

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

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Nottingham

Elites and the people

“[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

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

1. Democracy and global capitalism

- Our world has, until recently, been characterised by the march towards globalisation and democracy
- Globalisation has been our 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

1. Democracy and global capitalism

- This is certainly true in the eurozone
- 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

- We tend to take for granted the symbiosis between democracy and capitalism (the market economy)
- There are 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 ultimately 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

- 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

- Yet there are also both ideological and historical conflicts between democracy and capitalism?
 - Democracy rests on an egalitarian ideal (one person one vote); capitalism rests on an inegalitarian ideal (one pound, one vote);
 - In Albert Hirschman's phraseology, democracy is the domain of "voice", while capitalism is the domain of "exit";
 - Enormous inequalities risk turning democracy into a veil over plutocracy
 - If democracy or the market economy are seen to fail, "illiberal democracy" emerges

2. The stresses

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

2.1. Globalised capitalism

- One element of this hollowing out of sovereignty is supra-national decision-making
- Another is the increasing effectiveness of “exit” by owners of capital and labour.
- This collapses 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 morphed into global capitalism

2.2. Inequality

- 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 economic resources can be converted into political power

2.3. Immigration

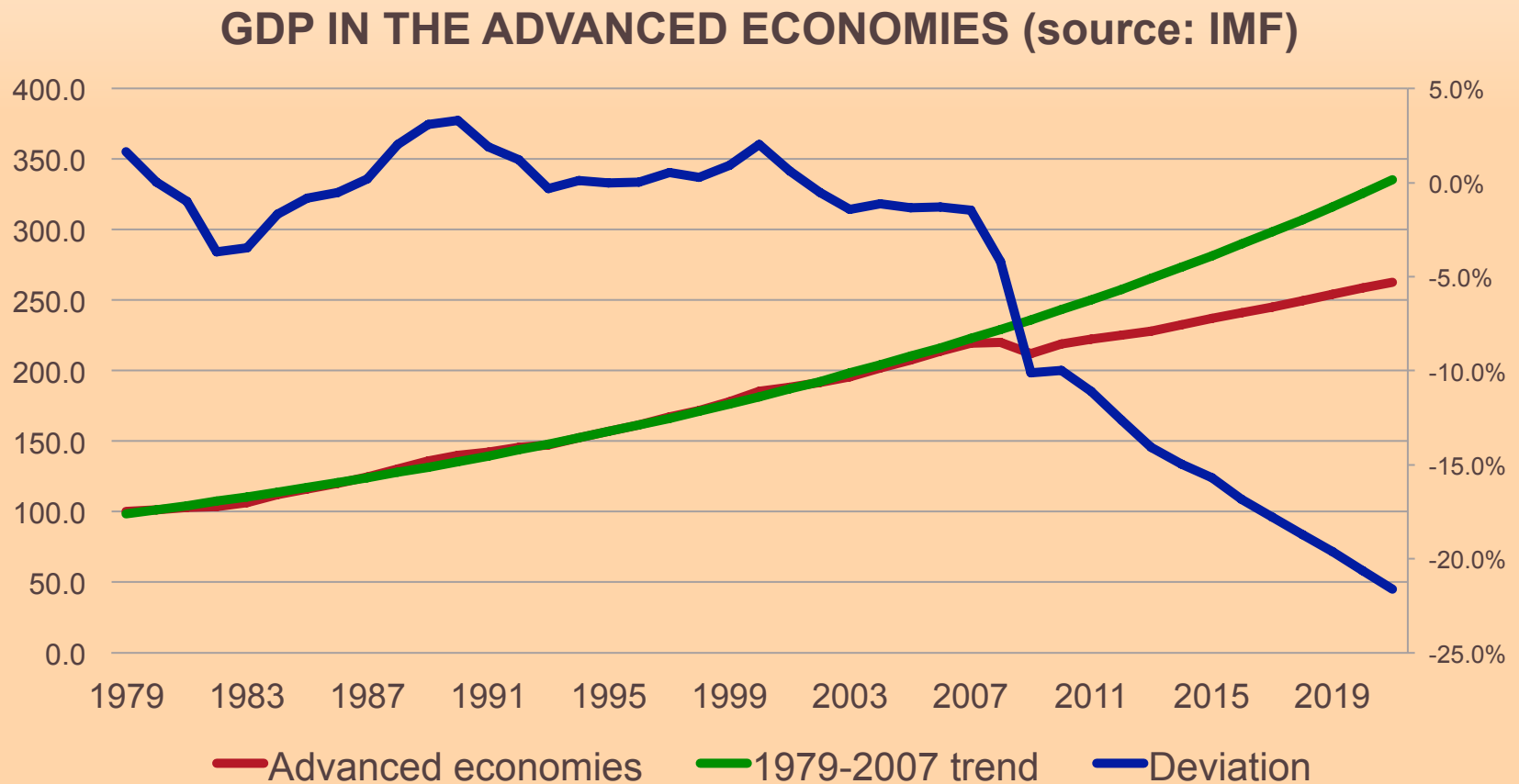
- The age of globalisation has also been an age of mass migration, as was true in the late-19th century
- Immigration reinforces the effects of globalisation of trade and capital
- But it adds an uncomfortable cultural dimension to these forces
- Moreover, in the context of the democratic state, immigration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

2.4. Crises

- 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

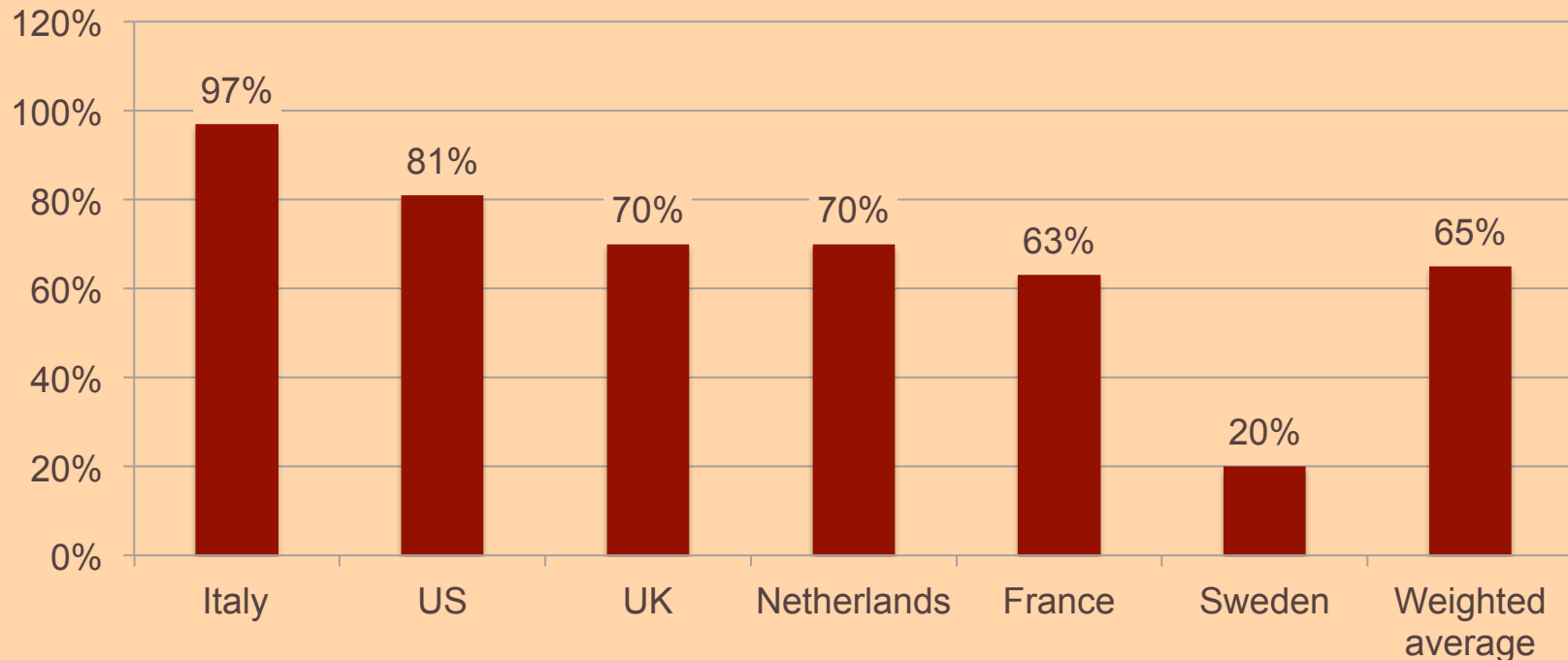
THE SLOWDOWN IN ADVANCED ECONOMIES



2.4. Crises

THE YEARS OF LIVING STAGNANTLY

PROPORTION OF HOUSEHOLDS WITH FLAT OR FALLING REAL INCOMES FROM WAGES AND CAPITAL 2005-14 (Source McKinsey)



2.5. Ageing

- 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
- This cannot happen again. Fiscal pressures are likely to be permanent

2.6. Media

- 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 – “alternative facts” aka lies
- Or the media equivalent of Gresham’s law: bad information crowds out good information

2.7. Authoritarian capitalism

- 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
- Also important is the rise of illiberal democracy in Russia, Turkey, Poland, Hungary and now the US

2.8. Need for global public goods

- The world has been brought together by technology and the impact of humanity 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
- Creating such regimes, while necessary, also creates a clash with democratic sovereignty

3. What might happen

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