

GRENOBLE ECOLE DE MANAGEMENT

CONCOURS HEC SESSION 2014

EPREUVE ORALE D'ANGLAIS

Script n°16

Failing Elites Threaten our Future

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ft.com, January 14, 2014

Complex societies rely on their elites to get things, if not right, at least not grotesquely wrong. When elites fail, the political order is likely to collapse, as happened to the defeated powers after First World War. The Russian, German and Austrian empires vanished, bequeathing weak successors succeeded by despotism. The First World War also destroyed the foundations of the 19th century economy: free trade and the gold standard. Attempts to restore it produced more elite failures, this time of Americans as much as Europeans. The Great Depression did much to create the political conditions for the Second World War. The cold war, a conflict of democracies with a dictatorship sired by the First World War, followed.

The dire results of elite failures are not surprising. An implicit deal exists between elites and the people: the former obtain the privileges and perquisites of power and property; the latter, in return, obtain security and, in modern times, a measure of prosperity. If elites fail, they risk being replaced. The replacement of failed economic, bureaucratic and intellectual elites is always fraught. But, in a democracy, replacement of political elites at least is swift and clean. In despotism, it will usually be slow and almost always bloody.

This is not just history. It remains true today. If one looks for direct lessons from the First World War for our world, we see them not in contemporary Europe but in the Middle East, on the borders of India and Pakistan and in the vexed relationships between a rising China and its neighbours. The possibilities of lethal miscalculation exist in all these cases, though the ideologies of militarism and imperialism are, happily, far less prevalent than a century ago. Today, powerful states accept the idea that peace is more conducive to prosperity than the illusory spoils of war. Yet this does not, alas, mean the west is immune to elite failures. On the contrary, it is living with them. But its failures are of mismanaged peace, not war.

Here are three visible failures.

First, the economic, financial, intellectual and political elites mostly misunderstood the consequences of headlong financial liberalisation. Lulled by fantasies of self-stabilising financial markets, they not only permitted but encouraged a huge and, for the financial sector, profitable bet on the expansion of debt. The policy making elite failed to appreciate the incentives at work and, above all, the risks of a systemic breakdown. When it came, the fruits of that breakdown were disastrous on several dimensions: economies collapsed; unemployment jumped; and public debt exploded. The policy making elite was discredited by its failure to prevent disaster. The financial elite was discredited by needing to be rescued.

The political elite was discredited by willingness to finance the rescue. The intellectual elite – the economists – was discredited by its failure to anticipate a crisis or agree on what to do after it had struck. The rescue was necessary. But the belief that the powerful sacrificed taxpayers to the interests of the guilty is correct.

Second, in the past three decades we have seen the emergence of a globalised economic and financial elite. Its members have become ever more detached from the countries that produced them. In the process, the glue that binds any democracy – the notion of citizenship – has weakened. The narrow distribution of the gains of economic growth greatly enhances this development. This, then, is ever more a plutocracy. A degree of plutocracy is inevitable in democracies built, as they must be, on market economies. But it is always a matter of degree. If the mass of the people view their economic elite as richly rewarded for mediocre performance and interested only in themselves, yet expecting rescue when things go badly, the bonds snap. We may be just at the beginning of this long-term decay.

Third, in creating the euro, the Europeans took their project beyond the practical into something far more important to people: the fate of their money. Nothing was more likely than frictions among Europeans over how their money was being managed or mismanaged. The probably inevitable financial crisis has now spawned a host of still unresolved difficulties. The economic difficulties of crisis-hit economies are evident: huge recessions, extraordinarily high unemployment, mass emigration and heavy debt overhangs.

None of these failures matches in any way the follies of 1914. But they are big enough to cause doubts about our elites. The result is the birth of angry populism throughout the west. If elites continue to fail, we will go on watching the rise of angry populists. The elites need to do better. If they do not, rage may overwhelm us all.