

The Crisis of Democracy in the Industrialised World - fault lines in the post-truth society

The unpleasant turn of events in a number of leading industrialized economies over the recent past has aroused bewilderment and alarm. There has been much speculation as to causes, but in this article Robert Corfe pinpoints the hidden economic reasons for the present discontent. He is the author of the 3-volume work, Social Capitalism in Theory & Practice, which sets out to disentangle the difficulties arising from the financial-industrial system.

Much attention has been drawn to the new fault lines of democracy in the industrialized world, viz., the failure of the left/right divide as a medium in further advancing the cause of progress. Despite the many aspects that have been cast on the situation, there has been little (if any) focus on the underlying economic causes, and it is only through analysing the latter that any hope can be found for resolving urgent issues.

For several decades the collapse in the membership of long-established political parties, in addition to the collapse of voting figures at critical elections, has been evident to all. Our politicians have not been so obtuse as to misunderstand the superficial reasons for widespread apathy and cynicism with the political system. Outdated ideologies with their appeal to divisiveness based on questionable foundations have aroused mistrust and a feeling of nausea amongst thoughtful people. In the realisation of this our politicians have resorted to pragmatic politics (as they only could), i.e. a short-termist approach to immediate issues, in a vain attempt to save their credibility, but this has only resulted in compounding major problems.

More recently, worse has followed in its wake, with the emergence of the so-called post-truth society and the new "populism," when extremist parties and rancorously unpredictable individuals in advanced industrial economies have raised their ugly heads. Long-term political apathy and cynicism suddenly and unexpectedly turned into desperation, and old-established values and beliefs are repudiated in favour of uncertainty and a mish-mash of ideas threatening an anarchic situation. And the world is astonished by what it witnesses!

The irony of the situation is to be found in the fact that whilst our politicians must in theory stand by the ideological roots of their respective parties, since that is their only connecting (or democratic) link with electors, the transformation of society and the world of work over the past 60 years, has raced ahead of understanding their significance. Hence ideological beliefs have failed to move with the times, and our politicians are left trapped in a time warp of the past. And the fact that they are aware of this is little help to their awkward predicament.

For approximately 200 years the left/right representation of conflicting interests, usually expressed through class struggle, has efficiently served as a democratic mechanism in advancing socio-economic interests for progress and a better society. But the effectiveness of that system is now breaking down. And it is breaking down due to the record of its past success. That is, the struggle towards a fairer and more egalitarian society, through the medium of democracy and legislation affecting many spheres of life, has probably reached its maximum practicable extent in balancing the demands of equality with those of freedom.

This does not mean that the perfect society has been achieved – for in that context perfection is a practical impossibility – but it does mean that a confrontational politics based on class or status

has become a nonsense in furthering social progress. If 90% of the population may now be designated a heterogeneous middle majority, and 2 ½% belong to the super-rich, then 7 ½% may belong to the most disadvantaged. Such a pattern of percentage proportions does not present an easy divide for knockabout class-based politics unless imaginary differences are invented. And to argue that just because 8 multi-billionaires happen to have equivalent wealth to half the world's population (as recently alleged) is a valid argument for maintaining the illusion of class war is lunacy – shocking as the revelation may be.

This is not to suggest that society is free of problems – quite the contrary – but the criteria of identifying differences in society need to be changed if democracy is to be meaningful in the future. For example, those at the base of society are no longer a proletariat as traditionally understood. The disadvantaged today comprise unfortunates from every level of the community who have fallen on hard times for a variety of reasons: e.g., self-imposed impecuniosity or bankruptcy; physical or mental disability; alcoholism or drug abuse; the consequences of criminality or insanity, etc., and such unfortunates naturally call on the benevolent assistance of the state.

At the present time there are other and far greater problems affecting majorities in the advanced industrial economies, but their troubles are not represented for resolution by politicians of any parliamentary groups. Such problems are either swept under the carpet or simply ignored. They may most aptly be described as issues beyond the radar screen of party thinking. They may be cited as the hyper-inflation of property and land values, the difficulty of the younger generations in obtaining a home of their own; or the millstone of student debt; or the swindle of personal pension plans based on false estimates; or the oppression of personal debt in meeting necessities – something quite different from public debt. None of these issues have a party political dimension, and yet they affect those across the entire social spectrum apart from the 2 ½% at the apex of society.

If the left/right democratic struggle has succeeded in resolving our political problems over so long a period until the present, then clearly something else must have been occurring in the background that has escaped our notice. And indeed it has. The existence of public debt, especially since the end of World War II, has disguised or hidden many of our economic woes. The financial-industrial system has significantly increased its influence since that period to such an extent that it has virtually now absorbed the political establishment.

In an earlier age the political right supposedly represented the interests of capital against the left that represented those of labour. As long as the political left concentrated on the issues of capitalism, the outcome of such a struggle might be deemed to be constructive, but with the election of the Labour Party in 1945, the parliamentary movement eschewed concern with the technicalities of present day capitalism in committing its energy to either social reform, e.g., the NHS, or its own interpretation of Nationalisation. At a later date, after old-style socialists had retired or fallen by the wayside, the discussion of capitalism within the Labour Party became a taboo topic, or else, the old Marxist beliefs were secretly preserved in aspic.

Meanwhile, the leading historian of Britain's economy in the 20th century noted that in 1945, "the City took over again: this time it had a different composition, in which an immensely powerful Treasury, the Economics establishment and much else joined the financiers, now a much stronger element in society. The world was treated to the spectacle of a once powerful industrial economy being hit on the head again and again in pursuit of policies dictated by the tiny segment in the City, and in the process dropping from being the leading economic power in Europe at the end of the War to one of the weakest, and from one of the richest countries to one of the poorest." (Prof. Sidney Pollard, *The Neglect of Industry: A Critique of British Economic Policy Since 1870*, published by Erasmus Univ, Rotterdam, pp.15-16.)

Hence the unelectable financial establishment quietly took over the political system via the administrative Civil Service, and thanks to a Labour Party that was purblind to the machinations of contemporary capitalism. The Labour Party was therefore failing in its task in representing the interests of labour, but it would have failed in its task even if it had *willed* otherwise, for it would most probably have given a 19th century or Marxist twist to capitalism rather than an up-to-date appreciation of how it had actually changed in the intervening period.

Socialism's greatest blind spot – I have elsewhere described it as the missing "gene" of socialism – from its inception until the present day, has not merely been its inability to differentiate between capitalism's benign and malign characteristics, but to condemn it as malign in *all* respects, and this of course ruled out any possibility for intelligently balanced discussion. The situation was not in any way helped with the advent of Blairism, for that merely entailed the passive acceptance of capitalism on a value-free basis, and as something that was operated by "others."

Recent history has produced two great events that should have stimulated profound analysis and the formulation of politically creative ideas. The first of these events was the collapse of the East bloc in 1989, and with it the realisation of the bankruptcy of socialism worldwide as a hope for the future. The only intellectual response it produced was Francis Fukuyama's *The End of History* – a hopelessly false prediction that was later retracted by its author. The second of these events was the banking debt crisis in 2008, and with it the bankruptcy of Rentier or Global capitalism, or the failure of Neo-liberal policies in guiding the future economy of our planet. Despite the immensity of the disaster, and that the cost fell on the shoulders of the taxpayer rather than on those responsible, it produced no intellectual response whatsoever.

Just as those on the left might be horrified at the idea of socialism being consigned to oblivion; then those on the right would be equally horrified at the idea of the demise of Rentier capitalism or Neo-liberalism. Both would have argued with equal passion that there was no alternative to their respective visions of the world. The stubborn fixity of their imagination and the polarisation of their views, is sufficient to indicate that something is very awry, and that both systems should be dismissed as not fit for purpose.

There is, of course, an alternative to the two ideological behemoths described above. It entails a particular type of capitalism demonstrated as proven highly successful, and whilst some on the far right might scornfully denounce it as "not proper capitalism," such a rash stance would surprise business leaders in such places as Japan, Germany, or Scandinavia. Those on the left may meanwhile listen in entranced curiosity.

Due to differing historical circumstances, two types of capitalism have emerged and made their significant mark on leading world economies. The earlier type was Rentier capitalism, somewhat erroneously designated "Neo-American" by the French economist, Michel Albert. It arose primarily through an emphasis on international trading requirements, paying higher interest rates to investors as a cushion against the heavy risks of piracy and shipwreck, or at a later period, the risks undertaken for costly infrastructural projects in unstable territories. The later type of economy was Productive capitalism designated Rhine mode of capitalism by Michel Albert, to also include the Far East Tigers. It arose in later developing economies intent on overcoming the competition of already strongly established capitalist states.

Whilst Rentier economies centred their activities around equity investments in a stock exchange; Productive economies established industrial investment credit banks that were deeply involved in understanding the viability of manufacturing concerns, and operated predominantly through deficit financing. It should be noted in parenthesis that Britain's industrial revolution was not initially funded by the City but by some 300 provincial banks, or else by family capital in the 18th and 19th centuries.

By the time the later countries seriously embarked on industrial development in the second half of the 19th century onwards, technology had become too complex and expensive for family capital to bear the cost of start-ups, and so specialised banks were founded, often with state support, in conjunction with technical and business colleges. Hence Rentier and Productive capitalism developed contrasting cultures: the first free-wheeling and entrepreneurial; the second intensive and professional. Whilst the first allowed greater play to the imagination; the second was more rule-based.

By the second half of the 20th century, it was clear that both forms of capitalism had formed their distinctive business rationales. Whilst the rationale of Rentier business was the maximisation of investors' profits; the rationale of Productive business was the maximisation of market share. Rentier capitalism was driven to charging higher interest rates on loans and tended towards shorter or medium term lending; whilst the deficit financing of Productive capitalism entailed the specific concern of banks for the commercial success of their clients, and so the longer term and more generous rates tended to prevail.

The macro-economic outcome of both systems is interesting: whilst Rentier capitalism polarised wealth through the ever-larger growth of groups and corporations via buyouts, and an ever-wider earnings gap, and a decline in individual ownership; Productive capitalism contributed to a more equal distribution of wealth as well as a greater distribution of products. Most significantly, the Productive economies have everywhere produced infinitely better industrial relations – a clear reflection of fairness and wise management.

It should be noted that the two types of capitalism both vary in a variety of ways in different cultures or nation states. For example, Productive economies all employ stock exchanges that differ from one country to another, although all may be sharply contrasted with that of London. The latter is far more international in encouraging inward investment, whilst the bourses in Continental Europe tend to be predominantly involved with their own home-based manufacturing. Both capitalist systems are necessarily dependent on profits through charging interest, and when we use the term usury, it is meant in the modern sense, i.e., the charging of *excessive* interest, and when that point is reached a benign financial instrument becomes a self-destructive mechanism – i.e. destructive to the purpose of productivity.

In the decades following World War II the Productive capitalist economies clearly demonstrated their superiority over the Rentier systems of Britain or the US. This superiority was reflected in both greater industrial efficiency and the outcome of fairer and more egalitarian societies. If this was the case, then why have not political influences, in conjunction with public opinion, ensured that Productive prevailed over Rentier capitalism? The answer to this question is to be found in two sets of events. Firstly, America as the world's most powerful economy was determined to impose her mode of capitalism across the planet. From the 1980s onwards this was pursued aggressively in Britain and similar economies with the introduction of new services and financial practices.

From the start of the 1990s, and using Britain as a springboard, Rentier capitalism embarked on its aggressive penetration of the Continental countries with their long-established and highly successful Productive economies. It was in the face of this threat that the eminent French economist, Michel Albert, published his book, *Capitalisme contre Capitalisme* in Paris in 1991 as a warning to the European peoples to be on the defensive. The book was either published too late to achieve its intended purpose, or more probably, it confronted a threat that could never be overcome.

Since that time American corporations and financial systems have succeeded in dominating and changing the business landscape over much of Europe as well as the rest of the world. However, there still remains a wide gap between Continental and British business practices. In the

former, for instance, protectionism and success in the production of tangibles is far more evident, and this helps explain the difficult relationship that has existed between Britain and her EU partners.

The second set of events in explaining the pre-eminence of the Rentier model over much of the world today springs from the consequences of the dramatic changes in the pattern of international trade. Low-labour costs in the Far East, and especially with the rise of China, have proven a traumatic experience for business in the Western hemisphere. The problem of producing tangibles has become more than a mere threat. Business people have needed to entirely re-think their strategy if their enterprises were to survive into the future. They were therefore forced to think *money* rather than *products*, and the Rentier model offered them a course for hope. The need for down-sizing and overseas manufacturing became inescapable options. But more was required.

Financial capital needed to be maximised for its quickest return and this is often best achieved through investment in the passive assets of land and property. The hyper-inflation of property values is no longer exclusive to Britain, but is now found throughout the Continent and Scandinavia as an economic disease. It is referred to as a disease since inflation follows in its wake, and as difficulties multiply, usury exacerbates like a destructive drug in further undermining the commercial viability in producing tangibles. The service industries naturally remain, but as real or long-term social wealth creation is found in agriculture and raw materials, and more so in the more difficult spheres of manufacturing, the sword of Damocles is held over the living standards of many peoples in the advanced economies. And that is the situation at the present day.

In returning to the world of parliamentary politics and national democracy, it therefore becomes clear that the real crisis of our time is the need to politicize issues that are off the radar screen of political debate. The left/right conflict, with its class prejudices and outdated values, is just wasted energy and tilting at windmills. As long as our politicians are tied to the old ideologies, events will advance regardless along their inevitable path, and an unexpected catastrophe may be their eventual consequence.

It is necessary to politicise the problems of our financial-industrial system and to put at the forefront the need to promote Productive capitalism as the Social Wealth Creating principle for the future. Hitherto Rentier and Productive capitalism have developed spontaneously in their different nation states, and cultural and historical influences have demonstrated their strengths and weaknesses for all to witness. Hence we are not talking here of abstract ideas or falsely interpreted mathematical models, as may have been produced by thinkers in centuries past, but of empirical examples that have stood the test of time.

In promoting the idea of the Productive economy and free markets, in the light of future development, the state would have a role to play, but it would be chiefly confined to adjusting cyclical movements and legislation enabling employee share-ownership and co-determination for the benefit of all. As the cultural and economic integrity of all peoples should be respected, national democracy should have priority over attempts at external interference. Meanwhile, in safeguarding peace, selective protectionism should be permitted through international treaties.

The first practical step towards establishing a Productive type economy would be the need to found industrial investment credit banks on the German model, offering attractive terms to manufacturing as well as service industries. Such banks have never existed in the UK – 3i and venture capitalist enterprises coming nowhere near the advantages offered by the industrial credit banks. In addition, stock exchanges devoted to funding manufacturing could be established in Birmingham, Edinburgh, Cardiff, and Belfast. In view of the currently low exchange rate of the pound, now is the ideal time for such initiatives.

The desirability and practicality of the above proposals should be taken in view of the considerable changes that have taken place in society as it has evolved over the past 60 years. That

is, we now have a society with the aptitude, sense of responsibility, and technical expertise in meeting the new challenges. The emergence of a heterogeneous middle majority, as described at the start of this article, is of immense significance for the future of the world of work. Comprised as it is of those who have fallen from the apex of society, and those who have risen from the lower levels, the values, attitudes, and even abilities of the middle majority, differ from those former categories, the so-called Working and Middle classes of an earlier age.

Despite the present heterogeneity of the middle majority, economic, occupational, and educational circumstances will eventually endow it with a distinctive classless class consciousness – if the latter terms do not appear contradictory. It will be intensely individualistic out of necessity rather than choice in meeting the demands of a more occupationally differentiated society, so that rather than following in the footsteps of forebears, sons and daughters will be obliged to follow careers according to ability and inclination.

Whilst some of the older professions may still have an ambience of class, most of the newer and highly trained occupations, such as IT and civil engineering are completely free of class associations. Whilst collectivism in the workplace may be retained in education and healthcare, it has already disappeared in most manufacturing due to smaller workforces, robotisation, and much higher skills required of shop floor employees. Old-style working class resentment will disappear and when there is discontent it will be expressed in quite another manner. The characteristics of the former middle class are also being fast eroded: for example, assumptions of superiority and privilege as more egalitarian attitudes take their place.

Most significantly, the modern workplace in the Productive economy offers fewer vertical divisions, so that the skilled operative is closer in terms of technical abilities and earnings to those leading the organisation than had existed previously. The feeling of responsibility and commitment in the workplace would be furthered by employee share ownership and co-determination, and all this would promote better industrial relations. This may be demonstrated, for example, by the contrast of industrial relations in the productive sector between the 1970s and the present.

The crisis of democracy in the industrialized world and an analysis of the fault lines of contemporary politics, therefore raise complex issues that cannot possibly be satisfactorily addressed through the ordinary knockabout conversation of party divisions.

Political discussion has been far too narrow for far too long, and it is regrettable that political activists across the spectrum in the past simply did not have an interest, or were not prepared to extend their consideration to financial issues which today evidently lie at the heart of the crisis. Until such time as the differing modes of capitalism become a regular talking point of politics there can be little hope for the future.

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