



# Cut to the chase: 15 political truths for the centre-left

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The world has just experienced the biggest financial crisis since the Great Depression. Over 80 million jobs were lost worldwide. The United Nations estimates that as many as 145 million more people are living in poverty. Scores of countries have emerged from the crisis with weakened financial systems and huge public debts. These nations may be condemned to slow growth and insufficient job creation for years to come.

Market fundamentalism, weak regulation and misplaced incentives for excessive risk-taking helped cause the crisis. Yet in the aftermath of the meltdown, reforms have been few and far between. Local financial systems remain prone to speculative bubbles and the world economy remains vastly unbalanced between surplus countries that earn far more than they consume and deficit countries that consume far more than they earn.

A crisis of global capitalism might have been an opportunity for the centre-left. Yet social democratic parties have taken more blame for the occurrence of this crisis than credit for their efforts to control it and prevent the next crisis from happening. Electorates in many countries have been swinging to the far right as an illiberal, inward-looking mood becomes a by-product of the crisis.

This all poses a tremendous challenge for the centre-left. The challenge, first of all, is to extract the right lessons from the crisis, and then to translate these lessons into a progressive political action plan. Here are 15 ideas to help leaders in that effort.

## ***1. The world has changed – don't deny it.***

The days when the phrase “the world economy” meant the United States and Western Europe are long gone. Today China is the second largest economy in the world; Brazil has a bigger gross domestic product than Italy; industry accounts for a larger share of output in the Republic of Korea than in France; more Volkswagen cars are made each year in emerging markets around the world than in Germany.

The International Monetary Fund forecasts that in 2011 the so-called emerging nations will grow 6.5 per cent, while developed countries will grow only 2.4 per cent. Expansion in the emerging nations has proven crucial to recovery from the crisis. Prosperity in rich nations is now inextricably linked to the fate of the not-so-rich nations. The sooner voters in your country understand this, the better.

## ***2. Sometimes competition with emerging nations will hurt – don't deny that either.***

There are things that poorer nations can make more cheaply. This is not because of unfair policies in those nations; it is simply because labour is so much more abundant relative to capital. So some jobs will move south – and people working in those jobs will make things that will be sold in your supermarkets and that your citizens will buy for low prices, thus expanding the purchasing power of your citizens' wages.

Some investments will also move south as capital seeks new, more profitable investment opportunities. This will be hard for some of your citizens to accept, but it should not be impossible for you to explain. Investment and growth in the South will create the necessary demand for your country's exports. It can be a win-win proposition for all nations, though not for all sectors within each nation. When sectors are hurt, they deserve your active help, not your indifference.

The way forward is not to tether capital and declining-sector jobs to the ground. Rather, it is to invest and create jobs in emerging sectors, precisely those where developing nations cannot make things more cheaply, mostly because they cannot make them at all. Green energy, biotechnology, the cutting edge parts of the digital industry – these are some of the areas where growth in the rich countries can take place.

## ***3. Want to help the world's poor? Buy their products.***

Aid is very necessary to keep the lowest-income countries afloat. But what most of the world's countries want is not so much your money as access to your markets. You can make a contribution to world equality by opening up your borders to developing nations' exports. When they tell you they want trade and not aid, believe them.

The Doha round of trade negotiations – also known as the development round – has now been going for nearly a decade. It could well die of old age and exhaustion. If the round fails, it will be the first time in the 70 years of the multilateral trading system that the world's trading powers have been unable to come to an agreement.

Pascal Lamy said recently that the time has come “[t]o reflect on the consequences of failure... In politics, as in life, there is always a moment when intentions and reality face the test of truth. We are nearly there today.” Lamy is right.

## ***4. The time to rebalance the world economy is now.***

Imbalances in the world economy helped cause the recent crisis. To prevent another crisis, we must tackle the chief causes of those persistent imbalances: China's undervalued currency, weak demand in other surplus countries (Germany and Japan among them), and excessive fiscal gaps in the deficit countries (including the United States and the United Kingdom).

Persistent overvaluation is bad for the world and bad for China. It is bad globally because the recovery needs demand, and that additional demand cannot all come from the indebted nations of North America and Europe. And it is bad for the Chinese citizens on whom adjustment will be forced by inflation, as is beginning to happen already.

The world needs a new adjustment mechanism – and it needs it now. It needs a deal in which the surplus countries in Asia, Europe and the Middle East make a bigger demand effort to pull the

world economy forward, while the deficit countries gradually correct their fiscal imbalances.

#### ***5. International capital mobility is good – in small doses.***

One of the consequences of global imbalances is that surplus countries accumulate tremendous stocks of assets, which have to be invested somewhere. Before the crisis much of this money was invested in real estate in Miami, Dublin or Spain's Costa Azul, and the consequences were disastrous. Now much of this money is trying to get into emerging markets – inflating the value of their currencies, equities and housing.

The world does not need another bubble, and policymakers in most emerging markets know it. That is why they will fight tooth and nail to discourage excessive or destabilising capital inflows. To do so they may use capital controls or prudential measures. In this effort they should receive the support of social democrats everywhere.

#### ***6. Welcome the huddled masses to your shores – they will help you prosper.***

The tired and the poor yearning to be free will continue to arrive at your borders. Let them in. It is the right thing to do. It is also the self-interested thing to do.

It is the right thing to do because these people will have opportunities in your country that they would never have had at home. Having people move from capital-poor to capital-rich countries improves the world distribution of income, and that should elicit three cheers from any progressive. Let conservatives be lobbyists for the international mobility of capital. True progressives should advocate the free mobility of labour. Legal migration is far preferable to the black market in human beings that today operates in too many places, causing too much suffering.

It is the self-interested thing to do because migrants will give rich and ageing societies a dynamism they might not otherwise have. If you are European, be grateful. Inward migration is the one thing standing between your country and a massive pension crisis in just a few decades.

#### ***7. Fix your fiscal accounts – the progressive way.***

There is nothing progressive about large fiscal deficits and high public debts: when public finances blow up and need to be fixed in an emergency, it is the poor and the vulnerable who end up footing the bill.

It is much better to strengthen fiscal accounts before a crisis – and to do it the progressive way. The first thing is to get the timing right. A weak recovery is not the time to tighten fiscal policy sharply. But if markets see no indication of tightening, they may abort the recovery themselves. The way out of this conundrum is to commit to adjustment, backload it, and make credible any promises of additional future tightening. This may require setting up fiscal rules and independent fiscal councils. Such rules have worked well in social democratic countries: Sweden is an example from the North and Chile is an example from the South.

If forced to choose between tax cuts and investment in education, innovation and infrastructure, progressives should not hesitate. Economies that do not invest do not grow. And without growth no fiscal tightening, however large, will fix fiscal accounts.

#### ***8. If you are European, stop pretending you can have monetary union without fiscal union.***

The single currency has brought Europe many advantages, including increasing integration, trade and prosperity. But it has created some problems. Monetary union created the fiction that investing in all countries in Europe carries the same risk. It does not. As a result, too much money flowed to too many countries that were ill-prepared to receive it. In some of those countries, the money perpetuated unsustainable fiscal policies. In others, it fuelled property and credit bubbles. Europe and the world are now suffering the consequences.

It was always understood that monetary union required prudent fiscal policies in all member states. The instrument for guaranteeing the prudence of those policies was the Maastricht Treaty. That instrument has failed spectacularly. It is time for a new approach.

A common European bond is the necessary first step – without it, today’s fiscal crisis will not go away. But a new, single bond requires new, single-minded discipline. This will mean less national autonomy on fiscal matters – there is no point in denying that. But it is the price to be paid for monetary union.

***9. If you are Latin American, stop pretending commodity wealth will last forever.***

For decades Latin Americans thought that natural resources were a curse. Libraries were filled with treatises arguing that the region’s dependency on a few primary products condemned Latin America to poverty and underdevelopment. Today, after a decade of booming commodity prices, many of those volumes look as if they may end up in the dustbin of history.

Natural resource abundance can be a powerful force for growth and prosperity. Nations such as Canada, Australia, New Zealand and Norway have proven the point time and again. But there is nothing natural about natural resource-driven prosperity. It requires sound thinking and prudent policies.

Politicians of all stripes will want you to spend the commodity windfalls up front. Resist their pressure. If you give in you risk not only wasting the money but also overheating the economy – witness the situation in many Latin American economies today.

And never forget that commodity prices can fall and exhaustible resources can run out. Begin preparing for that day today. Save a portion of the windfall. And invest the rest in an industrial policy 2.0, promoting sectors that have strong linkages with your natural resources. Critics will say you are picking winners. Never mind. Nature (or God, if you are a believer) already picked the winners for you.

***10. Make competition policy stricter to keep firms from misbehaving.***

Private businesses innovate and create prosperity not because they are generous and kind. They do so because they can feel competitors breathing down their necks, threatening to take their customers away. Innovation requires competition, but there is far too little competition in many modern markets.

Making markets work for ordinary people and not for a privileged few requires a competition policy with teeth – with fines large enough to serve as a deterrent and with prison terms for the worst offenders. Modern progressives can be pro-market without being pro-business.

***11. Reform executive pay – the clever way.***

Sky-high executive salaries can give rise to popular indignation and lower social morale. That is why compensation is an easy political target – perhaps too easy.

The problem is not limited to the large sums involved. After all, no one complains when football heroes or movie stars make very big money. The indignation comes from comparing how much financial executives were paid and how much trouble they caused. Put differently, the problem arises because bankers' pay created incentives for them to take on too much risk – and that risk ended up being borne by ordinary taxpayers.

So reform should focus not on the amounts themselves but on the bad incentives they can imply. Bonuses at the very least should carry claw-back clauses: if a supposedly brilliant investment later turns sour, then the financier is revealed to have added no value. Any special rewards he or she received should be returned.

### ***12. Reform the state – neither the right nor the old left will do it.***

For progressives, democratic politics is the way to build a better society and the state is a key instrument in this task. But states are not in top shape. Over-staffing, inefficiency and rigidity affect states everywhere. All too often, public services are not what citizens deserve. But the solution is not the comprehensive cut-to-the-bone that the right advocates. To reform the state, you first have to believe in the state. We need a stronger state but also a more agile state. It is not size, but motion, that matters.

The problem is that reforming the state is politically difficult. Incumbents who have done things one way for decades refuse to do things differently now. Public sector unions are sceptical of reform, if not decidedly hostile. As a result, politicians of the right and the old left alike tend to change little, to do it slowly, and to focus more on cosmetics than on substance.

Progressives can do better than that. There is nothing more progressive than providing quality public services. There is nothing more forward-looking than to reinvent government. When you do it you will be criticised by conservatives and by the old left. Never mind. It is a sign you are moving in the right direction.

### ***13. Get to know your voters – if you don't, someone else will.***

Beginning in the 19th century, the left represented the underprivileged in their struggle against the privileged. The men and women of the left were those who suffered poverty and oppression in the flesh.

Things are dramatically different in the 21st century. In the rich world, the material needs that motivated class-based voting have mutated. In the emerging world, material and post-material concerns overlap in ever-changing and surprising ways.

Ethical voting is on the rise everywhere. New causes – the environment, gender equality, transparency and accountability in government – are now near the core of the centre-left agenda. Today progressives must lead by example. The *raison d'état* is being supplanted by citizens' common sense.

Get to know your voters. Understand that for them, good policies are not enough if they are not transparently applied. Increasing social spending is not enough if the politicians doing the spending and getting the credit are always the same ones – and are invariably men. Making the economy

grow is not enough if it is at the expense of the environment. Today's voters want good government from politicians whom they pay to govern well. If you do not get this, your voters will go shopping elsewhere.

#### ***14. Populism has changed – now it's even more populist.***

Populism is an old adversary of progressive politics. But the adversary is changing. When populists were a caricature of themselves, issuing crazy promises in flowery language from the proverbial balcony, it was easier to face them down. Today's populists are more subtle and sophisticated – and therefore more dangerous.

The old populism has been replaced by poll-driven populism. No politician can afford to ignore surveys of public opinion. But it is one thing to look at survey data and another to govern by people-meter. Progressives build political capital to invest it on difficult reforms; populists accumulate political capital to get even more political capital, to be used for making sure that they or their friends will govern.

The new populism is just as prone to demagoguery as the old one. The new populism does not attempt structural transformations, it relies on handouts rather than on social reforms, and it is not shy about manipulating voters' fears. Progressives, by contrast, should come clean and say: progress comes slowly and it requires sacrifices from all. Do not worry about the consequences of such words. Voters can take the truth. They are grownups. They appreciate being treated as such.

#### ***15. Beware of conservatives – both on the right and left.***

Conservatives believe that things are fine the way they are, and should stay that way. Progressives, by contrast, believe things can and should be better. Progressives fight for civil rights, because without freedom there cannot be progress. And progressives fight for equality of opportunity because without food, shelter and education freedom can be illusory.

But while most conservatives are on the right, there are also many conservatives on the left. What these conservatives have in common is paternalism – the belief that they alone know what is good for citizens. Modern paternalists want to tell citizens what they should read, eat, drink and with whom they should share a bed.

The 21st is the century of empowered citizens. The last thing they want is to be told is what to do. If modern social democrats fall prey to the conservative politics of paternalism, upset citizens will extract their revenge at the voting booth.

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