Progressive politics for hard times

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Responding to Tony Judt's appeal to the lost values of social democracy, Michael Ignatieff makes a strong argument for solidarity amidst recession, at the same time developing a version of progressive politics that emphasizes equality of opportunity and individual empowerment over both corporate and state-sector self-privileging.

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This lecture is in honour of Tony Judt – historian, writer, teacher and friend – and so it should be about a subject he made his own: the future of progressive politics in Europe and North America. My questions are the ones he asked: how to re-invent an egalitarian politics for an age of increasing inequality, how to expand equal public goods in a time of austerity and how to re-affirm European unity in a moment of crisis and disillusion.

Let me begin with Europe. Instead of progress towards ever closer union, we can now envisage the possible break-up of the euro, the re-emergence of border controls and the bubbling up of a politics of resentment and recrimination that could end in conflict between classes, ethnic groups and even between nations. With strong leadership, Europe may yet avoid the worst; but not for the first time, a shadow of disillusion hangs over the European dream.

Let us remember how ambitious that dream was. Europeans thought their market would rival the Chinese and the American. They believed their continent offered the watching world a civilized alternative to American and Chinese civilizations. They hoped that continental integration would heal the divisions that had plunged the world into war. The euro crisis puts all of these ambitions at risk.

We can see now, in hindsight, that these dreams ran far ahead of reality. A common currency required a common fiscal and budgetary regime. Yet instead of locking in a common fiscal discipline, European governments tried to have monetary union without sacrificing sovereignty. Both weak and strong states exploited the euro to pass their problems onto their neighbours. Strong states evaded their commitment to keep their debt and deficit under control, while weaker ones went on borrowing sprees convinced that the Eurozone would bail them out and that rising asset prices would cover their
fiscal deficits.

Instead of transcending sovereignty, the European Union systematized the transfer of moral hazard from weaker to stronger sovereigns. But the bond markets are signalling that a limit has now been reached.

There is a solution – to confer veto powers over national budgets to European institutions in return for European guarantees on the sovereign debts of all states. But this requires both strong and weak to surrender economic sovereignty, and it requires European electorates to transfer power upward to technocrats. The economic problem can be solved but only at some cost to European democracy.

Right now, the markets are dictating terms. Sovereigns are paying increasing premiums for credit from the markets and businesses are having trouble getting credit at any price. If the credit crunch doesn’t ease up, Europe faces a long and gruelling recession.

Of course, there is a way out. Crises are opportunities for leadership. Governments need to sustain effective demand, gradually reduce deficits and attack the corporatist privileges and inefficient working practices as well as low investment that hold back growth in many southern European economies. All of this is feasible. The key challenge for a progressive politics is to ensure that these measures do not leave the continent more unequal and unfair as a result.

Inequality is the key issue. As long as European economies were growing, inequality remained both containable and invisible. Cheaper consumer goods – cell phones, computers and cameras – acted to mask the stubborn inequalities of education and opportunity that prevented millions of Europeans, the low-paid and the unskilled, new immigrants especially, from rising up the ladder. As soon as the economy stopped growing, inequality both returned to public view and made a coordinated response to the common crisis more difficult. Europeans discovered that while they were traversing the same rough water, they were not in the same boat.

When Silvio Berlusconi was asked how serious the economic crisis was in Italy, he replied what crisis? The restaurants in Milan were full. The egregious Italian had a point. The patrons filling the Milanese restaurants have not felt the pain. The rich have not only escaped the crisis, they have gained an increasing share of national wealth.

The cash rich are not the only ones who have been insulated from hard times. Unionized workers in the public sector are better protected than non-unionized workers in the private sector. Native-born are less likely to be let go than immigrants. Skilled fare better than unskilled, educated better than uneducated.

Germans are better off than Greeks, northern Europe is better off than southern.

Just as the recession creates winners and losers and fragments political consensus within Europe, it also is creating new winners and losers in the global economy at large. Just ask Brazilians. They have never had it so good. Just ask Canadians. Their unemployment remains below the American rate. In these and other countries, the full burden of hard times falls unequally on young people without post-secondary education, older workers in
declining manufacturing and resource sectors, and recent immigrants. The guilty secret about recessions is that hard times for the few actually mean cheap money and rising house prices for the many.

Yet even those who have held on to their jobs fear for the future – and in political terms, this produces a flight to security and retrenchment.

This recession is not just a slump but a global re-structuring, in which the developing nations are gaining national income and employment at the expense of the developed world. Resource and extractive industries in the developed world are dependent on Chinese demand. Manufacturing and service industries are dependent on the outsourcing opportunities and consumer markets in developing nations. Already, a new global division of labour is emerging and no one with a job in Europe or North America can afford to be certain what their place will be in the new order. In this ongoing economic transition, everyone is in a flight from risk to security; and no, we are not all in this together.

Because the crisis divides rather than unites, voters everywhere are deeply riven about whose solution offers them the best chance of security. In the United States, the Republicans defend austerity and deficit cutting to push the costs of recession onto the vulnerable, with tax cuts designed to render the new inequality permanent. This solution – class warfare if there ever was – appeals paradoxically to those who may pay the price for it: private sector workers who feel that their taxes are being wasted bailing out big banks and sustaining inefficient public sector jobs. The Democrats want to protect public services and the public sector through tax increases on the rich. This appeals to workers who either work for government or are dependent on public services. Each party’s approach to the crisis is not so much a solution as an attempt to entrench the privileges of the groups that support them politically.

Everywhere the crisis pits those who have some security – whether it be cash income or public service employment – against those who do not have secure pensions, jobs or future prospects based on education.

Progressive politics in an age of austerity comes down to this: persuading the majority who are holding on to what they have – whether they are nations, classes, regions – that their future depends on doing something about the large and growing minority, of weaker states, poorer regions and lower income groups who are falling behind. A progressive politics will have to show that if we are to get out of recession, we will have to stick together. This will not be easy.

Germany has got through the crisis better than its European neighbours. Now it feels punished for its success by being asked to bail out the weaker brethren on the southern periphery. The Germans may resent this, but they are ruefully discovering that the weaker brethren can bring them down. Weak states, in a currency union, can destroy the economic prospects of the strong.

In the European crisis, the strong states are discovering their interdependence on the weak, and the weak are accepting that they have to live within disciplines prescribed by the strong. Once each discovers their dependence on the other, long lasting European solutions become possible.
What defines a progressive politics, whether liberal or social democratic, is the economic insight that growth requires equity in order to be sustainable. What then are the strategies that combine equity and growth and get us all out of this crisis?

The most serious market failure since the Great Depression has not engendered a crisis of faith in markets, still less a return to big government. On the contrary, leftwing governments in Spain, Greece and Ireland have been driven from office, and the popular mood is in favour of cuts in social services.

Economic insecurity among the haves does not engender solidarity towards those who have not. It engenders a political flight from equity towards retrenchment.

The slogan of Occupy Wall Street – “We are the 99 per cent” – encourages the illusion that “we” are all in it together, “us” against a tiny “them.” But we are not all in this together. If we were, liberals and progressives would be winning the political arguments. But we are not. Conservatives are winning because they promise stability to those who are winning. They also indulge those who want to punish the losers.

That much used phrase “moral hazard” has become a powerful alibi for a politics of resentment.

In the United States a federal programme to reduce interest payments or write down a portion of these mortgages for those worst affected by the collapse of housing prices would get the housing market functioning again and stimulate consumption among distressed home owners. Such a measure would help Main Street and would be no more expensive than aid to Wall Street. Interestingly, however, it is just as unpopular as measures to help bankers. “Your mortgage is not my problem” was one of the signs visible at a recent Tea Party rally in the US.

A retributive politics that refuses assistance to the needy on the grounds of moral hazard will only prolong recession. Yet retributive politics is more popular than a politics of equality.

Unprecedented inequality of income continues to be widely accepted. Top earners argue that their incomes are returns on effort, salaried benefits that come from working long hours and taking large risks. Moreover, outsized incomes are held to be justifiable when they are the result of innovations that create benefits and jobs for society at large. Clawing back some of these gains, through progressive taxation, it is claimed, would harm the many while eliminating valuable incentives for the few.

These arguments by the privileged few are persuasive to the unprivileged many. They have aspirations to earn more, and it is easy for conservatives to persuade them that increased taxation of the few today will be followed by increased taxation on the many tomorrow. Disparities in income that are rewards for skill, innovation and effort do not seem morally problematic to most people. A progressive politics that attacks income inequality itself simply looks like a politics of envy to the very people it needs to convince.

A progressive politics ought to make clear that income inequality in itself is not the issue,
but rather inequality that inflicts harm to those less fortunate. A company president who takes home substantial personal compensation plus bonuses tied to performance while creating jobs and paying out dividends ought not to be a morally problematic figure for a progressive politics. The company president whose compensation package does not include any penalties for failure, and whose risk taking and profit-seeking exposes his employees to bankruptcy, while ruining investors and sending shock waves throughout the rest of the economy, is another matter entirely.

There is overwhelming public support for a government that protects ordinary citizens, their jobs and savings, from the predatory risk taking of the few. Government cannot and should not protect or compensate individuals and firms from market bets that go bad. But it should be there to protect populations at large from systemic risks to their jobs and pensions.

It is time for a progressive politics to think through how to regulate executive pay and reform corporate governance so that boards protect shareholders and employees against systemic risk. It is time to propose measures to force those who trade large volumes in the market to have “skin in the game” – personal liabilities that can be called in when their bets fail.

Unlimited liability regimes need to be obligatory for those who take large-scale risks in the market place. Once the link between risk and responsibility is re-soldered together, through unlimited liability in law, the many can be better protected against the reckless greed of the few.

Instead of fulminating against free markets, a progressive politics should be arguing that what a free society needs are markets that are actually free. Many of the worst excesses of the age of greed occurred in markets that were anything but free, anything but transparent: markets riven by fraud, corruption, insider trading and toxic products that diffused risk and made it systemic.

A progressive politics has almost forgotten its long-standing commitment to the role of government in promoting free competition. We need more not less competition in the market, and that means governments prepared to use their anti-trust, anti-monopoly functions going forward to dismantle institutions that have become “too big to fail” and whose failure may expose the whole economy to calamity.

Higher taxation of the rich has an important place in a progressive politics, but we need not tax the rich to punish them for their success or use them as a cash cow to fund social programmes. We tax the rich so that they pay a fair portion of the public goods that make possible their private wealth, and we tax those who can afford it in order to reduce taxation on those who can least afford it. A progressive taxation policy is one that should be revenue neutral, in other words one that increases burdens on those who can carry them and reduces it for those who are vulnerable.

A progressive politics that is in favour of freedom can also reduce taxes by reducing the proliferating tax expenditures – in the form of rebates, credits and reductions – in favour of simple across the board cuts. Radical simplification of the tax system reduces tax burdens for all and also directly attacks a deep source of resentment – that some people
get all the breaks.

Public discontent about inequality is not just focused on the top one per cent of private income earners. It is also focused on inequality between public and private sector workers, between those who receive their income through tax revenue and those who do not. A progressive response has to focus both on protecting essential public services and the workers who provide them, while also reducing the inequality between public sector and private sector pension, redundancy and holiday entitlements.

The welfare state creates inequalities of its own; if we don’t understand this we will end up with a progressive politics that thinks it is attacking inequality, when it is in fact defending privilege, the pensions of public sector workers, the tenure of publicly funded professors, the subsidies of artistic and creative sectors against private sector workers, small business owners, immigrants without social protection and other groups who do not benefit equally or in the same way from the welfare state.

For decades, European governments have been borrowing more than they could afford to sustain the welfare state. The vaunted European social model was funded on credit, and a progressive politics cannot rally support behind the defence of the welfare state unless it simultaneously embraces the need for reform. “Reform” means taking on substantial interests – public sector unions and powerful professions like doctors, teachers and nurses, who all perform vital public work that must continue but who must reform their practices, shed some of their privileges and become more efficient if the public goods they provide are to remain sustainable.

Progressives must think through the necessary fiscal regime that allows us to safeguard equality of opportunity for all, while maintaining fiscal balance and a level of taxation that doesn’t lead to a capital strike. In a global economy, welfare states must be tax-competitive: your own companies can always build plants somewhere else. If high corporate taxation forces them to move production offshore, you can kiss the welfare state goodbye.

In the face of the new global division of labour, the core task of government is to invest in people. In an era of declining demographics and rising skill levels for all well-paying jobs, a progressive growth strategy has to bet everything on sustained investment in education for all. Equality of opportunity is the key to future growth.

A progressive politics exists to empower and free individuals. It is not there to increase the power of the state.

Twenty-five years ago, in The Needs of Strangers, I argued that the welfare state did not express solidarity and compassion so much as confiscate and bureaucratize it. We administered solidarity in the welfare state. We did not live it or express it ourselves. We have to understand this now, since the welfare state needs more than a defence in an age of austerity; it needs reform: empowerment of compassion rather than its bureaucratization; decentralization of decision-making rather than centralization; market disciplines and competition to contain costs; a service ethos that treats people as citizens not as numbers.
A progressive does not want to end up defending the state. A progressive wants to end up promoting a common life and equal opportunity for all.

Let us end with this idea of a common life: the infrastructure of public goods – roads, schools, libraries, hospitals, colleges, universities, training institutes, public transport – that taxpayers accept to provide because they understand that private welfare depends critically on an equal structure of public goods. These goods express the value of the equal worth of citizens, their right to benefit in common from facilities that each pays for, according to their ability.

Let us understand how important public goods are in sustaining equal opportunity for all and how important equal opportunity is for growth. How are economies supposed to grow if societies entrench forms of inequality that convince millions of people – new immigrants, ethnic minorities and working class people – that the economic game is over for them before it starts?

Let us remember what Tony Judt understood about the welfare state of his childhood: the public goods, especially the buses and railways that allowed a restless young man of humble means to roam through southern England, and let us remember those free grammar schools, where he learned German and French, became a European, and got his chance to go to King’s College, Cambridge. His story of coming of age – in The Memory Chalet – is a testament to the crucial function of public goods in giving a young man a feeling, all the way down, that life was his to make of it what he wanted, and that success was a matter of hard work, seriousness and dedication – a matter of what you knew, not who you knew.

That was what was great about the liberal state, its enabling connection to individual ambition and achievement. That was what we need to re-invent and re-define for tomorrow. If we do, if we re-solder the connection between individual effort and public good, if we re-assert that the way out of slump and recession is to believe, once again, in equality of opportunity and the enabling functions of public goods, we will have a strategy of growth that allows us to pass through an age of austerity into a future full of hope.

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