Capitalism needs to return power to the people

Gerard Baker

Fear of globalisation that has fuelled discontent in Europe and the US shows the importance of strong communities

The vote for Brexit, it’s often said, was a revolt by disenchanted voters against a despised political leadership, an elite deemed remote, unaccountable and incompetent. Well, that worked out well. Three years on and Britain’s political elite has clearly been transformed; now it’s merely incompetent and unaccountable. Or, as Jacob Rees-Mogg might put it, quod erat demonstrandum.

Fortunately for the flailing British political class, though, Brexit was about more than that: an expression of English nationalism perhaps; rising opposition to immigration; steadily growing resentment against the encroachment of supranational institutions. But in the global context Brexit is widely understood above all as just one of the most powerful expressions of discontent in the last five years with the modern capitalist order. The referendum campaign may have been about many things but underpinning it was a profound malaise among many voters with an economic system that has failed to deliver advertised rewards.

The financial crisis of 2007-08 led to bank bailouts, austerity, a decade of slow growth, shattered faith in the capacity of the free enterprise economy to produce results that were either fair or efficient. The fruits of modern capitalism seemed to be increased inequality, stagnant wages for median income workers, a transfer of market power from consumers to producers.

The picture is the same in most developed economies. In curiously convergent ways, capitalism’s newly exposed frailties have been responsible both for the success of Donald Trump, an arch-capitalist who traded on working-class voters’ frustrations with the increasing precariousness of their livelihoods and access to quality healthcare, and at the same time the rising appeal of socialism in America, which has ascended to surprising pre-eminence in the Democratic Party. And of course in countries like Italy and France the failure of capitalism to generate much growth has helped swell support for populist parties.
In some ways the current crisis is a curious one. The last time the system was under this kind of pressure was in the 1970s. Back then the economy was plainly delivering disastrous outcomes: weak growth, high unemployment, surging inflation. None of that is true this time.

Take the US and the UK: in the decade from the early 1970s, both experienced repeated recessions. In the last ten years neither has had a recession at all. We’ve only had two recessions, in fact, in nearly 30 years. And it’s not as though investors have lost faith in the system. The Dow Jones Industrial Average is close to 200 per cent above its trough of ten years ago. In the early 1980s it was 70 per cent below its peak of 15 years earlier. In the UK stocks were in an even worse slump. As my economics tutor at the time (a Marxist) gleefully liked to point out, British investors were less optimistic about the prospects for the UK private sector in 1981 than they had been — adjusted for inflation — during the Blitz.

Back then, the diagnosis of what was wrong with capitalism was actually that there wasn’t enough of it. The prescription was the liberalisation and deregulation that Margaret Thatcher and Ronald Reagan subsequently delivered.

This time around, both the diagnosis and the prescriptions are different. This time it is an excess not a deficiency of capitalism that is blamed. We may not be in a slump but the distribution of benefits and rewards is not seen to be efficient or fair. And the insecurities induced by the modern economy — fiercely competitive global markets and rapid advances in technology — leave those without the skills and resources necessary to survive sinking deeper into oblivion.

Into this breach comes a fascinating new book by Raghuram Rajan, a former chief economist at the International Monetary Fund and governor of the Indian central bank. In The Third Pillar: How Markets and the State Leave the Community Behind Ragan argues that the modern capitalist economy has been underpinned by three core elements: markets, the state and communities. Over the last thousand years the boundaries between these three have shifted in line with rising satisfaction or dissatisfaction about economic outcomes.

In the most recent past the role of markets has moved back and forth with the role of the state, and the space for communities — small social organisms in which people live and which ensure accountability — has diminished in importance. This has left people feeling disempowered. The solution lies neither in enhanced state power nor in enhanced market power but in a strengthening of communities.

Ragan, who is sometimes mentioned as a possible successor to Mark Carney as governor of the Bank of England, uses the language of Brexiteers and Trump in acknowledging that people feel a powerful and understandable desire to repatriate control from faceless global markets and institutions. But he argues that the aim should be to devolve power and authority even further than the nation.

“Power should come back to the nation-state. But it shouldn’t stay at the capital,” he tells me. “It should go further down into the communities — one of the problems is people don’t feel they have control. And it’s not just about control from outside. It’s bringing control back into the hands of the people.”
Of course there are problems. Not all communities have the resources to manage responsibilities; there is still a strong need for central national authority and for the efficiencies of big integrated markets. But as a way of thinking through the current challenges facing nations, strengthening the community is an ancient, novel idea.