

Round table: The Emerging Economic and Political Order: What Lies Ahead?**Capitalism, socialism and democracy, once again***Jean-Paul Fitoussi*

Some questions can only be answered by educated guess. The question at the centre of this round table pertains to this category. We should not be ashamed of this kind of limitation of our capacity to predict the future. We have no theory, no past experience on which to build a framework of what lies ahead. We have been in a few years surprised by the turn taken by events. None of us ex-ante has foreseen the financial crisis, although many of us ex-post are pretending having done so. It is true that a non negligible number of economists, among those who are here today, have underlined the risk inherent with unfettered markets; that many have expressed doubts about the sustainability of the situation. But still none has forecasted when and how the crisis would arise. Maybe this is less true of the European crisis, which has been in some important dimensions, announced long ago. The same is even truer as far as the political order is concerned. The revolution in the Arabic world took us by surprise, even those among us who were informed about the growing malaise in some of the countries concerned. I was one of them, but I have to confess that a few hours before Ben Ali left power, I was arguing that he would never do so as he had all the means of repression in his hands. I had the excuse of being an economist. But political scientists and even governments with their secret services did no better!

These two events were major events in history. To what Economic and Political order will they give rise? Of course they are not the only events or factors shaping the future – climate change and what is happening more generally to the environment is also crucial events –, but I will focus on them as they hinge upon the two major systems in which we will probably live for long: Capitalism and Democracy.

People all over the world are indeed demanding more environmental protection, more public goods, more education, more health care, more decent jobs, more economic security, more political participation, and more social capital. These are the key determinants of well-being. This is also where the growth reserves of the world lie.

One lesson of the crisis and of the revolution in the Arabic world is that neither autocratic capitalism, nor market democracy did deliver those goods. In a nutshell, “market democracy” in the developed world was too much during a period twisted towards capitalism, and “capitalist autocracies” in the developing world were becoming too much at odds with the quest for equity by the people. One may even say that, whatever their differences, they had a disease in common, a too high degree of inequalities. That being said, we should not go too far in this commonality: democracy is the only institution capable of self reforming; autocracies are not and it is why, when they meet an obstacle, they usually break down.

The emerging economic and political order will depend heavily of our ability to repair the broken links between capitalism and democracy and to help the developing world in its quest for justice and freedom, in other words in its transition towards democracy, those people that have expressed with courage the desire to proceed along this route and those who can’t but still desire a better life.

Capitalism and Democracy and Vice-Versa

Capitalism is in a real mess. Never has the “love of money”, as Keynes would describe it (or a “thirst for gold”, as it would have been described in olden times) taken us to such extremes, with the most wealthy earning extravagant incomes and hopes of fanciful returns being realised, while global poverty has soared to obscene levels, inequality has reached new heights and the environment has suffered severe damage.

It is the interdependence between the rule of law and the production and distribution of goods and services that gives capitalism its unity. The autonomy of the economy is

thus an illusion, as is its ability to self-regulate. And we are in the current mess because the scales have tipped slightly too far in favour of this illusion.

This shift in the balance represents an inversion of values. Efficiency, it was believed, would be better served if the workings of governments were regulated more tightly (especially in Europe, although the theory originates in America) and if the markets were deregulated to a greater extent. The ingenuity of the financial markets initially, then their blind sightedness, did the rest.

In any event, contemporary capitalism's shortcomings can be traced back to the inversion of the hierarchy between politics and economics, and to what, in many cases, is the outright subordination of the former to the latter, as in a good number of developing countries. What is even more scandalous is the acceptance of an intolerable level of inequality by democratic regimes. It has to be underlined that during the last thirty years or so, the yearly rate of growth of real incomes has been well under average for 80% of the population of OECD countries and above average for the fifth quintile. This fact is striking because our system is based on tension between two principles, firstly, the market and inequality (1 euro, one vote), and secondly, democracy and equality (one man, one vote), which leads to a never-ending search for a go-between or a compromise.

The tension between the two principles is indeed dynamic because it enables the system to adapt, rather than to break, as systems governed by a single organisational principle (the Soviet system, notably but more generally totalitarian systems) generally tend to do. Only institutional forms that evolve can survive; the others wither away. Put another way, the theory that capitalism has survived as a dominant form of economic organisation only *thanks to democracy rather than in spite of it*, intuitively appears to be far more compelling.

We have two fresh illustrations of this at present: first, what would have become of capitalism without the bailing out of the democratic states? And, second, the Tunisian, the Egyptian and the Libyan revolution are proofs that predatory capitalism

can't survive for long. If the outcome of the regime is a systematically unfair devolution of income, wealth and positions, *à la longue*, people will revolt. Besides the capability of choosing its own life is an essential element of well being. People will not accept for long to be deprived of this capability. If the economic system and/or the political order jeopardize systematically the main determinants of well being like freedom, economic security, employment and so on, they may both collapse.

A normal hierarchy of values thus requires the economic principle to be subordinated to democracy rather than *vice versa*. The criteria generally applied to judge the wisdom of a policy or a reform is based on economic efficiency. Dan Usher¹ proposed another criterion. Is a particular reform likely to strengthen democracy or to weaken it, to increase or decrease support among populations for the political regime? That this is the right criterion is now obvious. In the name of what supposed efficiency are people being obliged to give up their political rights or to show a lesser degree of solidarity than they wish to display? "Market democracy" in the sense that I use the term thus implies a hierarchy between the political system and the economic system, and thus autonomy in society's choice of its economic organisation.

The relationships between democracy and the market are thus more complementary than a conflicting. By preventing market-based exclusion, democracy increases the legitimacy of the economic system, and the market makes for a greater level of backing for democracy, by limiting political control over people's lives. ***Accordingly, each of the principles governing the political and economic realms is limited and is also legitimised by the other.*** The impoverishment of the middle class almost everywhere in the developed world, the stagnation of median wages, mean that democracy has not accomplished its task of preventing market based exclusion. This, together with the spectacle of easy money, when the primary value is capital accumulation, clouds time perspectives. Abnormally high financial returns contribute to the depreciation of the future, to impatience with the present and to disenchantment with labour. This is at odds with the inevitably long-term horizon of democracy. This

¹ Dan Usher, 1981: *The economic prerequisites of Democracy*, Columbia University Press.

contrast is prejudicial to the provision of essential public goods by states and notably those satisfying the needs of future generations.

More attention should thus be paid to debating norms of justice, which represents the key factor differentiating democracy. In this regard, I propose to make the acceptable degree of inequality the subject of an annual public debate by parliaments. By raising the public awareness of the unjust functioning of the system it would soon or later prompt policies to remedy it. So it appears that capitalism can survive only if it is “contaminated” by some elements of socialism, I mean by the concern for justice and social welfare that springs from the spontaneous functioning of democracy. It is precisely because capitalism has been able to recognize its dysfunctions and its failings and continually to adapt that it survives today.

The Way Ahead

Are we taking the way predicated upon by what I said until now? It is yet too early to answer. Our doctrinal and even our theoretical framework seems to be still the pre-crisis one. The illusion that the crisis was just a brief interlude and that the post-crisis world should resemble the world as it was before, is still alive and well. And there is great pressure to re-write the story of this crisis by depicting effects as if they were causes.

As a consequence the fire-fighters came to be accused of causing a flood. In Europe, public and social spending is being slashed to please the ratings agencies. In the United States, policies seem still to benefit the most privileged, and voices to curtail public and social spending are becoming louder. The afflictions that presided over the crisis – inequality, debt, and short-termism – have thus no prospect of being curtailed. What I consider as one of the main cause of the crisis, namely the long run increase in inequalities², seems thus to be worsened by policies. In doing so, we have no chance of breaking out the vicious circle in which a rise in inequality leads to the need to

² Cf. Jean-Paul Fitoussi and all : *After the Crisis : the Way Ahead*, Luiss University Press, November 2010

prop up demand so as to offset the consequences of this rise, with both one and the other fuelling the rise of private debt and the development of speculative bubbles. If one thing is certain, it is that the impact of the crisis on unemployment, social precariousness, and poverty means that there is greater inequality today than before. Indeed, the growing confidence that a catastrophe has been averted is paralleled by growing pressure on government to cut public and social spending and to refrain from coming up with investment programmes in preparation for the future. In a way the rich countries seem to be characterized by a regression of democracy, as doctrine-ready thinking seems to have more influence than democratic debate.

Third, the crisis was global, and that the drive to become more competitive will only aggravate it. Countries tend to forget quickly that their economies are interdependent. Those that are suffering from a common shock but who forget that this is a global, worldwide crisis are drawing up economic policies without taking into account the externalities, usually negative, that they are imposing on the rest of the world, which will boomerang on them.

A sheer application of a principle of symmetry would avoid such an outcome³. To ensure that the way the world adapts is not characterized by a systematic restrictive bias, which ultimately would not benefit anyone, the countries facing vulnerable situations should not be the only ones to adapt. On the contrary, there needs to be symmetry, particularly in the economic efforts of countries running current account surpluses and those running deficits. There should be a similar symmetry in budget adjustments: between countries whose public finances are adequate to support economic activity and those whose finances have deteriorated so much that there is no choice but tightening. The principle of symmetry would allow the zero-sum or negative-sum game seen today to return to a positive-sum game.

There is also a need for more symmetry in global governance. The central role now being assumed by the G20 is a first step, but while the G20 represents 85% of the world's wealth and over 60% of the population, it represents only 10% of the world's

³ Cf. Jean-Paul Fitoussi and Joseph Stiglitz : *The G20 and Recovery and Beyond : An Agenda for the Twenty first Century*, eBook, 2011, www.ofce.sciences-po.fr

countries. Whole areas of the world are not or ill represented. This is particularly true for Africa and the Arabic countries.

In this dark picture, the Arabic revolution comes as a relief. The aspiration to democracy it brings to light is teaching the western world that a regressive political order is not sustainable even if it is compatible with a high growth rate of GDP. They are also teaching us that "Remember the Future" is a commandment that we should never forget! Especially if we care about sustainability.