No bourgeois, no democracy

BY PIALUISA BIANCO

In dark days, people naturally grope for something to believe in. And something obscure is certainly afoot. The deep global recession is shaking not only markets, jobs and economic prospects, but an entire way of thinking about how the world works. We are experiencing some very troubling economic and social trends, including stagnating wages and growing inequality. If they continue, the stability of contemporary liberal democracies and the democratic sensibilities that underpin them will be threatened, if not dethroned.

Right now, there is a global consensus regarding the legitimacy of liberal democracy. It is most broadly accepted in countries that have reached a level of material prosperity sufficient to allow a majority of their citizens to think of themselves as middle class, which is why there tends to be a correlation between economic factors – high levels of development, growth, and upward social mobility – and stable democracy. But what if the further development of technology and globalization undermine the system to the extent that it is possible for only a minority of citizens in an advanced society to achieve middle class status? Ultimately that's the question: can liberal democracy survive the decline of the middle class? History teaches: without the bourgeois, no rule of law, no democracy.

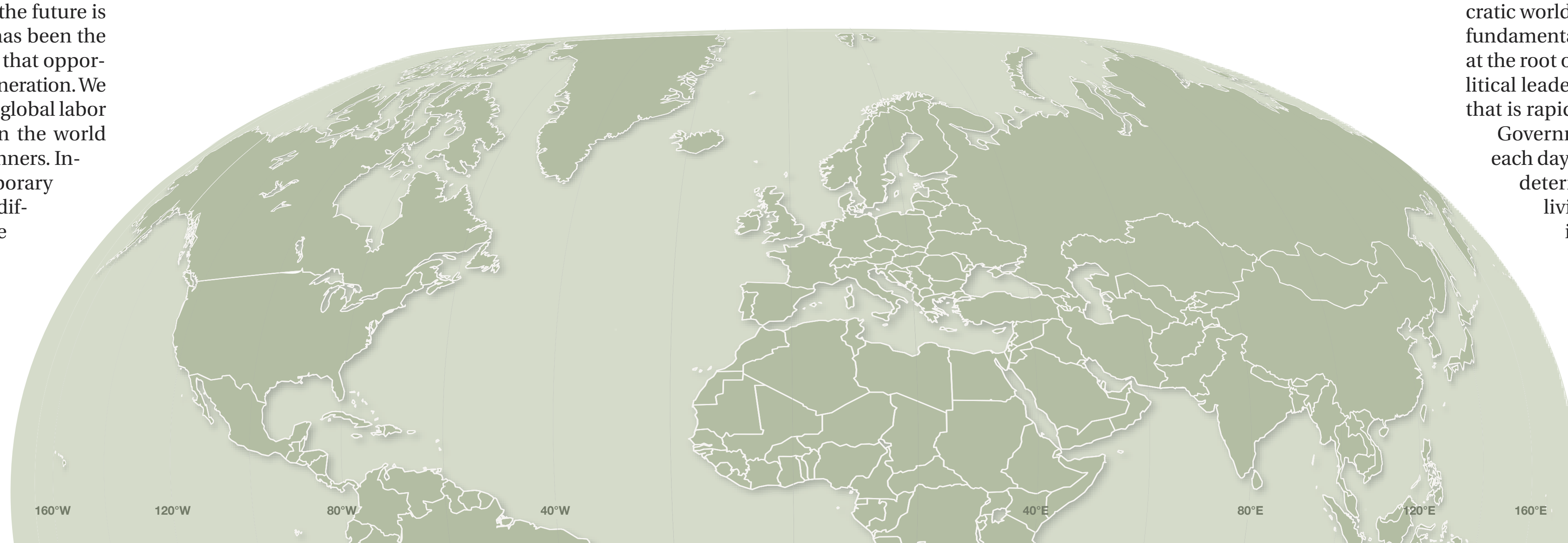
What has lost its grip on our vision of the future is the underlying assumption that life – as has been the case in the West – will keep getting better, that opportunities will increase for each successive generation. We are now coming to the realization that the global labor market will not make every individual in the world better off. There will be losers as well as winners. Inequality has always existed, but contemporary society's intricacies vastly magnify all the differences. The awareness now strikes us like a slap in the face, partly because these changes have coincided with the global slump and partly because they are happening exceptionally fast. As a result, governments have lost their fatalistic optimism. The usual recipe of free and flexible markets guided by an independent central bank to keep money sparkling appeared to conjure an alchemical reaction of permanently low unemployment, low inflation, and a predictable business cycle. But the financial meltdown and subsequent job crisis have drawn and quartered the matter under our very eyes.

We are now facing some major challenges – globalization, the information revolution, the digitization of manufacturing, the crisis of the welfare state – and we are failing. In fact, today's jobless pain is more than merely a byproduct of the financial crisis. Globalization and technological innovation are bringing about long-term changes that have altered the structure of the labor market. As a result, unemployment is likely to remain high in the rich economies even as it falls in the poorer ones. Most economists see this "great stagnation" as a structural problem – meaning it is immune to the business cycle. According to Tyler Cowen (his book *The Great Stagnation*, published two years ago in the midst of the crisis, became an online bestseller), for most of its history the West enjoyed the benefits of easily acquirable land, plentiful immigrant labor and powerful new technologies. But over the past 40 years these advantages have faded, and rich countries have found themselves on a technological plateau. Even the internet revolution, while providing lots of utility for users, has generated much less in the way of profits and relatively few new jobs. Consequently, median income in rich countries has been stagnating in real terms since the 1980s.

Dubbed "median wage stagnation" by economists, the trend has been growing. Without even mentioning the eurozone, a look at the United States during its last expansion – which started in January 2002 and ended in December 2007 – shows that the median US household income actually dropped by $2,000. This is the first time that most Americans were worse off at the end of a cycle than at the start. To add insult to injury, this long era of stagnating incomes has been accompanied by something decidedly un-American: declining income mobility. Alexis de Tocqueville, the great French chronicler of early America, said: "America is the best country in the world to be poor in." This is no longer the case. Upward social mobility cannot be taken for granted. Combine these two deep-seated trends with a third – steeply rising inequality – and you get the slow-burning crisis of Western capitalism and democracy. It is one thing to suffer grinding income stagnation. It is another to realize that you have a diminishing likelihood of escaping it. Statistics only capture one slice of the problem. Harvard economist Larry Katz offers the most compelling analogy. "Think of the American economy as a large apartment block," the soft-spoken professor said in an interview with the *Financial Times*. "A century ago – even 30 years ago – it was the object of envy. But in the last generation its character has changed. The penthouses at the top keep getting larger and larger. The apartments in the middle are feeling more and more squeezed and the basement has flooded. To round it off, the elevator is no longer working. That broken elevator is what gets people down the most." And this is the case in all rich countries: welfare states are running out of money, growth is slowing, and inequality is rising.

Reversing the increasing wealth gap will require structural reforms, such as changing education to ensure that people who enter the workforce are equipped with the sort of skills needed in the new economy, adjusting the tax system, modernizing the welfare safety net, and, more broadly, creating a climate conducive to innovation and grassroots entrepreneurship. None of these reforms, however, will be easy, and all of them will take time to produce results. Nevertheless, governments should press ahead with them. The changes now under way will pose huge challenges not only to governments but also to employers and individual workers. Yet they also have the potential to create many new jobs and substantial new wealth. That mobilization will not happen, though, as long as the developed world's middle class remains enthralled by the narrative of the past generation – that the welfare state, which fed and overfed the middle class, was eternal. We are not dealing here with abstract philosophical choices. A fierce struggle has begun. But unlike the past, in which a collective class pitted itself against the system, we are now entering an age when each member of the middle class, every "bourgeois," must struggle to adapt. And in the course of the struggle, the individuals will get a better sense of what government can and cannot do. This will define the outcome of the battle between democratic politics and populist demagogy. The rich and democratic world will be precarious until its nations answer fundamental questions they have long run away from; at the root of those questions is how governments, political leaders and citizens should respond to a world that is rapidly changing around them.

Governments and political leaders need to start each day by asking the questions that are crucial for determining their policies: What world are we living in? Can it survive? Is it worth supporting? And if not, then what is the alternative? Individuals – employers, the unemployed, and all those who reject the remedies to the crisis out of hand – also need to start each day by coming to terms with another crucial question: What exactly do I need to do to thrive in this world? In this world, not some fairy-tale world.



Leaders