

WU matters. WU talks.

The Crisis of Democratic Capitalism



SPEAKER: Martin Wolf, Ewald Nowotny

MODERATOR: Harald Badinger, Ingrid Kubin

Follow our live tweets from today's #WULecture on Twitter: @WU_econ #WUMatters

**WU matters.
WU talks.**

Lecture series
on today's biggest issues



The crisis of democratic capitalism

Martin Wolf, Chief Economics
Commentator, *Financial Times*

WU-Lecture on Economics

19th January 2017

Vienna University of Economics and Business

The crisis of democratic capitalism

“[H]istory teaches us two important things about levelling. One is that radical policy interventions occur in times of crisis..... The second lesson is even more straightforward: policymaking can take us only so far.” Walter Scheidel

The crisis of democratic capitalism

“[D]emocracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full.” Dani Rodrik

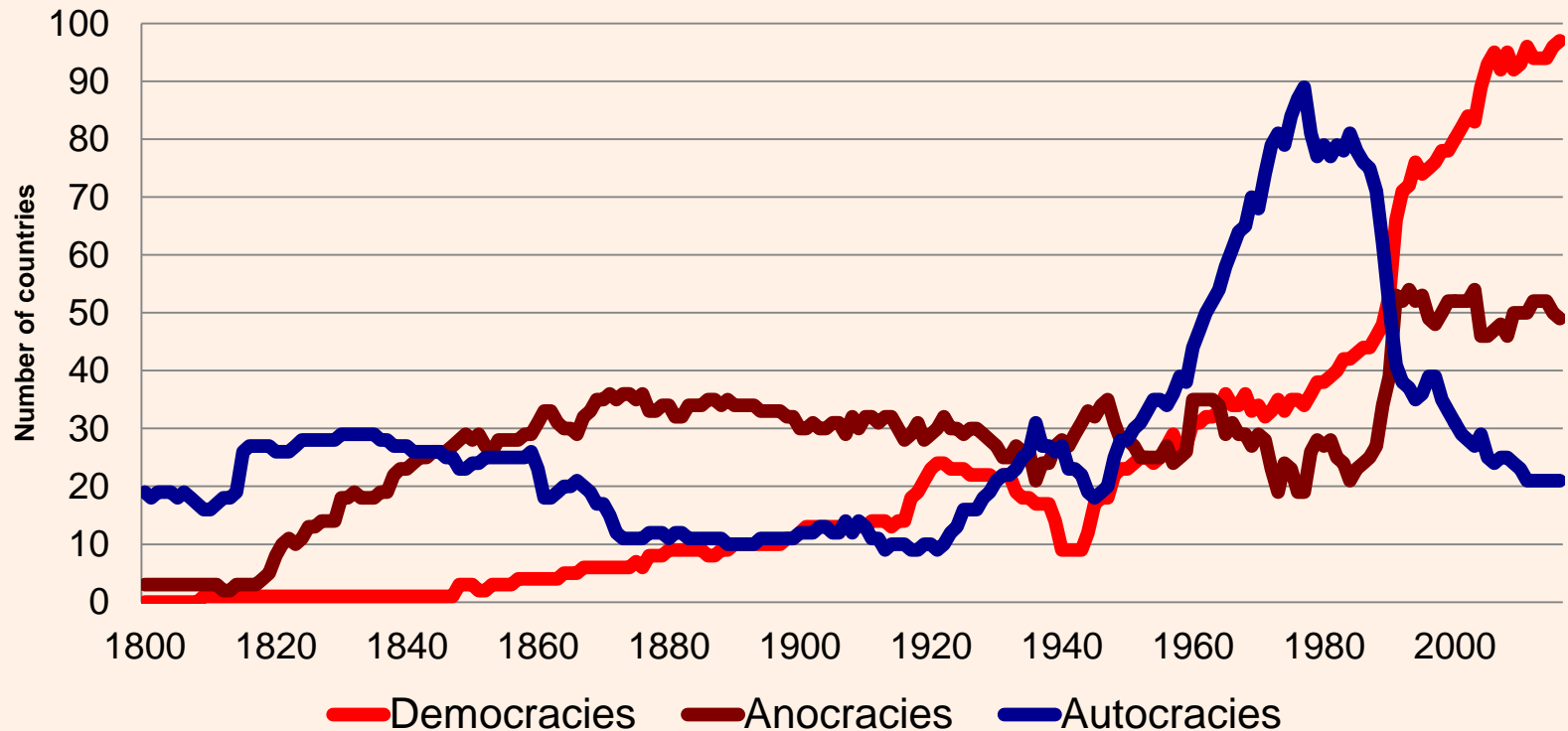
The crisis of democratic capitalism

- Democracy and global capitalism
- The erosion of trust
- Where we go now

1. Democracy and global capitalism

RISE, FALL AND RISE OF DEMOCRACY

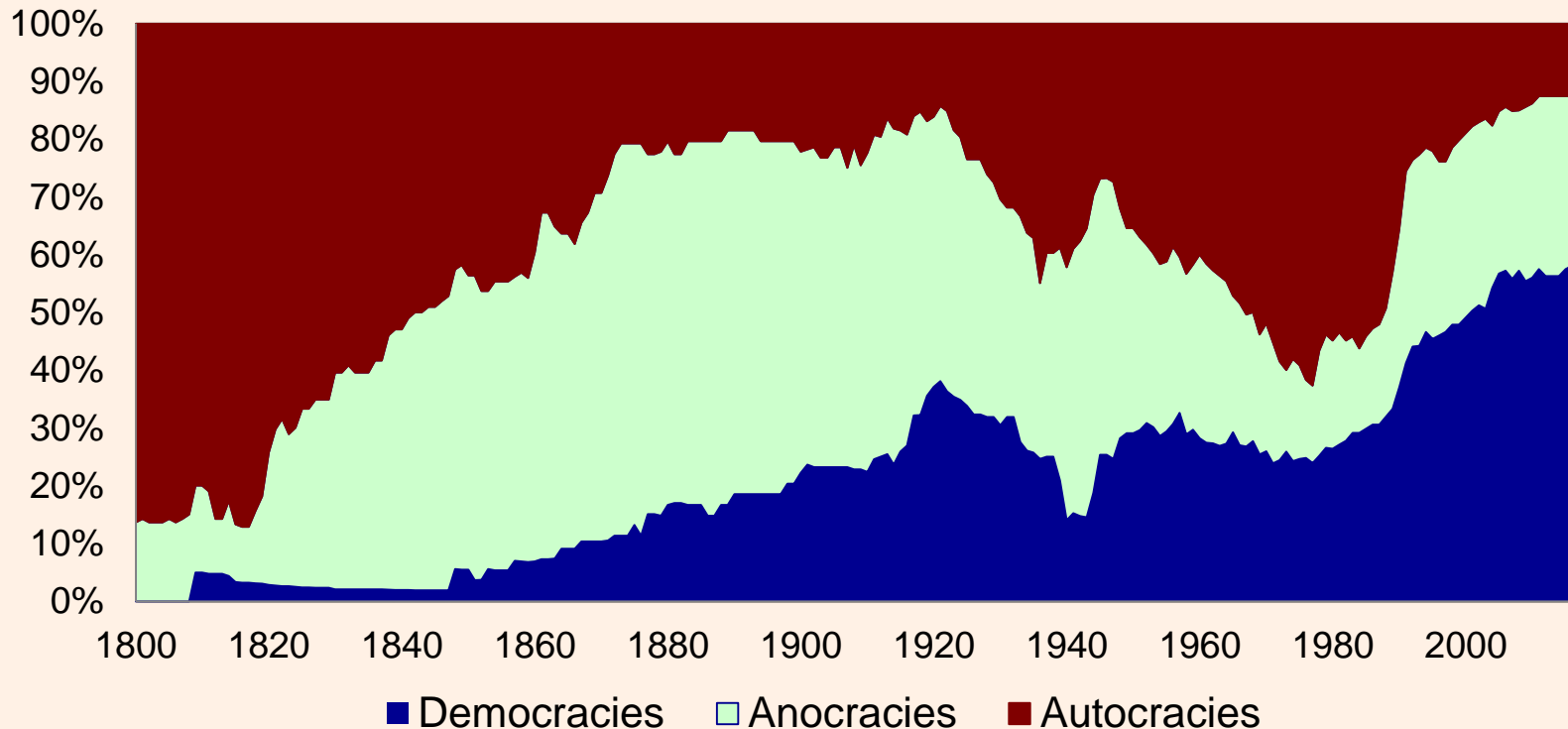
Global Trends in Governance
(Source: Center for Systemic Peace, Polity IV dataset)



1. Democracy and global capitalism

RISE FALL AND RISE OF DEMOCRACY

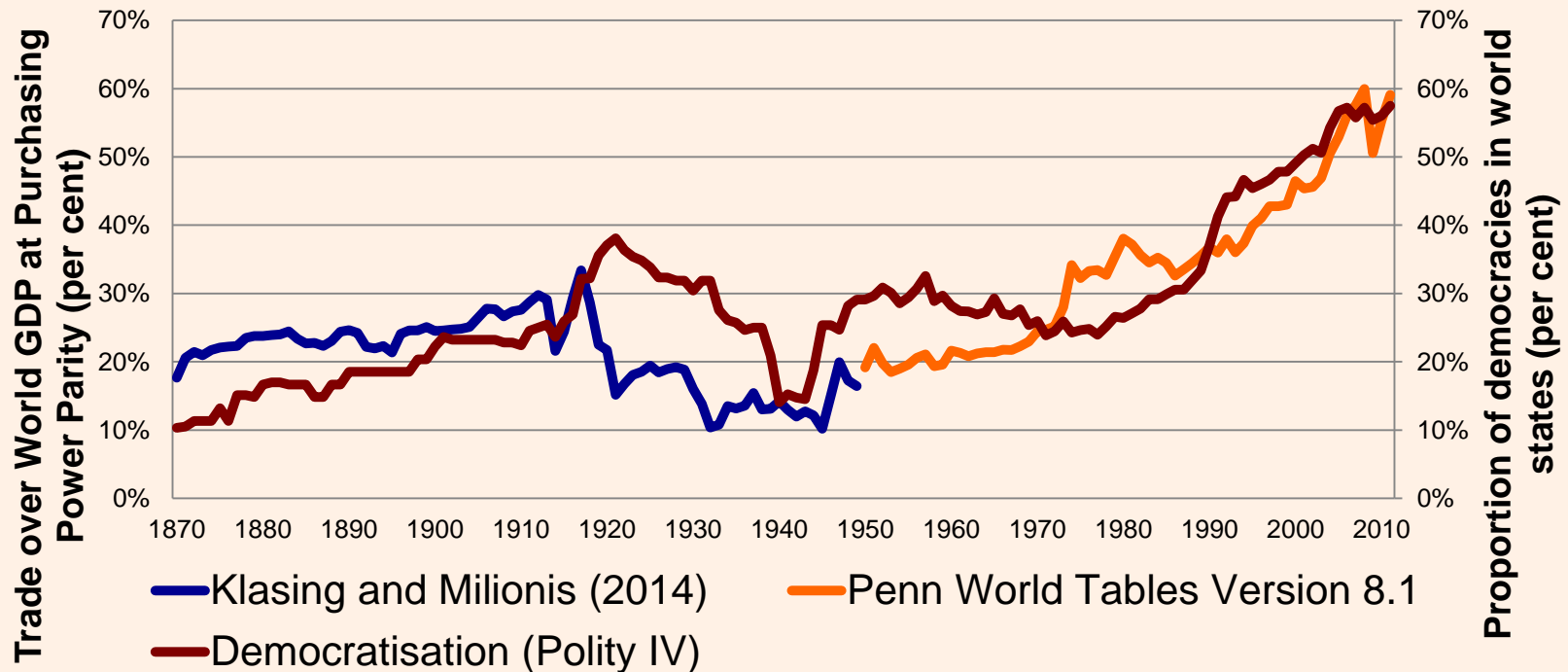
Global Trends in Governance (proportion of countries)
(Source: Center for Systemic Peace, Polity IV dataset)



1. Democracy and global capitalism

TRADE, WAR AND THE RISE OF DEMOCRACY

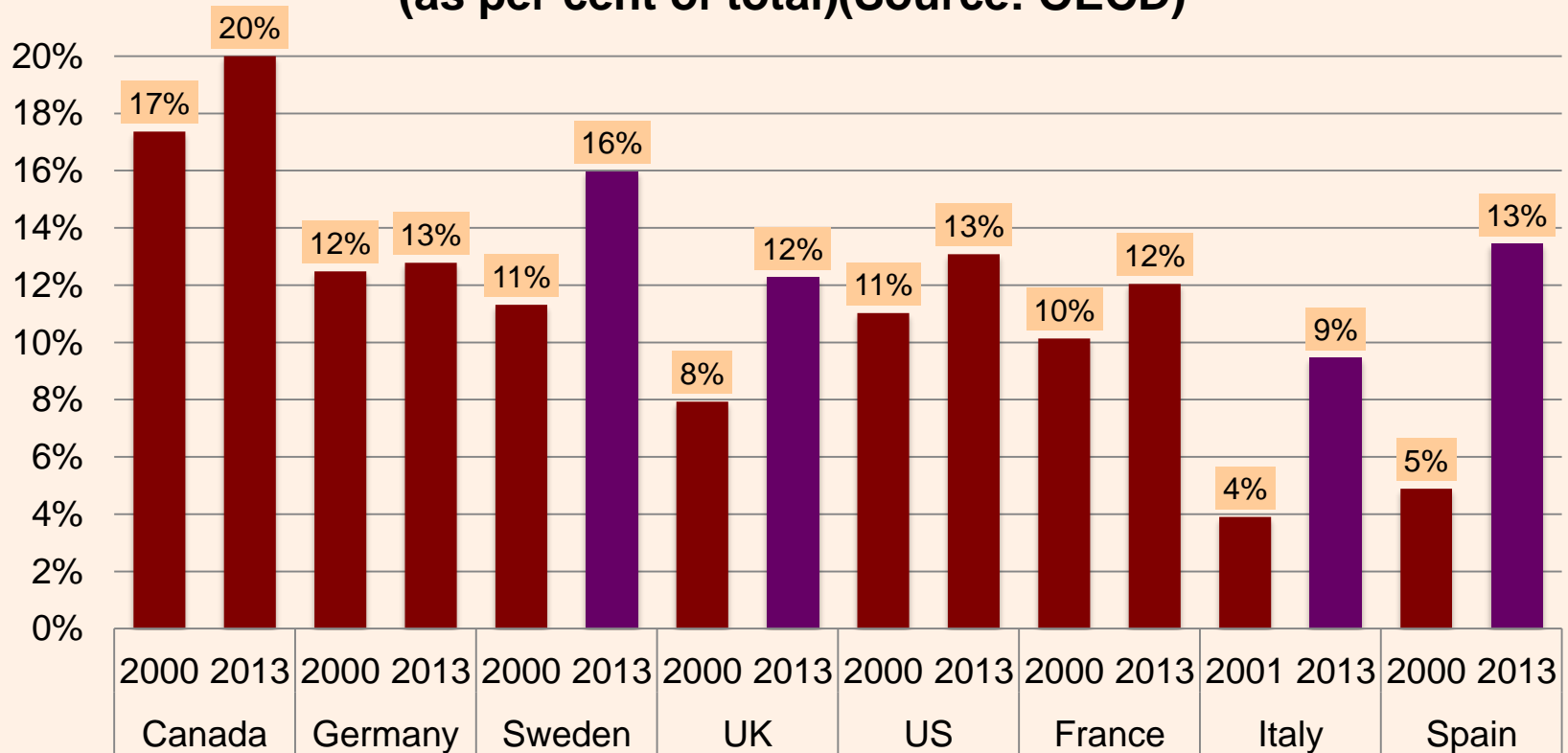
GLOBALISATION AND DEMOCRACY
(Source: "Our World in Data" and Center for Systemic Peace)



2.1. Erosion of trust: immigration

IMMIGRATION

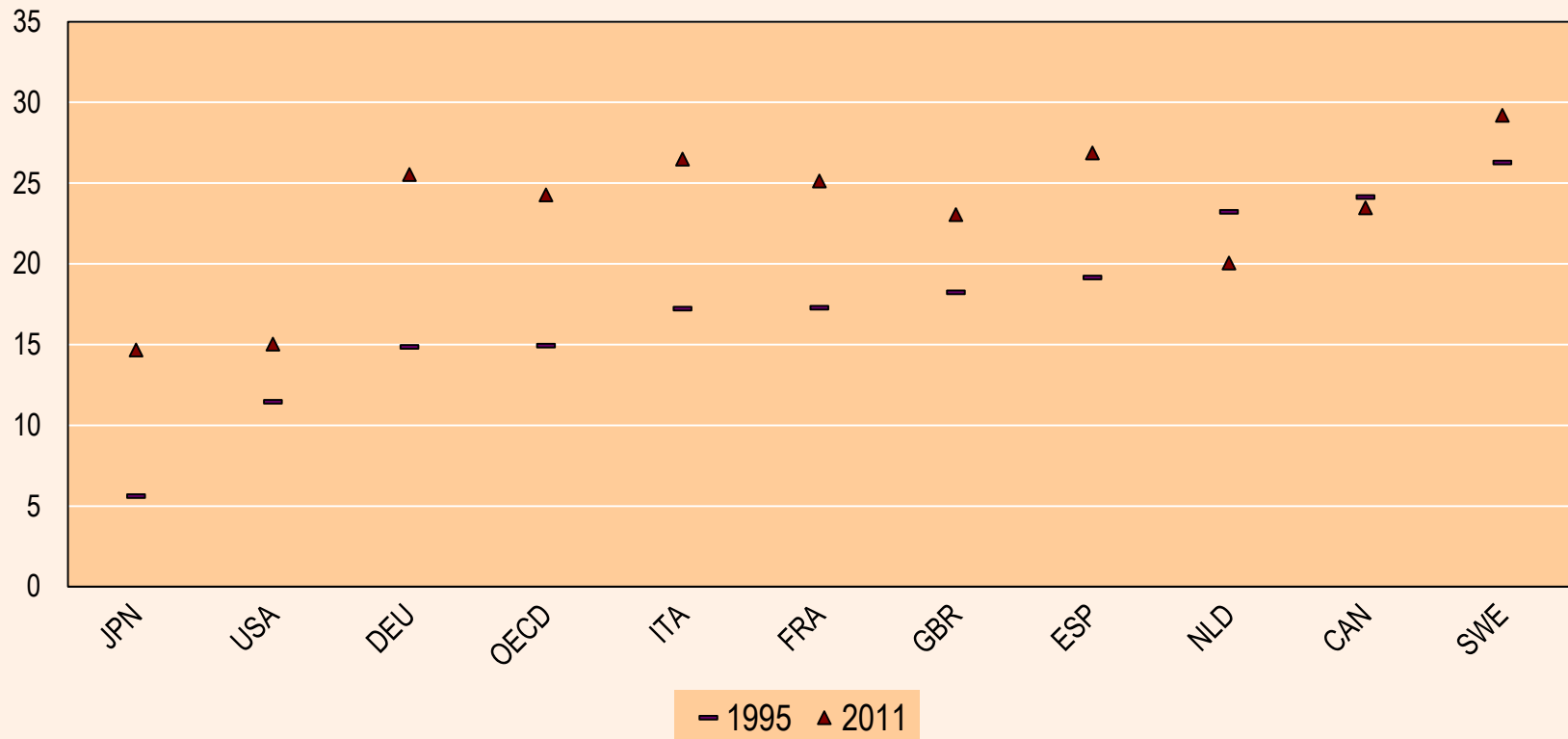
FOREIGN-BORN POPULATION
(as per cent of total)(Source: OECD)



2.2. Erosion of trust: globalisation

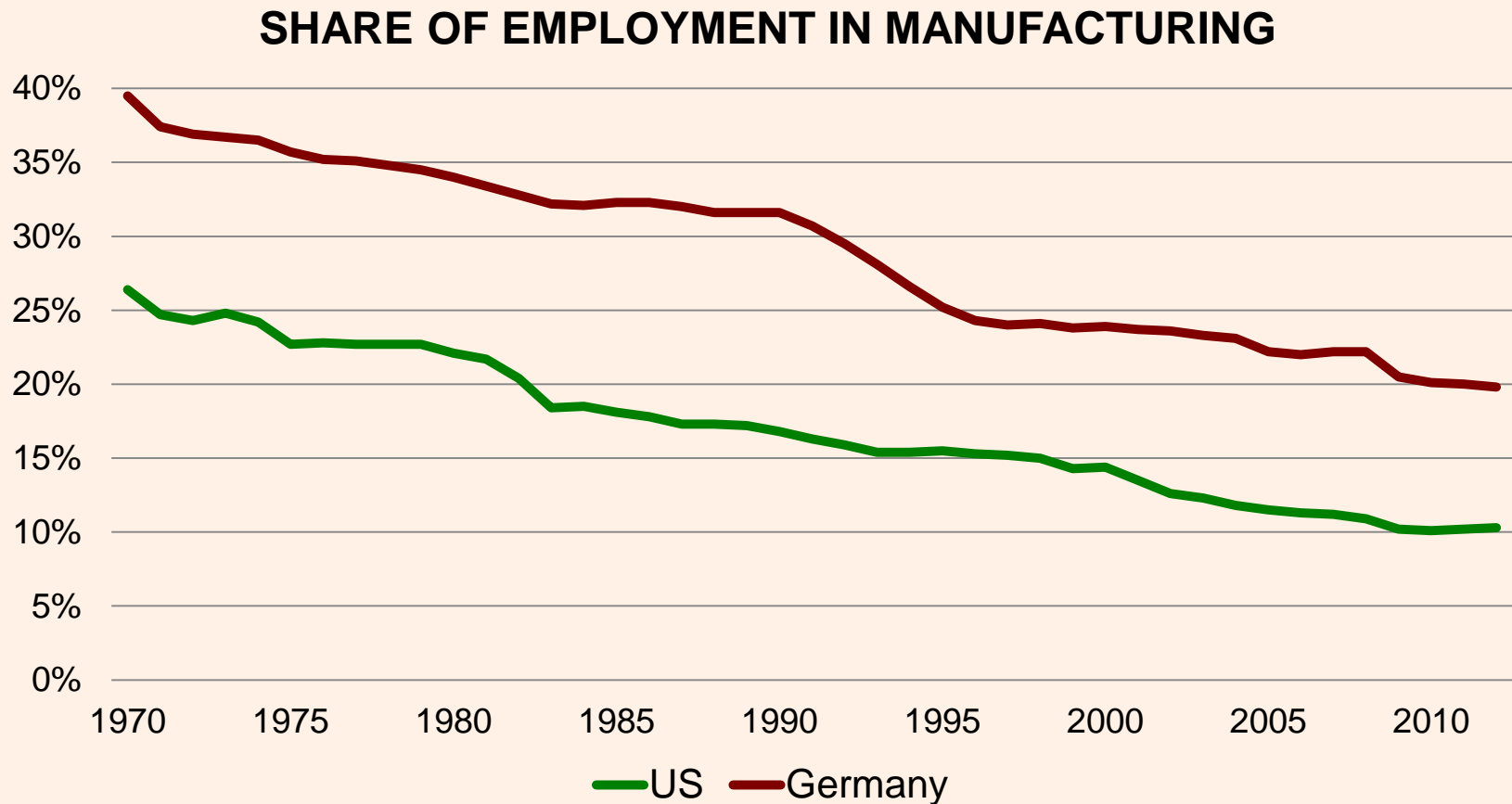
GLOBALISATION

RISE OF GLOBAL VALUE CHAINS (foreign value added share of gross exports, 1995 to 2011, per cent)(OECD)



2.3. Erosion of trust: de-industrialisation

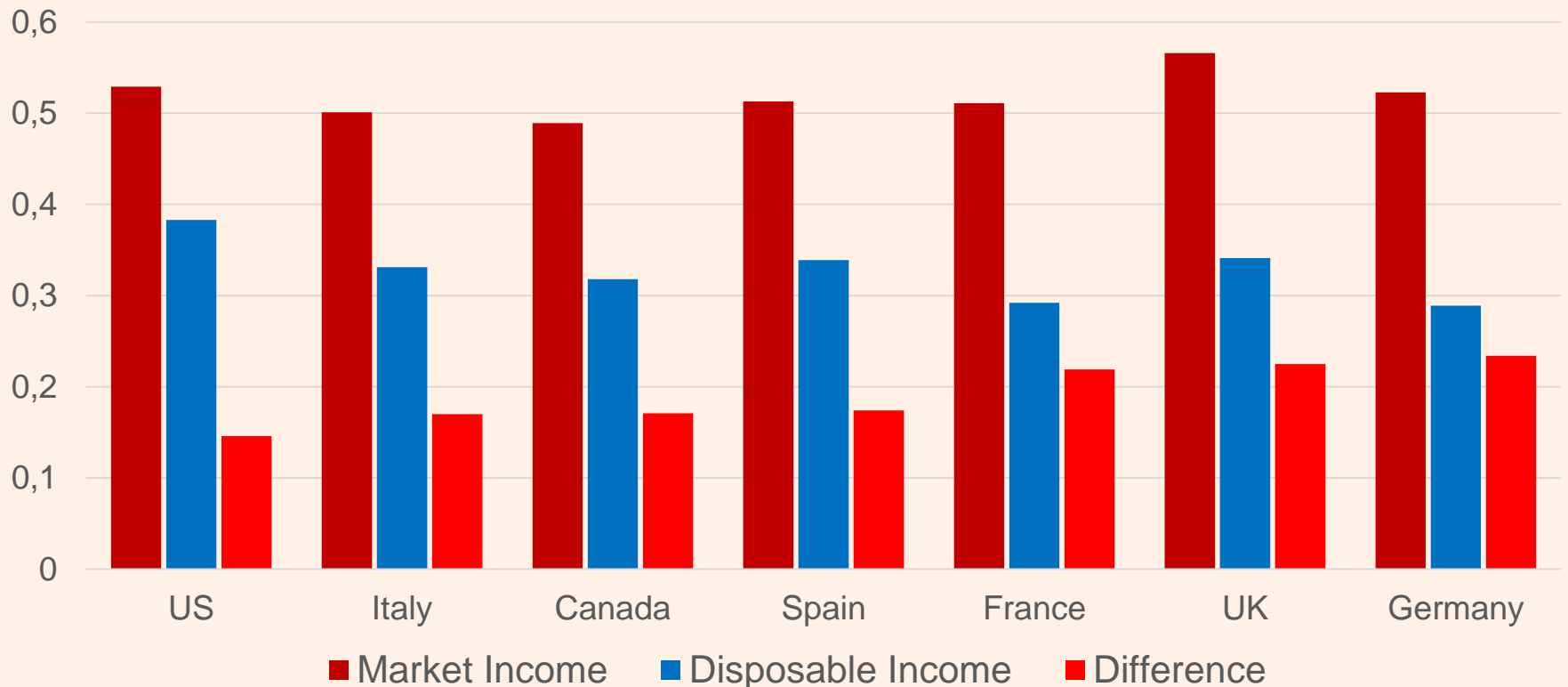
DE-INDUSTRIALISATION



2.4. Erosion of trust: inequality

INEQUALITY

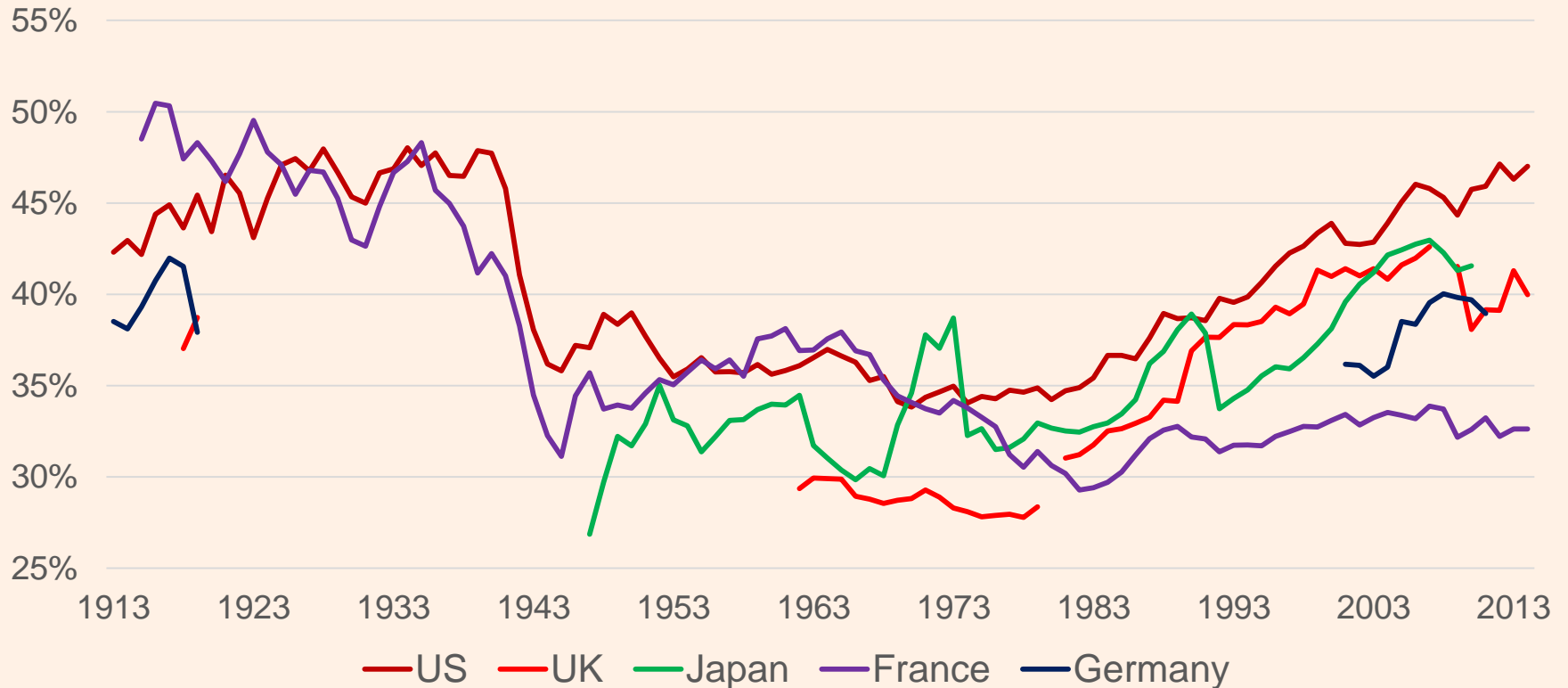
INCOME INEQUALITY 2010 (Gini Coefficient)
(Source: Luxembourg Income Study)



2.4. Erosion of trust: inequality

INEQUALITY

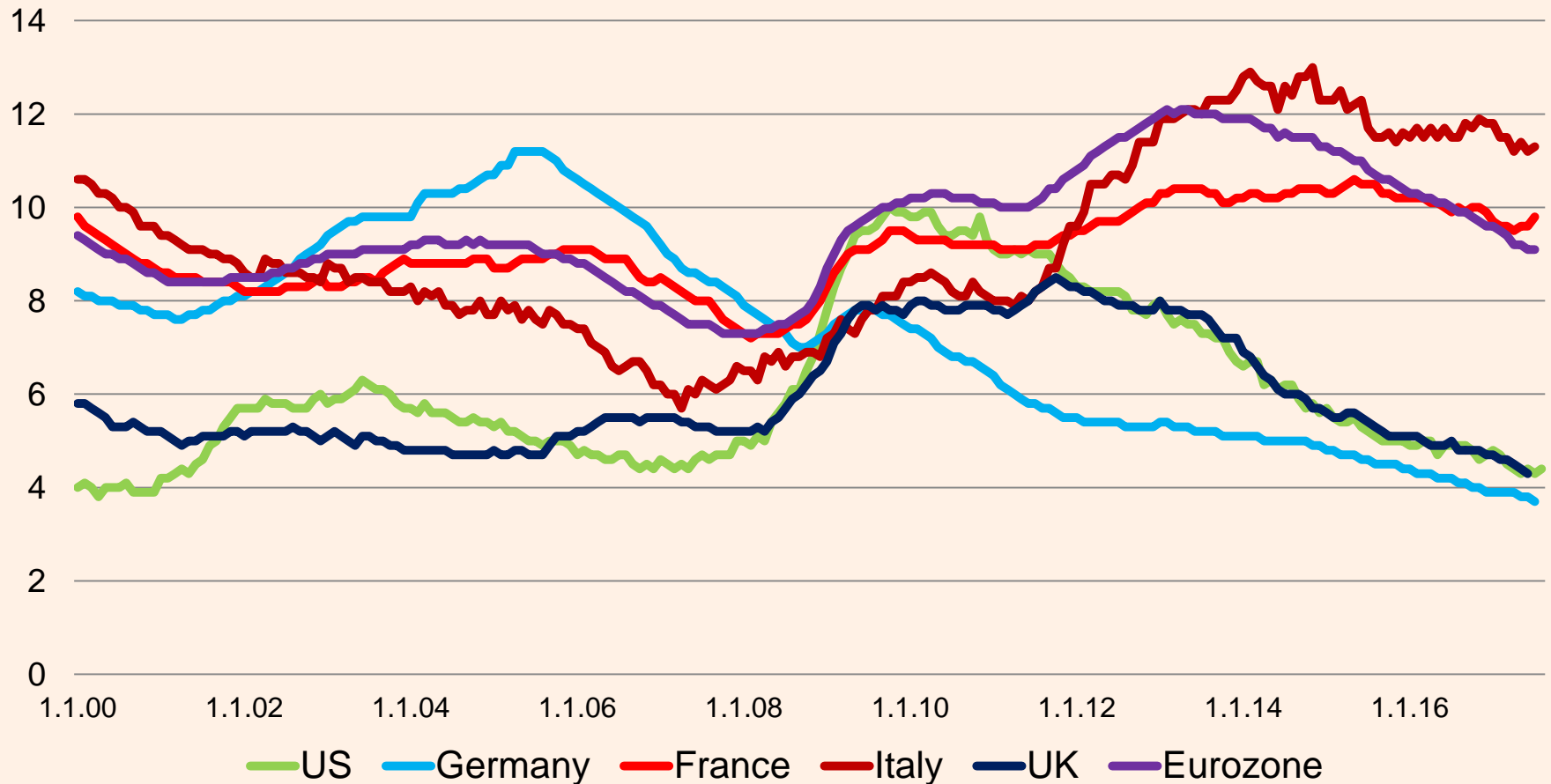
INCOME SHARES OF TOP 10 PER CENT
(Wealth & Income Database)



2.5. Erosion of trust: employment

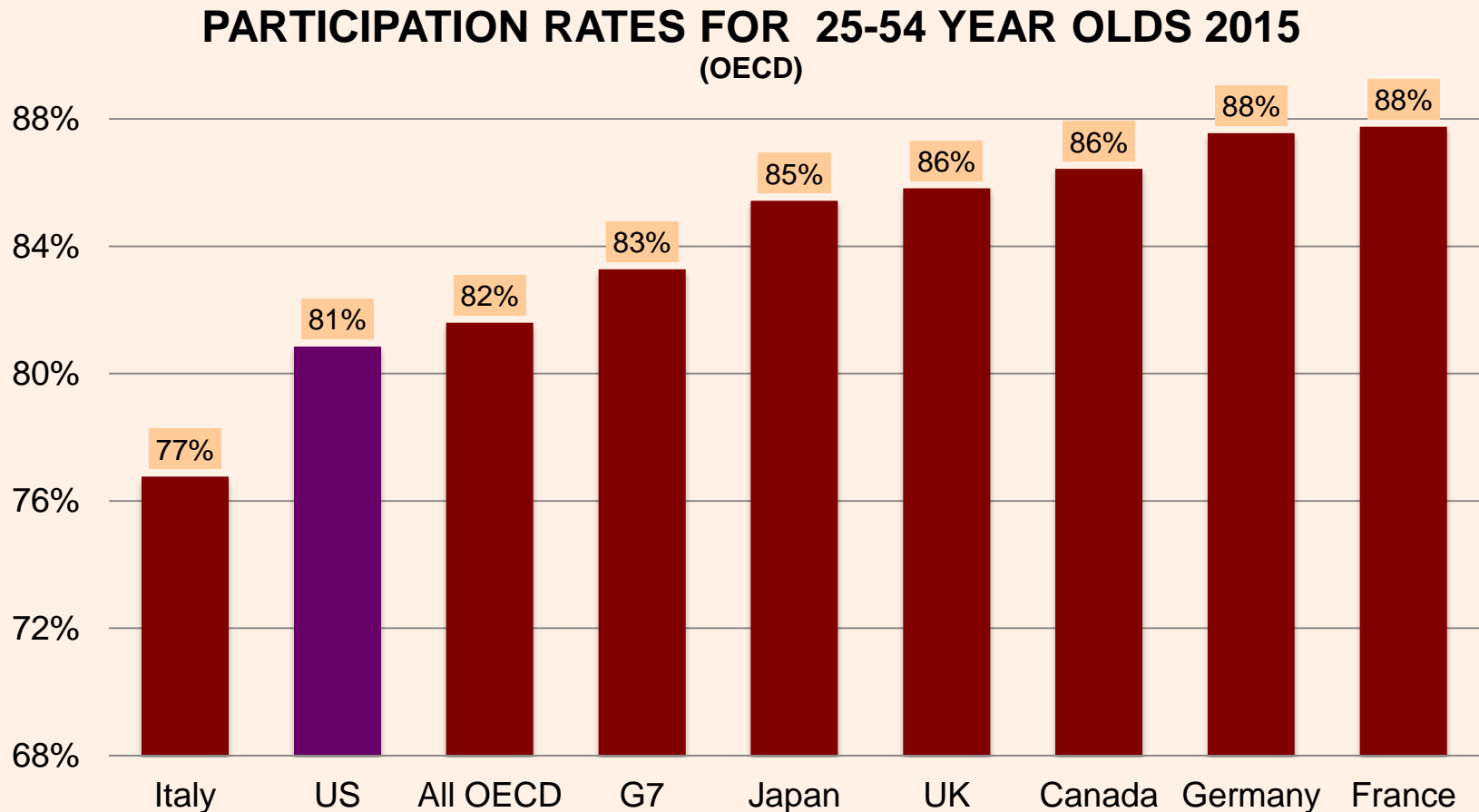
JOBLESSNESS

UNEMPLOYMENT RATES



2.5. Erosion of trust: employment

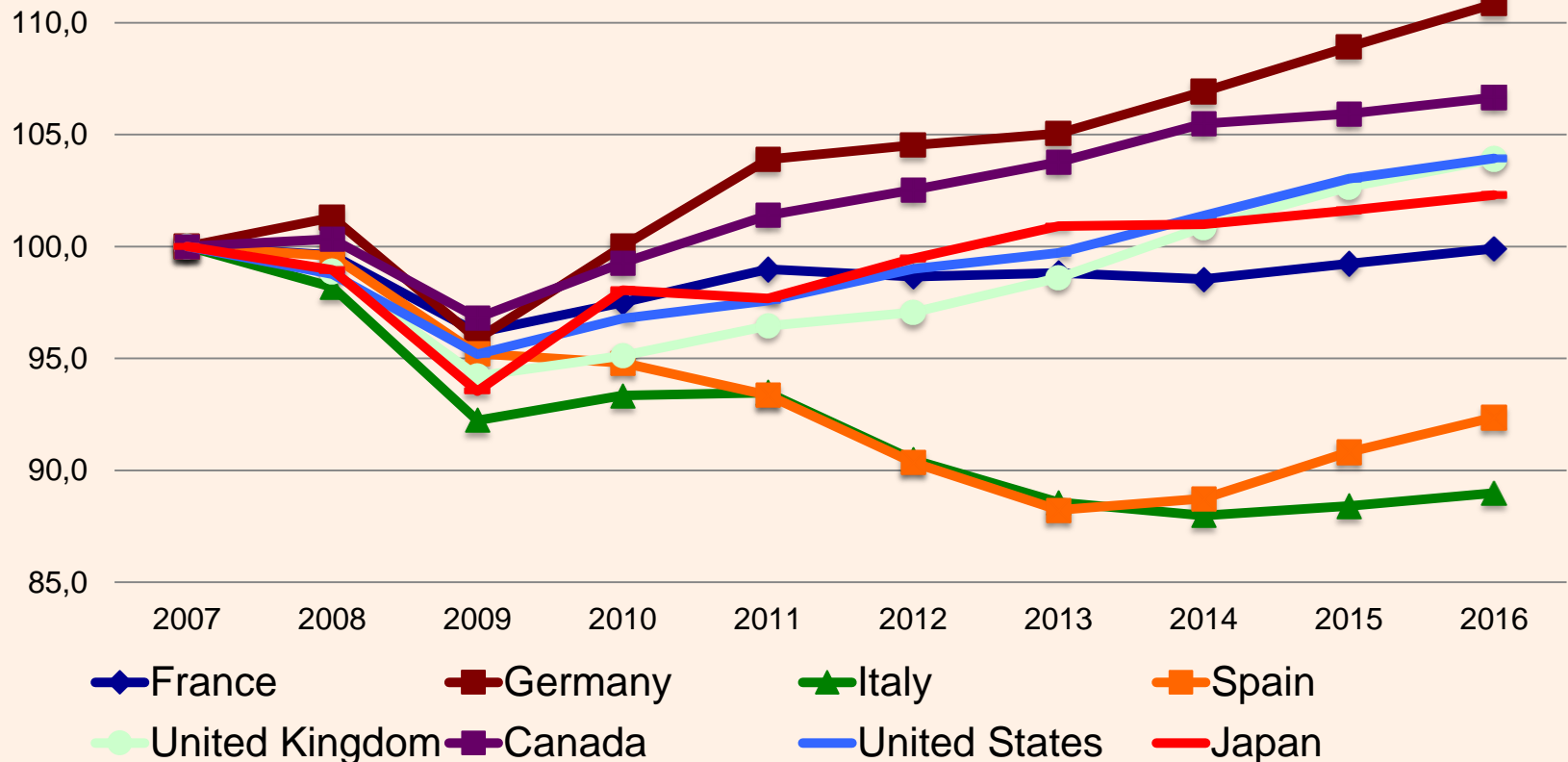
JOBLESSNESS



2.6. Erosion of trust: crisis

DIVERGENT REAL INCOMES

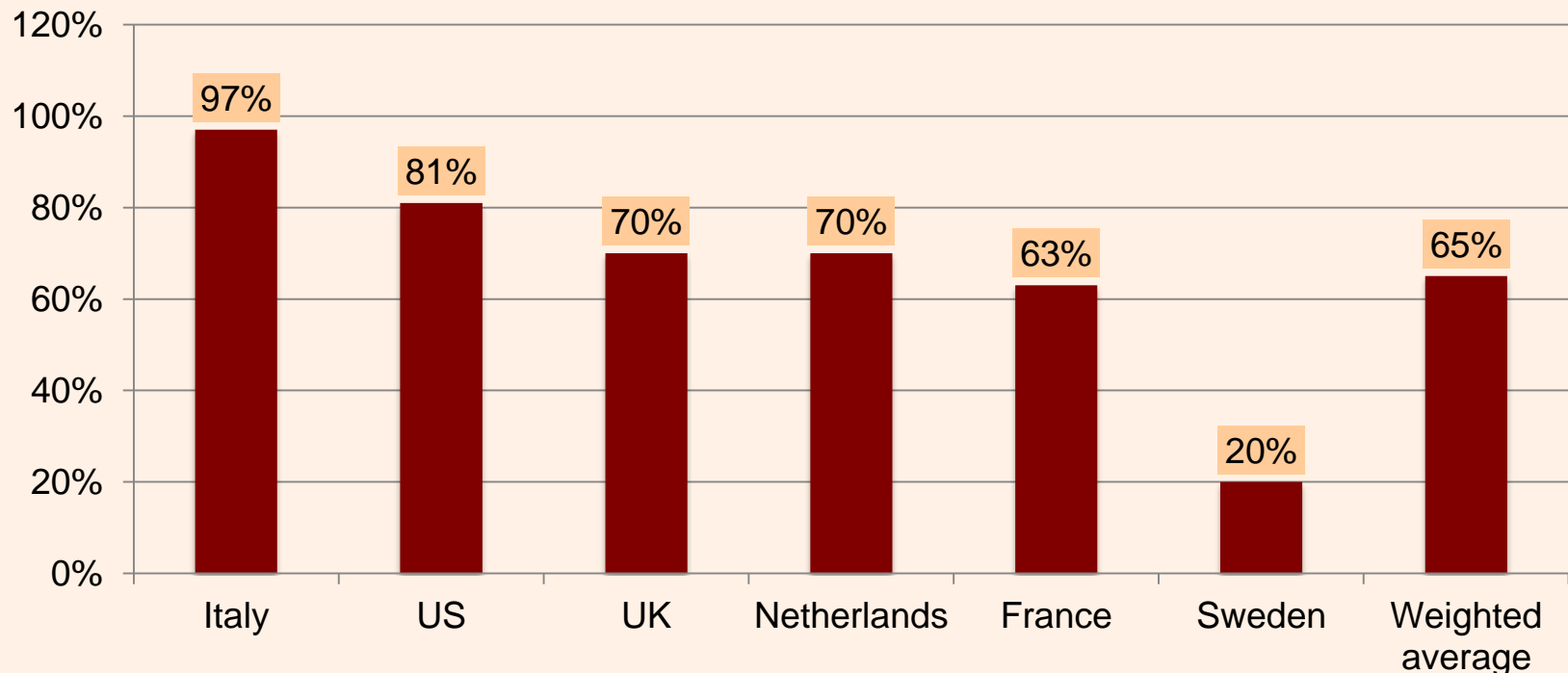
GDP PER HEAD AT PPP (TEDI database)



2.7. Erosion of trust: crisis

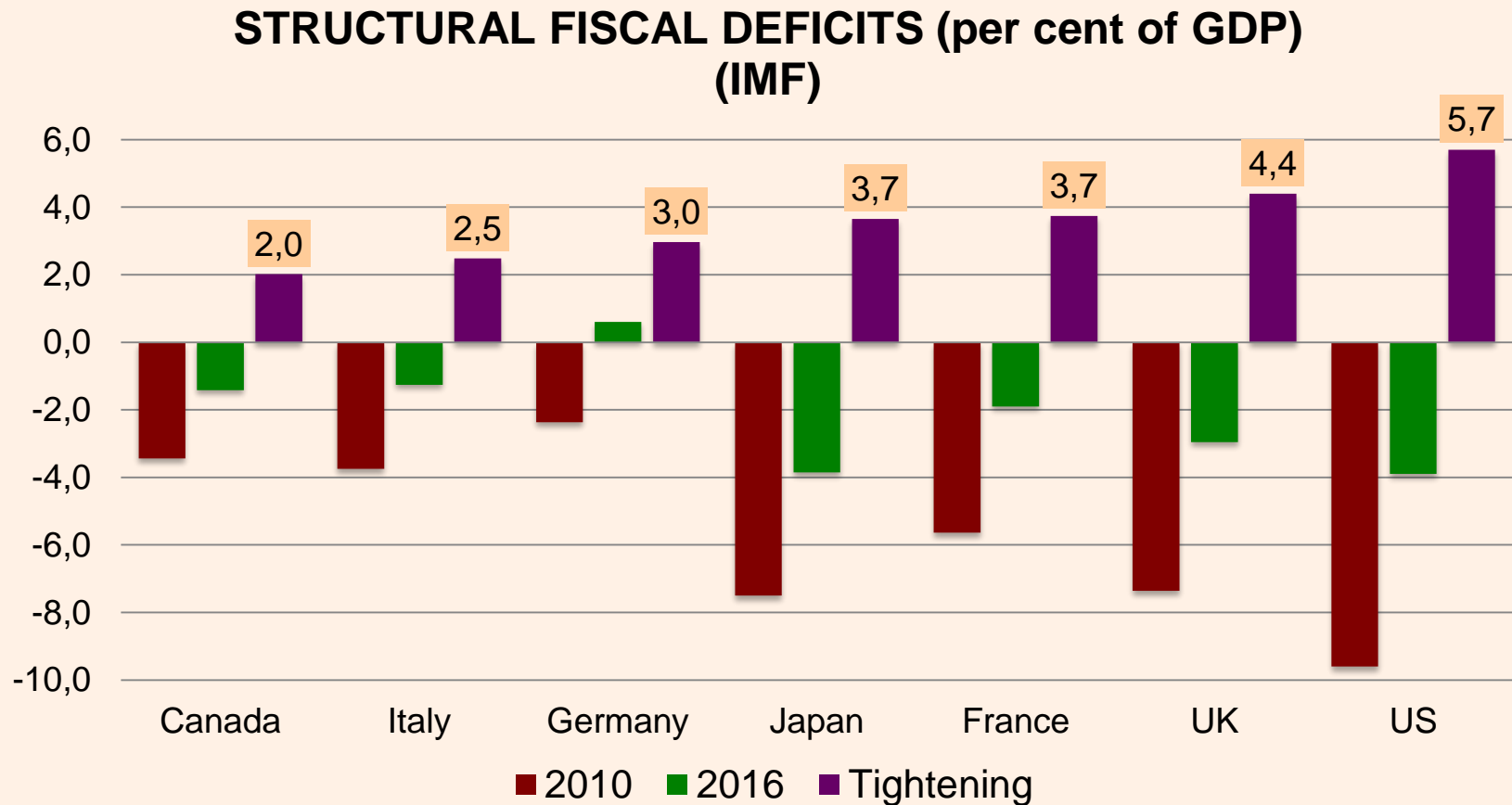
THE YEARS OF LIVING STAGNANTLY

PROPORTION OF HOUSEHOLDS WITH FLAT OR FALLING REAL INCOMES FROM WAGES AND CAPITAL 2005-14 (Source McKinsey)



2.8. Erosion of trust: austerity

AUSTERITY



2. Erosion of trust: conclusion

ADDING UP SOURCES OF DECLINING TRUST

	Exposed to globalisation (supply chains)	Rise of foreign born in population	High inequality	Rising inequality	Big financial crisis	Weak post-crisis recovery	High unemployment	Discouraged prime-age workers	Total
Italy	3	3	2		2	3	3	3	19
UK	2	3	3	2	3	2	1	2	18
US	1	2	3	3	3	2	1	3	18
Canada	3	3	2	2	1	1	1	2	15
France	3	2	1	1	2	2	3	1	15
Japan	2	1	2	3	1	2	1	2	14
Germany	3	2	1		2	1	1	1	11

3. Where we go now

- In sum, democratic capitalism is now subject to huge stresses and constraints
- How might this end?
 - Collapse of democracy into plutocracy or outright authoritarianism
 - Closure at the borders and national capitalism
 - Collapse of democracy *and* closure at borders
 - War
 - Co-operation:
 - Deeper co-operation on taxation, regulation and so a new democratic synthesis
 - Co-operation across all jurisdictions