

DEMOS TWENTY YEARS

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‘Sovereignty and The Crisis of Democratic Politics’

Demos Lecture, London, June 5, 2013

CHECK AGAINST DELIVERY

It’s a great pleasure to be here; I hope you’re as astounded as I was to realize that the beginning of cinema was in this room in 1896, isn’t that amazing? It’s just fantastic. And I’ve always loved the fact that cinema begins with someone called the Lumière brothers, it seems a good omen. And it seems wonderful that it’s associated with a polytechnic; it gets better and better.

But the one thing I keep thinking as I thought about this was that that night in 1896 somebody went to see the Lumière brothers’ first film of the train coming into the station or the train coming out of the station, or the guy cutting off the garden hose and then spraying somebody with it and all those wonderful moments in which the magic of the moving image begins – somebody went out into the night saying, ‘kind of interesting little toy but I don’t think it’s going anywhere.’

I think it’s always worth remembering that brilliant innovation like that begins its life in ridicule; that’s an important thing I think to remember. We’re almost always wrong about everything but especially about new ideas and so I hope we remember the Lumière brothers.

The tough time they had getting started, the sense in which people went out in the night believing it was just a curious toy instead of an absolutely transformative technology. We’re here to celebrate a good deed in a bad world. Demos is 20 years old and so we’re celebrating public research and activism in the name of the demos. You’re the demos. You’re the people.

The word people will be crucial in what I have to say and so I’m very happy to have accepted this invitation. We’re celebrating the idea that good ideas matter in politics; we’re celebrating the role of independent non-partisan public policy research and the importance of those ideas in public debate and we’re celebrating, I hope, the future of progressive politics.

The question then becomes ‘what is progressive politics?’ Progressive is a kind of word that covers a multitude of sins; it’s easier to say than social democratic, it’s easier to say than socialist, it’s easier to say than liberal. You can all align yourselves behind the banner of ‘progressive’ because that means you’re not a reactionary.

It’s not too darn clear what being a progressive means anymore. We have a sense and I think we’re here tonight because we sense the old labels don’t work. I was a member and leader of a liberal party. Who knows what liberalism is exactly? Labour is a social democratic party, what is *that* exactly? It’s all progressive but it’s not so clear what it means.

As a first approximation I think a progressive politics is a politics that strengthens democracy, reduces inequality, increases opportunity, fosters sustainability. I mean, literally, in the sense that it keeps the planet from disappearing on us. Economically, I think a progressive politics is a politics that fosters market competition; it’s a politics that believes in markets, believes in free markets, would like to see a few free markets from time to time, would like to see a little competition from time to time as opposed to the managed and often coercive oligopoly that we see in contemporary capitalism.

The thing I want to put an emphasis on is that I think the progressive politics is very deeply connected to the idea of sovereignty. And by sovereignty I mean something very simple: the idea that the people should be masters of their own house, right? That, I think, it’s very hard to get an idea of democracy, without an idea of sovereignty.

And it’s very difficult to have an idea of sovereignty unless you get we the people, the citizens, having a sense, a lived sense, in their daily life that they’re masters of their own house. Masters of the terms and conditions of their life. That they’re not flotsam, that power is not elsewhere, that power is in the society, to be fought for, to be controlled, to be managed well.

Now the global challenge to progressive politics is pretty obvious. If democracy is meaningless without sovereignty, if power has to be here in the house to be fought for and controlled by the people. We live in a world where power seems elsewhere. We have a very strong feeling that power is a thing called ‘the global market’ and that we are often playthings of that global experience and a sense that power is elsewhere. And I guess I’m simply saying that the survival of democracy, the survival of democratic politics means the revival of sovereignty. Regaining the sense that we’re masters in our own house.

You can’t have a progressive politics unless you have a politics and you can’t have a politics unless people come out and vote thinking: “This matters! If I make a decision it’s going to affect the collective life of which I’m a part.” Otherwise what the heck is politics for; it’s a Punch and Judy show.

Citizens want to have a sense that when they vote they're engaged in a symbolic act which gives them control over the conditions of their existence and that implies that they are sovereigns and it implies that they live in a country that is sovereign. So we the people, the demos, should be masters in our own house.

Now immediately the attentive members of this audience will think 'well, sovereignty, isn't that a little old-fashioned? Sounds a little reactionary to me and more to the point, how much sovereignty can we have in a global economy?' When I first came to London, as a graduate student in the Seventies, there was a lot of talk about socialism in one country.

I remember earnest talk about income contribution, protectionism; the only way you could maintain economic sovereignty was to have an industrial policy, import substitution, protectionism, that the economic conditions of a democracy in the socialist conception were you have to have socialism in one country. And that meant you had to take Britain as far as you could out of the capitalist economy.

Well we tried that, didn't work. Socialism in one country is no more plausible than capitalism in one country and I think the thing that makes this difficult to think about is that it will not do to think about globalisation as a series of alien forces outside us in some deep sense. That's what makes it hard to think about.

Globalisation is us in the sense that we benefit from global travel. I look around this room; it's more diverse than the room I would have talked to forty years ago; *that's* globalisation. Globalisation is an Australia, a Brazil, an Argentina, a Canada benefiting immensely from the enormous economic growth of China. And the economic growth of China is not just a set of numbers; it means 400m people out of absolute poverty into relative poverty, which may be the most important thing that's happened in the last forty years.

That's globalisation; so thinking about globalisation is difficult because we can't think about it in terms of the old stereotypes of the guy in the top hat, the capitalist in the top hat, the malevolent all-controlling capitalist, guiding the globalisation experience.

Globalisation is us but we also have a sense that globalisation sets the terms in which very basic things that matter to you get determined outside your country. The basic unemployment rate for example. The basic unemployment rate in Doncaster has something to do with Doncaster but it has a whole lot to do with the global economy. The state of global demand. The interest rates that you pay on your mortgage, some of it is controlled by the Bank of England, a tremendous amount of it controlled outside.

Like all things difficult in life we want it both ways, we want globalisation in life but we want globalisation under some degree of political control, put it that way. How do you get that? We want globalisation but we also want to be protected from, what I will refer to throughout the talk as, systemic risk.

I'm a market guy to the extent that I think that what's good about a market society, and here I'm a market individualist, is that we're prepared to take responsibility for the risks we take ourselves; we're prepared to live in a society of personal responsibility. What we find insupportable is to experience the powerlessness of systemic risk coming from outside.

This is not an abstraction; it means waking up one morning in September 2008 and realising that your pension is worth 25 per cent less than what it was worth the night before. Right? That's an experience of systemic risk. Suddenly the terms and conditions of economic life have been brutally and suddenly changed. And it didn't have anything to do with you. It didn't even have that much to do with your government.

That's when globalisation has a malign and frightening face. And that I think, all of the politics that we are thinking about in 2013, I think, is really thinking about: what do we do about systemic risk? How do we have a globalisation without systemic risk? How did we get to a situation in which we have systemic risk?

We have to tell a story I think, about deregulation, the liberalisation of capital markets, the abolition of exchange controls. I remember an England where you couldn't take £60 out of the country. I mean we had a tightly controlled, we had capital controls, we lived in a Bretton Woods world in which sovereigns exerted control over the movement of capital; beginning in the Seventies and Eighties we begin to dismantle that.

It accelerates, the flood of credit through the global economy. It's enormously much the source of the growth in the global economy but it weakens the state's capacity to protect citizens against systemic risk. And this acceleration of capital, it accompanies liberalisation, also accompanies something else which may be more controversial, which is the end of the imperial era.

This is globalisation; we've had globalisation since the sixteenth or fifteenth century, it's always been globalisation connected with empire. Someone has always been running the global economy. Post-1989 in a way that I don't think we understood, we were also looking at the slow remorseless and inexorable relative decline of American hegemony. The capacity of America to define the institutions of global capital.

So we're in a new globalisation and the first globalisation without empire, that's great. Nothing I will say will endorse the return of empire in any form. But it means it's a globalisation and no one's clearly in charge. And for the first time we have a globalisation without empire, a globalisation without anybody in charge.

And the experience, the shock of 2008, is the shock of the biggest and most powerful economies in the world, particularly the United States, Canada (my country), Britain, (yours), France, suddenly waking up and thinking the entire capital system of the globe has seized up and the conditions of life which I as a

citizen took for granted have been thrown up in the air. And this was the experience of systemic risk. And the issue here is that its not just pension loss, it's the experience of powerlessness on the one hand, and then another experience, which was much less pleasant, which was political blackmail.

The thing that we all lived through in the autumn of 2008 – and I was in elected politics at that point – was a corporate and financial sector which had campaigned steadily for 25 years to deregulate the state, had sought to reduce corporate taxation for itself, suddenly turns up at the state's door saying, 'we want a guarantee, a sovereign guarantee or we *bring this sucker down*'.

The political experience that I lived in politics, that most democratic politicians lived after 2008, was a blackmail relation. In which people who had called for the deregulation of markets, get the state out of our way, suddenly come rushing back in and saying, 'give us a guarantee or the market system itself will collapse'. This is a system, which many people will have described as the 'privatisation of gain and the socialisation of loss'.

And citizens are being asked to bail out companies that are both 'too big to fail' and 'too big to manage'. This dynamic is made worse by systemic tax avoidance by the very corporate sector that citizens then have to guarantee. And that seems to me to be a toxic mixture, a toxic mix in which the corporate and financial sector dismantles the state, reduces its tax burden and then when the crisis hits, comes back for a sovereign guarantee on their losses – failing which they bring the global financial system down.

This is the core, it seems to me of the crisis of modern politics. And it then comes on top of another crisis which we're talking about all the time, which is the fiscal crisis of the state. A fiscal crisis made worse by tax avoidance by corporations. A fiscal crisis made worse because every sovereign in the world is involved in the arbitrage game.

You may not know what the arbitrage game is but every corporation games the corporate tax rate of every sovereign around the world and seeks to find the lowest corporate tax rate, currently in Ireland. That pushes all sovereigns in a race to the bottom, extenuates the fiscal crisis you're trying to deal with in the first place and has the further consequence of pushing the burden of austerity squarely on your shoulders.

This is not good. This is not a good picture. It's not a happy picture. We need to understand it at this level of generality if we're going to get a politics that's capable of facing the crisis that we're dealing with. And this comes on top of, I hardly need to tell you, something that Demos has looked at: the ageing and the shrinking of the working population that pays the tax base.

So the corporate tax base is shrinking, the working tax base is shrinking, this produces a systemic fiscal crisis of the state, which means it's extremely difficult

to keep the hospital wards and the doors of public education institutions, like this, open. This is the world of austerity we're in and what we're being offered on the politics of the reactionary right is austerity without end, austerity without limit and austerity that has no address to the issues that I'm talking about.

And don't worry, I'm not giving you a political speech, I'm out of politics, I'm trying to tell you what I see and what I lived in political life. And the overwhelming experience of six years of this kind of crisis is a sense of powerlessness and anger amongst citizens. They don't want big government but they do want protection from systemic risk. They don't want to pay for the mistakes of other states and other corporations and the problem here is that if democratic publics here feel powerless they desert the public square, that is they don't bother to vote: barely 60 per cent of the population of Canada bothers to turn out in democratic elections.

I don't know what the turnout number is in your country but that's not a happy number, it was 20 points higher when I was 18 years old. So you're watching people experience democracy as powerlessness, they stay home rather than vote, or they turn to authoritarian populism on the left and on the right at the extreme. We see this happening in Greece and we pray that it will not happen in this country.

And then you have in this country a convergence of these crisis elements, the British state failed to protect citizens from systemic risk in 2008, but the British state on its own can't protect citizens from systemic risk. It's got an enormous financial sector, its barely able to control it; this tail is wagging the dog. Citizens know that the City is wagging the dog. And have very little confidence that the state can protect them against systemic risk.

The other alternative is to go to Europe, pool sovereignty to get sovereignty pooling of sufficient size to put capital under control, you may gain in terms of capacity to control the global market. But you then lose the sovereignty you want to protect in the first place. And to the north of you the Scots want out, so, there's a kind of triple and quadruple crisis of British sovereignty that's converging all at the same time which makes your politics extremely interesting, and you better get it right because you are the mother of Parliaments.

What you do, and how you decide, and fix these problems, matters to the world. You may need more Europe if sovereigns are to control international capital and protect citizens from systemic risk and more Europe, that is fiscal and monetary integration, centralisation of banking authority. All the things that you'd want to do if you want to protect citizens better, may need less democracy. That seems to me at the core of the problem of British politics today.

And so you've got a massive historic debate about Europe. But the debate about Europe, I'm trying to say, is really a debate about how Britain maintains its sovereignty in a global capitalist economy, that's the issue. Does further

European integration help you to control global capital? Or not? Is there any likely prospect that Britain on its own can protect British citizens against systemic risk?

That, it seems to me, is the crucial issue that you have to think about. What I think I'm saying and I hope you'll disagree with this analysis, which is fast and loose, and at a high altitude and you'll disagree with this and that. But the point I'm trying to make is that I don't think we can think about this unless we put the issue of sovereignty back at the centre of our political discussion.

The sovereign has to be the one entity in a political system that is, *that is*, too big to fail. Everybody else can't be too big to fail; the sovereign can't fail. We can't have markets holding the state to ransom in blackmail relations. We need a sovereign who protects citizens against systemic risk, we need a sovereign who enforces market transparency, we need a sovereign who's the guarantor of equal citizenship for all, we need a sovereign that gets some damn competition into the markets.

That's the thing that we're not saying on the progressive side; there isn't enough, there isn't *actually* enough competition. There's too much oligopoly, there's too much price fixing, it's terrible for the consumers. You've got to reread Adam Smith. Adam Smith says 'that you can't get two merchants gather in a tavern but talk turns to restraint of trade'. That's the eternal rule here. The logic and role of the state in relation to the market is to have the competition that actually does protect citizens. We have too little. We need the sovereign back as guarantor of income security; we need the sovereign back as a manager of aggregate demand.

Now then the question becomes: is this realistic in a globalised world to have a return of an efficient, responsible, democratic sovereign at the centre of our vision of responsible politics? Dani Rodrik, a great colleague of mine at Harvard, coined the phrase 'policy space' to describe what we need. Every country has to have policy space. We've got too much macroeconomic policy, which assumes that one size fits all; one size does *not* fit all. We need policies that are appropriate to the sovereign conditions and histories of the countries that we live in. And so progressive politics depends on some kind of policy space.

Lest you think I'm being fatalistic I think our history shows us plenty of examples in which Britain has shown that even in the most adverse conditions of globalisation and international trade and difficulty, it created policy space. What was the creation of the National Health Service but the exercise of a sovereign people saying, 'I don't care how tough this is.' We've just come out of war, we're in hock up to our eyeballs, all the smart money is telling us we can't do this, we're bloody well going to do it.

That's what I mean by policy space. It's the belief that your sovereign political system can create the ideas that redeem and save your politics. And I can go on with dozens of other examples. But that's the one that still strikes me as being so

important to remember: that in an extremely adverse situation, international, global situation in 1948, the British, the Attlee government managed to create the policy space to essentially redefine British society and also reassert its sovereignty.

If you then look at the core of a progressive politics as some vision of the relationship between state and market, the rules have to be really simple and really clear. If you stand to make the gains, you stand to cover the risks. We've got a society, as you say, that's privatised the gain and socialised the risk and we can't have a decent or just society if the people go to the casino and then come to us to cover their losses. Let them go to the casino but it's their shirt not yours.

And that has to be central to our sense of the relationship between market and state. That means rethinking some policy detail on how to make sure that those who take risks shoulder the risks. They make the gains, fine; you're not hearing me talk about coercive redistribution of income. What makes me sick is the ways in which the state, the British government, the British taxpayer, the Canadian taxpayer, the American taxpayer, is asked to shoulder burdens consequent upon risks that they themselves did not take.

Secondly, no one should be too big to fail in a capitalist economy. If they're big then they have to have resolution regimes, they have to have living wills. You can't have large market actors come to hard-working and hard-pressed taxpayers and asking for sovereign guarantees on their losses. That means that you've got to put competition policy back at the centre of a progressive politics. You've got to return to some of the instincts in Adam Smith's vision of the market.

Markets are public institutions. They're public institutions. Publicly regulated institutions that serve public purposes. So you don't want dark pools, you don't want shadow markets. You don't want toxic products. The regulatory function of the state in a capitalist society is to guarantee that markets function as public institutions. It means corporations have to pay their fare share.

This grotesque spectacle of the populations of Europe being put through the cold bath of austerity while Apple, all these corporations, all of them, Google, all of them, arbitrage the lowest available rate, create shadow companies in the Isle of Man or Ireland to avoid tax – it's just got to stop. We've got to find a progressive political language that says we've got no problem with competition, we've got no problem with capitalism, we just want you to pay your fair damn share.

To make this work you've got to have states cooperating to eliminate this regulatory gaming of the system by corporations. Sovereign cooperation amongst states to make sure that large corporations don't get away with regulatory arbitrage. So, where do we end up? (I am going to stop, I'm not going on all night, I promise.)

What does a progressive politics then mean? It's a politics of patriotism. Hated, difficult word. But the politics of patriotism is very simple. We're all in this together. It's a politics of equality: everybody pays their fair share. My righteous anger about the excesses of market capitalism doesn't come from the fact that I don't like capitalism. I don't have an anti-capitalist bone in my body. What I can't stand is the inequality, the unfairness, the gaming of the system and the putting of risk onto shoulders that shouldn't have to bear it.

And so my sense of anger is connected to a sense of fairness. In this place, you play by *our* rules, right. You don't game the rules; you play by the rules. Patriotism, equality, fairness – what does this mean in internationalist terms? A good world in my view is not a world of global governance run by people who get degrees at the school at which I teach – the Kennedy School of Governance.

It's not a world of global governance. It's a world of responsible sovereigns in which power and authority are accountable to the people who choose them. In which sovereigns accept a responsibility to those they serve on the basis of the inclusive rather than extractive rule.

All of that is highly utopian – we've only got about 40 responsible sovereigns in a world composed of 193 states. My good world is a world in which slowly, incrementally, all the work we do in aid, all the work we do in international assistance is just getting a sovereign to be competent, responsible. Monopoly over the legitimate means of force in its own territory. The capacity to deliver minimum services and the capacity to create a political system that genuinely responds in some way or the other to the wishes of the people who compose it. That's my utopia of a good world. But if it is our utopia for a good world it better damn well start here.

To a degree that I don't think we've realised our sovereignty has been emptied out, our democracy has been emptied out and I don't think we can have a democracy unless sovereignty and democracy are linked. I think you can't have a sense that politics matters unless people have a lived sense that they're masters of their house, that their decisions matter and so this is what we've got to get to.

A sense of democracy not being a procedure, not being an instrument, not being a technique, but a lived set of values around fairness, around equality, around justice and above all, a political system has to deliver one value above all: I am not adrift, I am not a prisoner of fate, I am not powerless. I can join with fellow citizens to shape my world. What is pulling the bottom out of progressive politics is that sense of powerlessness. And we stop that draining away of powerlessness when we reconnect democracy to sovereignty. Thanks so much for listening.

ENDS