



## Transcription

Democracy in Question? – Season 1, Episode 7

### Can democracy exist in austerity?

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**Published 14 January 2021**

*Democracy in Question?* is the podcast series of the Albert Hirschman Center on Democracy at the Graduate Institute, Geneva, the Institute for Human Sciences (IWM), Vienna, and the Excellence Chair, University of Bremen (Research Group: Soft Authoritarianism).

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**SR:** Welcome to "Democracy in Question," the podcast that reflects on the crisis of liberal democracy in these troubled times. I'm Shalini Randeria, the director of the Albert Hirschman Center on Democracy at the Graduate Institute in Geneva and the Rector of the Institute of Human Sciences in Vienna. I have with me, Professor Robert Skidelsky today. Robert Skidelsky is Emeritus Professor of Political Economy at Warwick University and a member of the House of Lords since 1991. Best known for his superb biography of John Maynard Keynes, his most recent books are *How Much Is Enough?: The Love of Money, and the Case for the Good Life* co-authored with his son, the monograph *Austerity Against Stimulus*, which will concern us here today. And most recently, *Money and Government*, a trenchant critique of neoclassical economics. Thank you for joining me today, Robert.

[00:01:00]

**RS:** I am very pleased to be with you.

**SR:** Robert, you have been among the most powerful voices arguing against the neoliberal dogma of austerity politics, not only in the United Kingdom, but also in the rest of the world. And one of your arguments has been that there is a direct causal connection between the obsession with small government debt reduction and the rise of populism in the West. The question I would like to discuss with you is, is democracy then compatible with austerity politics beyond a certain point? Or to put it

differently, is there a minimum threshold of social and economic welfare that is needed to maintain democracies in order that they don't give into populisms, be that on the right or the left?

[00:02:00]

**RS:** The quick answer to that is yes, but I won't just leave it there. What's influenced me quite a lot is a remark that I want to quote made by John Maynard Keynes actually in 1925, "*For modern capitalism is absolutely irreligious, without internal union, without much public spirit, often, though not always, a mere congeries of possessors and pursuers. Such a system has to be immensely, not merely moderately, successful to survive.*" Today, it is only moderately successful. In other words, what he's saying is a system like capitalism, which is irreligious, which only offers one thing really, more and more consumption has to be very, very successful if it is to beat others' creeds, dogmas, that offer efficiency and some spiritual nourishment as well. We don't offer anything really in our society to people except, and this is very, very important, more material wealth, more consumption. And therefore, you know, if we falter in the one good thing we do, if that falters, then, of course, the system becomes very vulnerable.

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**SR:** But Robert, we are in a world where we have a particular kind of capitalism. Capitalism was, until the 1980s or so, able to deliver

material success to a lot of people because of the redistributive policies of the welfare state. What we've had then with neoliberal capitalism and neoliberal globalization is a turn away from those policies, with the regular Thatcherians and then culminating in one crisis after the other that we have seen. And the question then is, what you call hyperglobalization, how is that related then to the decline of people's faith in democracies and liberal democracies, in particular?

**RS:** Very hard to isolate the one causal factor. Some of the effects to which you refer are very obvious. I mean, for example, in the last 10, 15, 20 years, our system hasn't been able to provide consistent employment for about 10% of the population. It has generated increasing inequality of wealth and income. I mean, enormous inequality. And, of course, the resentment against the system has grown. The median income in the United Kingdom is at £24,000 a year, that hasn't shifted since 2008. Now, you go upwards, when you get to £150,000 a year, 1% of the population gets there. All the rest is below. So, you can see, it's not just that we're very unequal societies, but the polarization between the very rich and the average and poor has just grown and grown and grown, then you have a more and more punitive welfare state. And so, you get the toxic mixes of resentment, economic resentment and cultural resentment. And I think globalization must not be considered just to be a system of economic integration, but it actually is our philosophy, it is the philosophy of liberal democracy as it is today. Economic integration,

political integration across frontiers, and cultural integration, universal values, they form a package. Well, if the economic bit of that package goes wrong, resistances to all the other things start to grow and grow mightily.

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**SR:** Do you think it would be a mistake to reduce a lot of the populist resentment that we are seeing today to purely economic terms?

**RS:** I've become increasingly convinced that there is a culture war in progress, which could be thought of as autonomous. It's not just a consequence of economic failure. I think we often tend to think of it in those terms, that the resentment of the uneducated or the less educated, the more nationalistic in different backward regions and countries is a consequence of their economic failure, and that we could remove that resentment by, you know, producing economic success. In Britain, it's called leveling up the regions, better education, better training, and all kinds of things like that. But I think it's become autonomous. I think there are quite a lot of people who just don't like the general direction of things.

They feel that their values are being traduced or trampled on. I think that cuts across their economic or socio-economic position. It can't be, in other words, in a Marxist sense, reduced to a class or even a particular,

you know, gender. David Goodhart is very good at analyzing the gap between people from somewhere and people from anywhere. I mean, that's the way he puts it. It's a sort of general cultural attack on the liberal elite from below. It's connected to economics and know that if you do your economics better, the force of that attack is much weakened, and that's why you should do your economics better. But it's there, and it really invites us to think about the sources of our identity.

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**SR:** Economics as a discipline has been quite agnostic towards inequalities as if inequalities do not really matter. What remains a puzzle to me, however, is despite all its shortcomings of not only its theories of comparative advantage, etc., etc., but even as policy prescriptions, why is it that this kind of economic theory remains so hegemonic all over the world?

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**RS:** Not just agnostic about income distribution, but indifferent. The standard view is people get what they're worth, and if they're worth very little, they get very little. These are market valuations, but these aren't perfect markets. They're actually imperfect markets. Economists pretend they're perfect markets. So, there's a huge distortion. So, neoclassical economics, first of all, ignores issues of power completely. Its paradigm is that of a competitive market, and after that was the economic impulse

behind globalization. If you extend markets globally, then you will get rid of local monopolies.

Now, when you say, why has this system been hegemonic? One is that some of the nature of the attacks haven't been recognized as intellectually up to the job. Many of the attacks have come from other disciplines, sociology, history, politics. These people are not competent in maths, therefore, they are not able to really dent the structure of economics as it's built up. And then, the two big failures of the oppositional systems, if you like, the massive failure of Soviet communism and the relative failure of Keynesian economics in the 1970s and 1980s, it got labeled as that system that simply generates inflation. Its only successes by printing money, and that, of course, leads to inflation sooner or later.

[00:10:15] Then what's left, you see, except going back to the neoclassical foundations? And so, policy became relatively laissez-faire. If you really believe that markets allocate resources more efficiently than governments, you want to keep governments out of the way because they would simply slow down the growth of wealth. It's very strongly entrenched, the paradigm, until there's a shock large enough that the world view has to change, and people say, "This isn't actually the way the world works."

**SR:** That thinking has sort of permeated not only our ideas about how the economy should work, what the relationship between politics and economics should be, how much autonomy politics should have as a system, but also, in fact, in a way, the very conception that we have of human motivation governed entirely then by self-interest in this particular understanding of it. And the question that you then point to when you say it needs a shock to create a revolution, 2008 was *not* enough of a shock when the financial markets collapsed. Do you think COVID is enough of a shock to bring about some kind of a return to an attention to inequalities and to bring about maybe some return to a redistributive Keynesian kind of economics and a welfare state, which would then be in the interest of restoring some of the trust in liberal democracy?

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**RS:** A double whammy, that might succeed. A lot of the measures that were implemented both in 2008 and to fight COVID-19 have been sort of labeled emergency measures. It's not that the economy is normally healthy and occasionally gets sick, it's sort of somewhat sick the whole time because it's very disruptive, a capitalist system. It's always generating crisis. It's never performing in the smooth way; therefore, it always has to be propped up. The fate of democracy is very much in the balance because we're committed to certain views of the world, which are really anti-democratic. I'm not talking about populist. We're committed to



things like globalization or supra-nationalism, universal norms, which have no roots in democracy. They have roots in liberalism. Democracy is essentially national. It came out of nation-building in the 19th century. Now, we think we can transfer those allegiances and those accountabilities to much, much wider units which haven't got any organic cultural roots in them. And I think the European Union, which was probably the most hopeful effort to do this, it's finding these roadblocks in the way, they talk about democratic deficits, but the democratic deficit is much greater if, in fact, the system is also faltering on the economic side.

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**SR:** So, let me go back to two points which you made, one on globalization and the other on the fragility of the democratic model itself, which needs constant attention. If I take the second point first, do you think that makes the Chinese model a much more attractive model, that it is able to withstand the shocks better because of the authoritarian hold of the communist party and the fact that it is able to provide much better welfare and redistribution policies, and, of course, is also capitalism? So, it could be there will be two trajectories to capitalism, which will stay different and it's a system competition but of a different kind?

**RS:** Objectively, if you have a view from nowhere, which is impossible, of course, you might say it is a superior system, but I don't think it's

necessarily going to be of the First and Second World War kind, where the rising nations challenges the existing incumbents in a bloody war. The populists in Europe, you know, are quite tame. I mean, we are very worried about them because there are some egregious nasty things that they do, but they're quite tame. And I still think that within the European Union, they can be contained. Someone once said to me, I was in Moscow at the time, and the discussion was, "What was the nature of the Putin regime?" And a very, very clever opposition person said, "Look, it's a soft dictatorship. It's constrained by the international environment in a way Hitler was never constrained in that sense."

[00:15:00] But I think we have a more interdependent world now, and I think interdependent politically and culturally, and in terms of norms. So, I think a Putin regime is constrained in what it can do, and so is an Orbán regime, much more constrained than a Putin regime. So, there'll be nasty things going on. Some of the things, you see, are things we can quarrel about without feeling that they're devilish. For example, the abortion debate in Poland. That's a difference in opinion between a religious point of view and a secular point of view, and which way a society decides should not be subject to the international rule of law or international law norms, because we've got to understand these *are* norms. These are the norms of our particular kind of secularism. They're not necessarily the norms of most people in other societies. So, I wouldn't, you know, go to the barricades to stop Poland doing some of

the things it's doing, but I know this is a minority view among liberals. They believe these norms are universal, they should be applied everywhere, and that any such measures should be subject to legal barriers and, of course, democratic barriers. I want to live in my kind of society, but I don't want to force other people to live in those kinds of societies.

**SR:** Robert, let me come back to the whole question of globalization and of global supply chains because as COVID really reminds us, we may have two different varieties of capitalism as we were just discussing, but the interdependence through global supply chains, especially the dependence of Euro-America on China is extremely great and these supply chains are proving to be a problem.

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**RS:** It raises the question of what the limits of globalization should be. Because if you believe in economic integration, the hard case for economic integration is that all supply chains are potentially global, all of them, because of the efficiency argument. But what your question raises is the conflict between efficiency and sustainability. If the global supply chains can't be sustained in some way, because they're too fragile, then the efficiency argument has to be considered over a longer period and not just what's sufficient today.

[00:18:00] My feeling is that whatever procurement, it's important to have security of supply, then the supply has to be located, not necessarily within each country but within groups of countries who can guarantee through their political alliances and their cooperative structures that that supply won't be interrupted. I mean, the European Union, I would never be worried about interruption of supply within the European Union. But of course, if you are relying on supply from somewhere outside it, then the possibility of disruption is very great. And we saw that in COVID, they suddenly ran out of things for their medical facilities that they had to get from China or South Korea or...well, that's a vulnerability.

**SR:** But one of the things you just pointed out is the need to think about efficiency, not at this point of time, but need to think about efficiency over time. And that, I think, brings me to one other aspect of the whole question of capitalism, liberal democracy, and climate change. Climate change would require us also to think of a precautionary principle that needs to be thought in terms of efficiency over time and not only what is efficient now, in terms of the use of resources. So, what kinds of changes do you think would then be needed in capitalism? Because these are not the welfare state kinds of changes that we were just discussing, but you would need very different kinds of changes to be made for capitalism to be able to meet the challenge of climate change? And yet do you think liberal democracies are up to that task?

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**RS:** No, they're not really. I mean, so the question you raise is, what constraints are we in a position to put on the operations of a global financial system? Look, we have a tight nexus in our thinking. We have a system of profit-maximizing companies. We believe that profit maximization is the generator of efficiency gains. And if we want to develop another kind of concept of efficiency, we have to attack the idea that firms are solely in the business to maximize their profits. We have to get an idea of profit maximization over time. But that goes completely contrary to the principles of financial accountability and shareholder accountability. They don't want to know that they will benefit from this investment in 10 years' time if a lot of other people are actually benefiting from it a lot more in the next year or two.

[00:20:30] So, that requires much more interference with the normal workings of the capitalist system than we're prepared to contemplate. In fact, capitalism has to be reconstructed very, very, very fundamentally if we're to get the idea of efficiency over time, sustainability, precautionary principles embedded, not only in our thinking or in our theory, but in the policy that that leads to. I'm very much in favor of the least risk principle or the least harm principle. When you're thinking of a policy, don't think what is the maximum benefit we can expect from this policy, but what is the least harm this policy can do? Even at its most successful, what is

the least harm it can do? These are not only economic harms, but they're all also cultural harms. I think we've got to think in those terms.

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**SR:** So, Robert, what would be the constituencies you think, which could mobilize towards such a change to be brought about in liberal democracies? Political parties don't seem to be doing very well on the whole, but especially the social democratic parties, Labor in the United Kingdom, but even the social democratic parties across continental Europe all seem to be on a downhill path. So, the question would be, where would the political forces be found that would be needed to bring about such a profound change?

**RS:** They're not there, but then, of course, the apocalypse is not something that's in our calculation. Look, you have a shock which dislodges the stagnant paradigms, and then you have to have someone able to deploy it in a way that preserves the fundamental decencies of the society. It's very rare, it's not inevitable that it should happen. I think it happened in America in the 1930s. I mean, Roosevelt was an unbelievably successful and good political leader, outstanding political leader. In another kind of society, it happened with Deng Xiaoping in China. I mean, who knows how that system would have gone had it not been for a very outstanding architect of transition and discussing his leadership in terms of that system and its possibilities. Not whether, you

know, everything he did was good or bad, but I'm just thinking in these terms. And therefore, we probably go stumbling on for some years to come and hope that our comfortable ways of life aren't disrupted too much. But I am worried about the future, I'm not an optimist.

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**SR:** Thanks so much, Robert, for this really wide-ranging conversation.

**RS:** Thank you for asking me.

**SR:** Great takeaway from the conversation is the need to rethink some of the basic premises of economic orthodoxy to think about improving the workings of the economy so that it's able to provide welfare for much larger numbers and to slow down the disruption that capitalism causes in our lives. What also was brought home to me was the importance of not reducing it to a matter of economic inequalities alone and to see inequalities as corrosive of liberal democracy, but equally to understand why cultural polarization in and of itself poses a problem for political liberalism as well. This concludes this episode of "Democracy in Question." Thank you very much for being with us today.