically has usually been – converted into political power
- This comes via influence upon the media and the corruption of the political process, particularly funding

## 2.2. Inequality

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- Highly unequal societies have often ceased to be democratic, been sham democracies or become less unequal (as happened in the 20<sup>th</sup> century to the western democracies)
- Will the rise of the robots and consequent shift in the shares of income to capital from labour make this a still bigger challenge in the decades ahead?
- Could this be the future we face?

## 2.3. Immigration

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- The age of globalisation has also been an age of mass migration, as was true in the late-19<sup>th</sup> century
- Immigration reinforces the effects of globalisation of trade and capital
- But it adds an uncomfortable cultural dimension to these forces
- Moreover, in the context of the democratic state, immigration raises questions about who “we” are
- How will citizens decide who can live with them or even become citizens themselves?

## 2.4. Crises

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- The age of market liberalisation has been an age of devastating financial crises
- The last one, which began in 2007, imposed very large economic costs: elevated unemployment, a permanent decline in levels and rates of growth of GDP, and a huge rise in public debt
- But the crisis also imposed large political costs: conflict over how the losses should be allocated; and, above all, loss of confidence in elites – businesses, politicians and economists

## 2.4. Crises

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- The implicit bargain between elites and the people – they former are allowed to run the economy and politics, but the latter share in the gains – has been broken
- The result has been an outburst of populist and xenophobic politics of both the right and the left, though the right looks more menacing
- This is far less true than in the 1930s, because the crisis was far better handled than in the 1930s
- But the pressure is there, all the same

## 2.5. Secular stagnation

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- Closely linked to crises, but not quite the same thing, is the return of the debate on “secular stagnation”
- The relevant points here are:
  - A secular slowdown in productivity growth at the frontier of the world economy;
  - A chronic weakness of the private desire to invest relative to the propensity to save;
  - And so equilibrium real long-term interest rates of zero;
  - And a chronic tendency to fall back into recession

## 2.6. Ageing

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- The age of universal-suffrage representative democracy has also been the age of the welfare state
- This is of course no coincidence. It is what should have been (and was) expected
- As a result, the ratio of public spending and transfers to gross domestic product exploded in all western democracies to between 30 and 60 per cent from less than 10 per cent before World War I
- The warfare state has become a welfare state

## 2.6. Ageing

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- That period is now over
- Western states suffer from the following combination:
  - Ageing, which imposes higher dependency ratios
  - Political limits to raising taxes (which vary across countries)
  - Slow growth, partly for demographic reasons
- So fiscal pressures are likely to be permanent, as wants/needs/desires outstrip available resources
- Worse, in the political battle, the old outweigh the young
- So the past swallows up the future

## 2.7. Media

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- In the media, old problems are reinforced by new ones
- The old problem is concentrated ownership and the power of a dominant plutocracy
- The new problem is technology, which, in making the dissemination of information costless
- The result is the costless dissemination of non-information
- Or the media equivalent of Gresham's law: bad information crowds out good information

## 2.8. Authoritarian capitalism

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- From the Second World War to the end of the Cold War, successful capitalist economies were also democracies
- The rise of China appears to change this
- China, it is increasingly clear, is not going to be democratic. But it is apparently trying to be capitalist
- To some extent, its success and money is providing a pole of attraction for others

## 2.9. Global public goods

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- The world has been brought closer together by technology and economics and the impact of humanity on the global commons has radically increased
- This necessitates an ability to deliver global public goods: financial stability and open trade; security; and protection of the environment
- No state can deliver these things on its own, not even a superpower
- We have to create supra-national regimes

## 2.9. Global public goods

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- Creating such regimes, while necessary, also creates a clash with democratic sovereignty
- The more binding and effective the regime, the more restricted is the room for democratic choice
- And the easier it is for politicians and bureaucrats to use international regimes as a way of escaping domestic accountability
- Does this mean that democracy is a sham?
- No, but the arenas of politics and decision-making no longer overlap very well

# 3. What might happen

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- Democratic capitalism is now subject to a number of important stresses and constraints
- How might this end?
  - No change in our uneasy balance
  - Collapse of democracy into authoritarianism
  - Closure at the borders and national capitalism
  - Collapse of democracy *and* closure at the borders
  - Deeper co-operation among democracies on taxation, regulation and a new democratic synthesis
  - Co-operation across all jurisdictions

# 3. What might happen

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- No change in our uneasy balance:
  - The centre holds by “muddling through”
  - The conservative 60 per cent remains dominant
  - So a bit more income redistribution, plus a bit less immigration trade and financial opening
- Collapse of democracy into authoritarianism:
  - A democratic “coup” by nationalist authoritarians
  - Populist nationalism as a political strategy
  - Seizure of all institutions as a vehicle of political power

# 3. What might happen

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- Closure at the borders and national capitalism:
  - Partial retreat from the world economy;
  - Much tighter controls on immigration, trade, financial flows and inward foreign investment;
  - Promotion of a national capitalism;
  - Incompatible with the European Union.
- Collapse of democracy *and* closure at the borders
  - Populist politics plus partial closure at the borders;
  - This is likely to lead to a disaster;

# 3. What might happen

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- Deeper co-operation among democracies on taxation and regulation:
  - Re-invigorated democratic capitalism;
  - Successfully managed immigration;
  - Higher degree of international co-operation.
- Co-operation across all jurisdictions:
  - Re-invigorated co-operation among democracies leads to closer global co-operation;
  - Particularly important will be closer co-operation with rising Asian giants