Anxiety about Democracy: Why Now?

By Peter A. Hall

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Anxiety is rising among mass publics and analysts of governance about whether democratic governments can cope with the policy problems now facing them (Schäfer and Streeck 2013; Berggruen and Gardels 2013). Trust in American government is at a low ebb and more than two thirds of voters in many parts of Europe express dissatisfaction with their country's direction (Pew 2012a; 2012b). Why is there so much doubt now about the capabilities of representative government–barely two decades after the triumph of democracy was heralded as the end of history?

That question can be decomposed into two issues. Are the problems confronting democratic governments different or more intractable today than they were in the past? Conversely, have the capabilities of democratic governments and the quality of democracy deteriorated in recent years and, if so, why?

Some of the anxiety about democracy today may stem from the economic stagnation and higher unemployment with which governments are struggling in the wake of a global financial crisis that intensified the hardships generated by three decades of increasing income inequality. Among the eight European electorates surveyed by the Pew Trust, only in Germany, where the economy was relatively robust, did a majority of voters think the country was moving in the right direction. A rising tide makes democracy look more viable.

We need not travel back to the 1930s for evidence on this point. "The demands on government grow, while the capacity of democratic governments stagnates." This observation comes, not from the current blogosphere, but from a 1975 report for the Trilateral Commission on *The Crisis of Democracy* written in a period when many analysts began to speak of 'overloaded government' in terms strikingly parallel to those of today (Birch 1984). The 1970s saw rates of growth drop by half and the appearance of 'stagflation'—a new phenomenon marked by simultaneous increases in unemployment and inflation—with which governments struggled to cope.

The governability crisis of the 1970s is most instructive, however, for what it tells us about the underlying circumstances in which representative government begins to seem ineffective. According to one influential formulation, the central task of representative government is to provide 'an authoritative allocation of resources.' When governments cannot do so, either because they cannot agree on that allocation or because the results lack authority, representative democracy seems to flounder. When desperate attempts to control inflation through interventionist income policies proved ineffective during the 1970s, the result was a larger crisis of legitimacy for the state, especially in the Anglo-American democracies, as citizens objected to limitations on their wages and lost faith in the ability of states to manage the economy.

Although the lesson often drawn from this experience was that markets rather than states should be allowed to allocate resources—giving rise to a 'move to the market' that would become the *leitmotif* for policy-making over the next three decades—it is arguable that this episode of 'governmental overload' had deeper roots in the failure of a wider set of social institutions that also structure markets to make effective contributions to the processes whereby resources are allocated. Governments are not the only institutions that allocate resources. The institutions for collective bargaining put in place after 1945 to allocate resources between capital and labor, for instance, were often no longer able during the late 1960s and 1970s to maintain wage increases at levels moderate enough to contain inflation. Under the pressure of an increasing global money supply and two decades of rapid growth, which lifted expectations and strengthened trade unions, many countries experienced higher levels of inflation. In this respect, inflation is a sociological phenomenon—a way of reallocating resources without explicit agreement when such agreements cannot be reached—albeit one that can wreak havoc on an economy if inflation rises precipitously (Goldthorpe 1978).

We should ask whether the problems facing contemporary democracies reflect analogous deficiencies in the social institutions that allocate and legitimate a distribution of resources in the political economy. When those institutions function well, they take some of the pressure off governments to redistribute. When they do not, allocating resources authoritatively often becomes a challenge that democratic governments struggle to meet.

This perspective directs attention to three features of the contemporary era. The first is the increasingly prominent role that finance has come to play in the developed political economies. Since the 1970s, flows of funds across national borders have increased exponentially, new types of financial instruments have become central to the operation of many businesses, often far removed from the financial sector itself, and some states have begun to regulate that sector more lightly than they once did (Kuttner 2013). As a result, in countries with large financial sectors, such as the U.S. and U.K., the fruits of economic growth have flowed disproportionately to people linked to that sector and to senior executives who compare their compensation to those within it.

Partly as a consequence, levels of debt have increased dramatically across the developed democracies. Some of this has been public sector debt, as governments borrowed to ensure entitlement spending increased during an era of slower growth (Schäfer and Streeck 2013). But the more striking increase has come in private sector debt. Although the Euro crisis is often presented as a problem of public-sector borrowing, except in Greece, its roots lie primarily in a vast expansion of private-sector borrowing inspired by the advent of the Euro (Blyth 2013). In the U.S. and U.K., this expansion came in the form of large increases in consumer borrowing, as families faced with below-median incomes that were stagnating and meager programs of social support borrowed to get by – encouraged by the wealth illusion created by housing booms that were facilitated by a relaxed monetary stance and light financial regulation (Krippner 2011; Hall 2012; 2013a).

These developments posed obvious problems for governments. As asset booms ended and overextended banks went under, a debt crisis ensued, and governments had to pick up the tab. Depressed consumer spending reduced rates of growth, thereby exacerbating public sector deficits. Moreover, the essence of a debt crisis is that some debts will not be repaid. Thus, exceptionally difficult decisions about who will not be paid back and who will pay have to be made. It is not surprising that governments do not always seem equal to the task.

Around the world, the past thirty years have also been marked by significant increases in income inequality. On a global plane, the result has been significant levels of redistribution, as the incomes of the middle class in the developed political economies have grown more slowly to make way for a growing middle class in the emerging economies (Spence and Hlatshwayo 2011). In most of the developed political economies, as the distribution of market incomes became more unequal, pressure on governments to redistribute increased. Many European governments responded to such demands by redistributing resources more aggressively, but where the Anglo-American democracies did not, household income for the bottom half of society stagnated, while the affluent have prospered (Kenworthy and Pontusson 2005; Hacker and Pierson 2005).

We do not know just how much pressure rising levels of income inequality put on governments, and that is likely context dependent. Rising inequality in market incomes seems to have inspired more discontent in the nations of Europe that prize social solidarity than in the Anglo-American democracies, and their governments have responded accordingly (Barnes and Hall 2013). One side effect is that social spending on entitlements takes an increasing proportion of public budgets, thereby leaving governments with fewer resources for discretionary spending or public investment. In many countries, however, the result seems to have been more intense conflict over public resources, reflected in rising apprehension about redistribution to the poor or to immigrants, especially if it appears to come at the expense of entitlement programs for the middle class (Cavaillé and Trump 2012). As longstanding traditions of social solidarity erode under the strain, the redistributive challenges facing governments have become more intractable.

Of course, these developments have roots in a third key feature of the years since 1980—namely, the ascendance of a neoliberal ideology built around the proposition that markets allocate resources more efficiently than states. In a variety of guises, this ideology has been used to justify a wide range of initiatives loosely associated with liberalization, designed to make competition in markets for goods, labor, and capital more competitive, to deliver public services on market principles, and to limit the level of state intervention into the economy (Hall and Lamont 2013).

There are many respects in which the quasi-hegemony of neoliberal ideas has complicated the challenges facing democratic governments today, but two deserve special mention. In combination with pressure to form more open global markets, neoliberal ideas have weakened trade unions and called into question their legitimacy. Across the OECD, trade union membership is now half the proportion of the workforce that it was in 1980. This development is consequential because the demands of trade unions have long sustained wage levels in the bottom half of the income distribution and promoted more generous social programs. Thus, trade unions even out the income distribution and sustain purchasing power in ways that are often politically invisible. When they can no longer do so effectively, redistribution becomes an issue that governments have to deal with in ways that are more politically visible and often highly contested.

Hacker (2011) has coined the term ‘predistribution’ to refer to a broad set of institutional practices that redistribute income without explicit political debate or decision making. When firms assume a larger share of the costs of pensions and health care, for instance, governments are asked to do less; and, when they do not, these matters become an object for more intense political conflict. While the modalities of predistribution vary widely across societies, in general, they are eroded by liberalizing efforts to let markets, rather than other institutions, allocate resources.

The ascendance of neoliberal ideas has also given rise to a perplexing political paradox. On the one hand, increasing reliance on markets to distribute resources has generated a number of socioeconomic problems that governments are now being called upon to address, including rising rates of poverty that impinge on the nation’s human capital and needs for national infrastructure that have not been addressed. Rising competition in more open global markets makes investments in research and development and education even more urgent if countries are to remain competitive in high value-added sectors. Thus, many governments face strong pressure to devote more resources to these problems. On the other hand, as neoliberal ideas have worked their way into public consciousness over the same period, they have eroded the confidence electorates and elites have in the capacities of governments to address such problems. Government action is seen as less legitimate today than it was during the 1960s, and voters are correspondingly more reluctant to allow the state to tax their resources for such purposes.

The intensity of this paradox varies across nations. In the wake of Ronald Reagan’s observation that ‘government is not the solution but the problem,’ voters in the Anglo-American democracies seem especially reluctant to let governments tax their resources. But even European social democrats lack a clear vision of what activist government can accomplish today. More than a few look wistfully at visions of the ‘developmental state’ that are being revived in some emerging economies.

In sum, anxiety about the capacities democratic governments have for resolving socioeconomic problems may well have increased because the problems facing those governments have become more intractable. I have suggested that the general character of these problems is not entirely new, even if they sometimes take a new form. However, some of the challenges facing democratic governments today may be novel enough to call for capabilities that representative governments have traditionally lacked. If so, the challenge will be to identify new capabilities they could plausibly develop.

Before considering that, however, we should first ask whether the existing capacities of democratic governments or the quality of representative government has declined, perhaps under the influence of the recent developments I have just outlined. Is anxiety about democracy today the result of erosion in its quality? On this front, there are several issues worthy of concern, although I can deal only conjecturally with them here.

Some of these bear on the quality of representation. Governments may be less responsive to majorities among the citizenry than they once were. Some may be less able to assemble popular majorities for whom to speak. This is salient because governments do not simply find majorities but help create them (Beer 1966). Changes in rates of political participation or the nature of electoral campaigns may have disenfranchised some segments of the citizenry and advantaged others.

Another set of issues turns on the capacities of governments to act on behalf of the majorities they assemble. In the face of more open global markets or more powerful transnational regimes (of which the European Union is the leading example), national governments may have less room to maneuver. The instruments at the disposal of states may also have changed. Most have less control over the flows of funds in their financial systems than they once had; and in many new democracies, corruption is a problem and patronage still the norm. Nor should we forget that what states can do depends as much on their relationships to social groups as it does on policy instruments. If effective governmental action depends on 'embedded autonomy', we can ask, for instance, whether democratic states still retain close enough relations with important socioeconomic groups to mobilize their consent but sufficient independence to act on behalf of a wider public interest (Evans 1995). In some instances, states may have been so colonized by some actors that they can do little more than deliver rents to them.

Two sets of developments are especially relevant here. First, the electoral voice of the poor may be more muted today than it was some decades ago. The least affluent have always been the least likely to vote, but there is some evidence that the political turnout of the poor declines when income inequality increases. Thus, even where median incomes are stagnating, the median voter may be more affluent today than previously and governments correspondingly less responsive to poorer segments of the electorate (McCarty, Poole, and Rosenthal 2008). Recent evidence suggests that young people in the bottom quintile of American households are retreating from virtually all forms of civic engagement, reviving the specter of a permanent underclass with few links to society let alone politics (Putnam et al. 2012). Since interactions with others seem to influence not only how people vote but also how they construe their interests, the decline of trade unions may be reinforcing such electoral effects (Iversen and Soskice 2012). Especially in contexts where cultural values have become more electorally salient, fewer people may be giving priority to the 'working class interests' that unions used to promote.

Second, the European Union has changed the character of governance in Europe (Bickerton 2013; Hooghe and Marks 2001). On some issues, national governments have less room for maneuver. The austerity policies being pursued in southern Europe are dictated, for instance, not simply by the bond markets, but by what the member states of EMU can agree to and the limitations of the institutional frameworks erected to administer monetary union (Hall 2012). Multilevel governance has changed how many kinds of policies are made. If policymaking was once based on forging compromises among the affected domestic interests, in more and more policy areas, it has become a matter of forging compromises among the member states of the EU. Therefore, what will be traded off in order to reach a compromise has changed, and domestic interests that can form cross-national coalitions in Brussels have gained advantages vis-à-vis those that cannot (Hall 2013b).

Moreover, European integration has been forged via a process that assigns the tasks of market-making to the EU and those of social protection to national states, thereby driving a wedge through the double-movement postulated by Polanyi (1944). This division of labor has had consequences for the legitimacy of European governance—itself an important component of the capabilities of states (Ferrera 2009). Accession to the EU gave some governments a new legitimacy. But, after two decades in which many governments blamed the painful side effects of market liberalization on the EU while taking credit for their own efforts at social protection, the political legitimacy of the European project is suffering (Hall 2006). One result has been the rising salience of an 'integration cleavage' that ranges those who gain from the opening of markets against those who believe they are losing from them. The protest movements fueled by that cleavage on both the radical right and left have made it more difficult for governments to assemble mainstream majorities capable of taking decisive action in the face of contemporary socioeconomic problems (Kriesi et al. 2008). Although commentators have long dismissed these developments as inevitable concomitants of Europe integration, ‘what me worry?’ may no longer be an appropriate response to the crises of legitimacy in the European Union.

Multilevel governance has also blurred the lines of accountability that tie governments to electoral majorities. In many European nations, voters are finding it harder to know whom to hold responsible for policies they favor or oppose. History suggests that such separation between what the French once called *le pays légal* and *le pays réel* can be a potent source of electoral discontent and political alienation. Thus, issues of accountability have gained prominence in contemporary debates about democracy. Some observers have responded by calling for more plebiscitarian modes of decision-making, such as referenda on major EU decisions or the popular election of an EU President, not to mention more legislative scrutiny of EU decisions (Hix 2008; cf. Moravcsik 2002).

Others have replied in ways that lean more toward technocratic approaches to governance (Berggruen and Gardels 2013). In this context, Rosanvallon (2011) notes that the notion of ‘majority rule’ was always a convenient fiction for legitimating the decisions of representative democracies and suggests it might now be appropriate to replace it with a new set of principles associating effective representation with decision making that is transparent, so that all can see how decisions are made impartially, i.e., unbiased toward any one set of interests, and reflexively, i.e., all whose interests are affected by the decision are consulted. This formulation distills a discourse that has become influential in an era during which ‘governance’ has replaced ‘government’ as the term often used to describe collective decision making; and these principles conform well to current practices in the European Union (Miller and Rose 2008). It remains to be seen, however, whether they define a genuinely representative democracy.

The generalizations invoked here should not be allowed to obscure the real differences that exist across countries with varied political systems and political economies. If every democracy is unhappy, each is unhappy in its own way. Many lack the plutocratic aspects of governance found in the U.S., but find no better solutions to their problems in the anemic policies of a laissez-faire social democracy. It is entirely appropriate to have anxieties about the performance of contemporary democracies. On balance, this essay suggests that the basis for many lies in the unusually challenging nature of contemporary problems rather than in changes in democratic governance over recent decades. However, that issue remains eminently contestable, and the question of how to adapt the institutions of representative democracy to the exigencies of a new era is pressing from virtually any standpoint.

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