



How to save democratic capitalism

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How to save democratic capitalism

“It is clear then that the best partnership in a state is the one which operates through the middle people, and also that those states in which the middle element is large, and stronger if possible than the other two together, or at any rate stronger than either of them alone, have every chance of having a well-run constitution.”

Aristotle, *The Politics*

How to save democratic capitalism

“How did you go bankrupt? Two ways. Gradually, then suddenly.”

Ernest Hemmingway

How to save democratic capitalism

1. Fragility of democratic capitalism
2. Recession of democratic capitalism
3. Unhappy high-income democracies
4. Renewing democratic capitalism

1. Fragility of democratic capitalism

- The rise of democracy followed the rise of capitalism
- Why?
 - Ideas:
 - The move from ascribed to achieved status and so the rise of egalitarianism
 - The underlying idea of capitalism – that of people engaging freely in “truck, barter and exchange” – means that individual choices have inherent value
 - The underlying idea of democratic citizenship – that of individuals co-operating in collective decision-making – again means that individual choices have value
 - History:
 - capitalism meant free labour, the collapse of serfdom and slavery, greater prosperity, mass education, the rise of organised labour and the opportunity for a “positive sum” politics.

1. Fragility of democratic capitalism



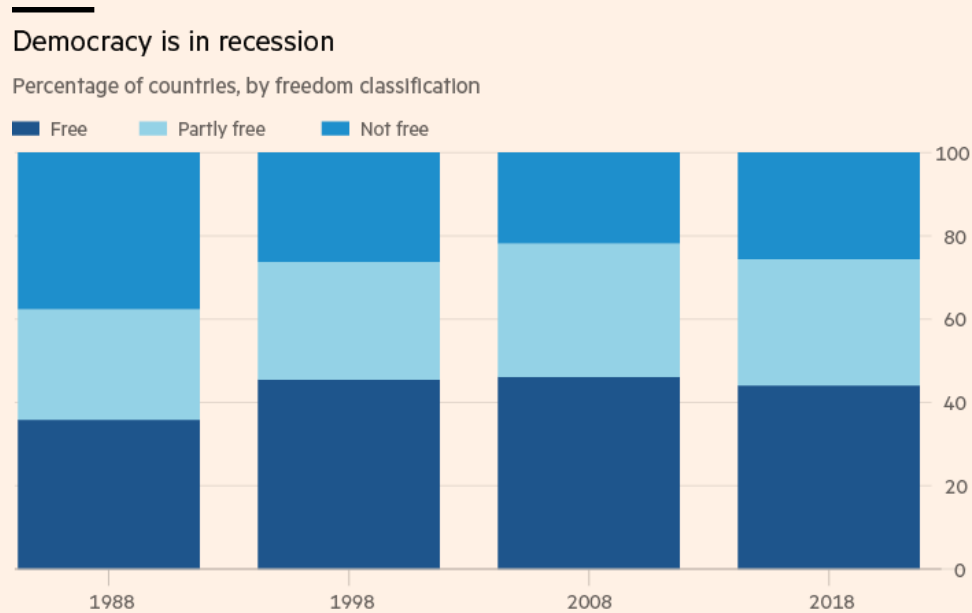
1. Fragility of democratic capitalism

- Yet there have always been conflicts between democracy and capitalism
 - Capitalism is global; democracy is local. It is based on a tie between a particular location and the people who live there
 - Democracy is the domain of “voice”; capitalism is the domain of “exit”
 - Democracy rests on an egalitarian ideal (one person one vote); capitalism rests on an inegalitarian ideal (one pound, one vote)
 - If democracy or the market economy (or both) fail, demagoguery, plutocracy or autocracy are likely to emerge
 - If capitalism and democracy are a marriage, it is surely a difficult one

2. Recession of democratic capitalism

1. Capitalism seems to have “won”, at least for the moment
2. But the world is seeing a move away from democracy, with the rise of populism, “illiberal democracy” and autocracy
3. The world’s most important emerging economy and rising superpower has adopted “communist autocratic capitalism”
4. Many other countries have succumbed to “demagogic autocratic capitalism”
5. Nationalist populism has won in core democracies (notably the US and UK)

2. Recession of democratic capitalism



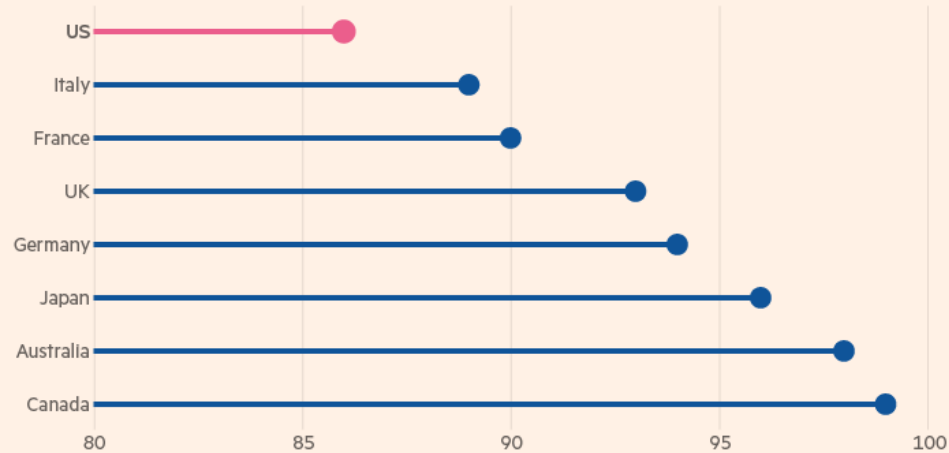
Source: Freedom House

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2. Recession of democratic capitalism

Trump's US lags behind other large high-income democracies

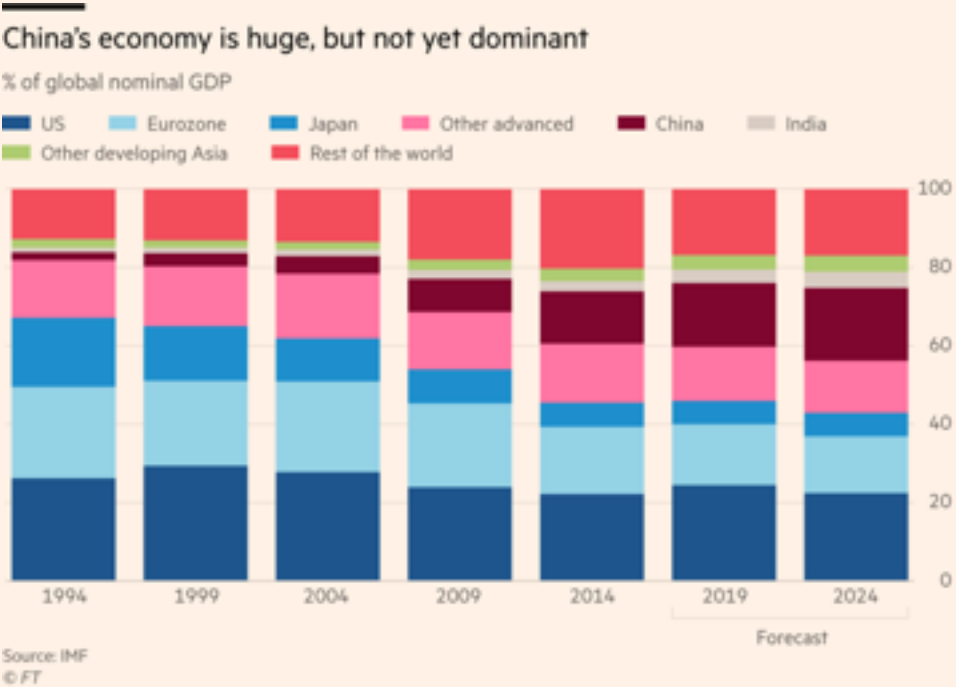
'Freedom In the World' aggregate score (0 = least free, 100 = most free), 2018



Source: Freedom House
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2. Recession of democratic capitalism

China's economic rise is the great economic and political story of our era. It is reversing what happened in the 19th and early 20th centuries, very quickly.

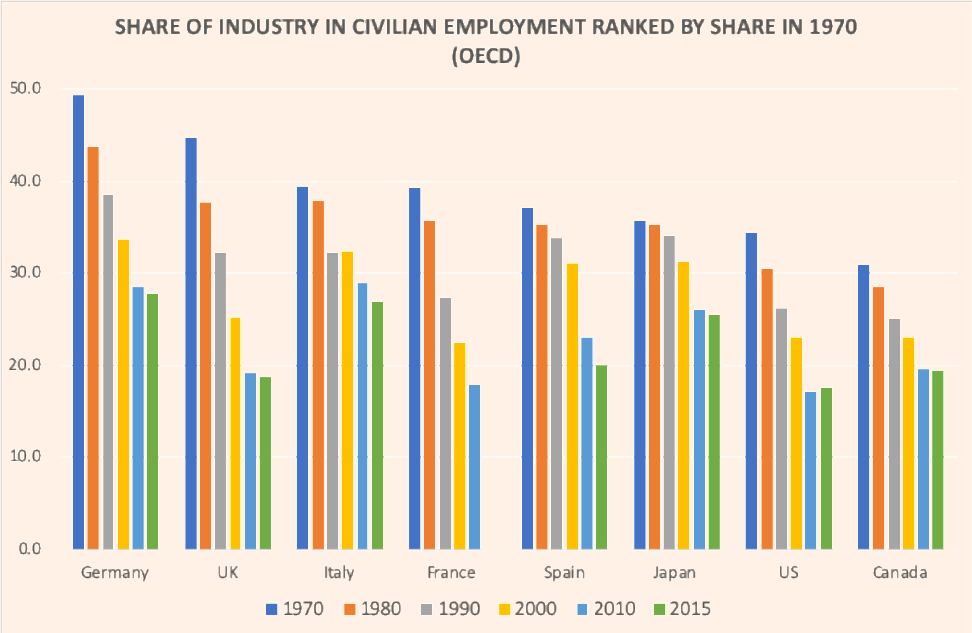


3. Unhappy high-income democracies

- Advanced countries are buffeted by:
 - De-industrialisation
 - Rising inequality
 - High immigration
 - Slowing productivity
 - Shock of the financial crisis
 - “Rigged capitalism”

3. Unhappy high-income democracies

The old days of a large industrial labour force have now gone everywhere. This has had profound social effects.

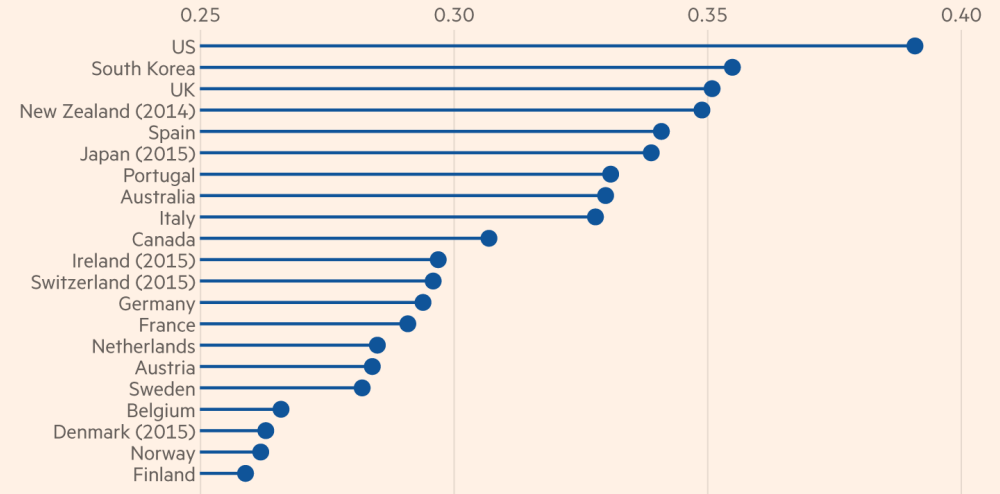


3. Unhappy high-income democracies

The US is exceptionally unequal

The US and UK are league leaders in inequality

Inequality of household disposable incomes after taxes and cash transfers (2016)*



*Measure of inequality (0 = absolute equality, 1= absolute inequality)

Source: OECD

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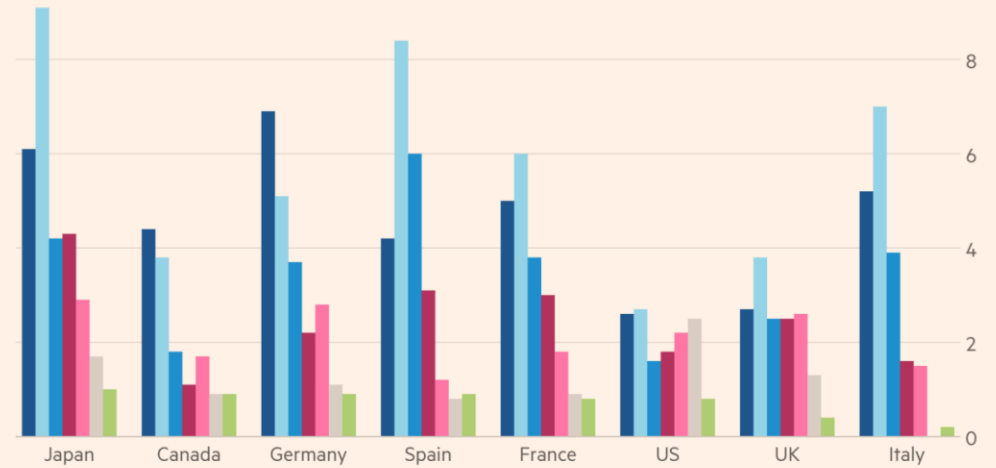
3. Unhappy high-income democracies

Productivity growth has been slowing in almost all high-income countries, especially after the financial crisis.

Falling productivity in developed economies

Average growth (output per hour) in each decade (% , selected countries)

1950s 1960s 1970s 1980s 1990s 2000s 2010s



Countries ranked by 2010s' growth

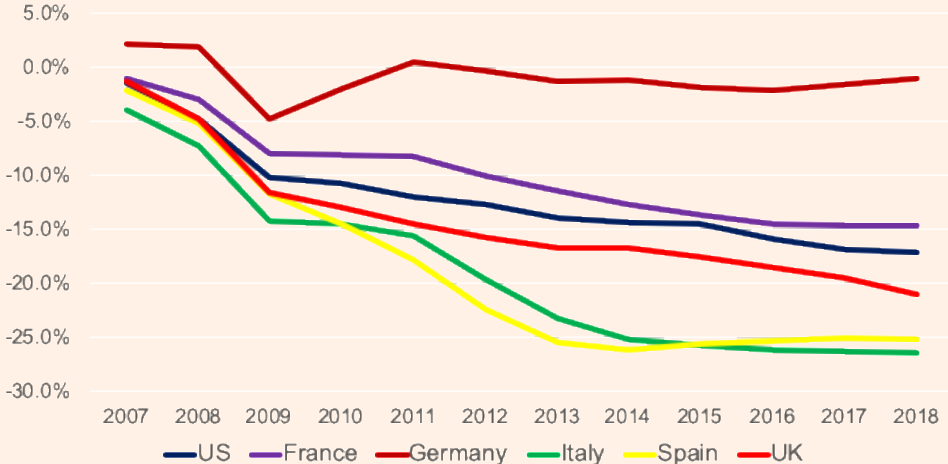
Source: The Conference Board

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3. Unhappy high-income democracies

Big financial crises cause political upheavals. This is because they make people frightened and destroy confidence in elites.

DEVIATION FROM 1980-2007 TREND GROWTH OF GDP PER HEAD (Actual minus exponential fitted trendline, as a percent of trendline)(Conference Board)



4. Renewing democratic capitalism

1. Renewing democracy
2. Renewing capitalism

4. Renewing democratic capitalism

- Renewing democracy:
 - Strengthening citizenship
 - Essential role of patriotism
 - Renewing governance
 - Competence, regulation, localism and globalism
 - Renewing accountability
 - Elections, parties and party-finance, merit and citizen involvement
 - Renewing media
 - Public interest, truth and social media

4. Renewing democratic capitalism

- Renewing capitalism (with homage to FDR's speech on the "four freedoms" of January 1941):
 - Equality of opportunity
 - Jobs for those who can work
 - Security for those who need it
 - Ending special privileges for the few
 - Enjoyment of a rising, widely-shared and sustainable standard of living

5. Conclusion

- This is a world in profound upheaval.
- Global capitalism promoted democracy and a big shift in global power.
- It also promoted shocks inside high-income countries, including a financial crisis.
- The challenge is to protect democracy from populism, adjust to the rise of China (and manage the global commons).
- This will require renewing democracy and capitalism, at home and globally.
- It will be a difficult challenge.