Interview: Philip Coggan of the Economist – “We may have ‘one person – one vote’, but we don’t have ‘one person – equal influence'”

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By Democratic Audit UK 2013-9-20

Philip Coggan, *aka ‘Buttonwood’ of the Economist, recently spoke to Democratic Audit’s Sean Kippin about his new book ‘The Last Vote: the Threats to Western Democracy’, where we’ve gone wrong and how we might go about confronting the challenge. In the second part of this two part interview, Coggan talks about the threat of the financial system to our democracy, and the prospects for state funding of politics.*

The view from Goldman Sachs (Credit: Thomas Dimson, CC by NCD 2.0)

Is the power of the financial system an issue when it comes to the future of our democracy?

“Yes. If we look at the work of Mancur Olson, who wrote about pressure groups building up in society, there is a great incentive for a small pressure group to lobby government because the gain to the members of that pressure group from any government subsidy or tax break is very large, and the costs are spread over a large proportion of the population. So society tends to build up these subsidies over time, and the financial industry is a classic example of this. Simon Johnson, in his book ‘*13 Bankers*’, compared the financial sector to the embedded entrepreneurs he saw in third world countries who were all friends with President Suharto or whoever. The history of the last thirty years is that the financial sector has seen a huge rise in its wages and its size relative to the rest of the economy since 1980.

“Why is that? Well, partly because it’s been liberalised, but partly because there’s been this feedback loop in which asset prices went up and money was borrowed, money was borrowed against those assets, and as the markets wobbled, central banks worried that the debt would bring the system down, so they cut rates and rescued the market. This gave people an incentive to believe in the ‘Greenspan Put’, so we have reached this logical end of the road, where we have zero interest rates and central banks openly buying assets to try and put the markets up. This has generally meant that a crisis five years ago that was *caused* by the financial sector has probably been less rough on the financial sector than it would have been. In other words, it has been better for Wall Street, than Main Street, as they say. We have the Dow at close to an all-time high and yet real wages are being squeezed.

“Now, how long can you keep that dichotomy up, when you have very high levels of inequality in several nations? This leads to two more problems; firstly, having more money allows the financial sector to lobby the Government, and there is various work done in the US about how Senators pay attention to their constituents; that is, they pay a lot of attention to the rich ones and not a lot to the poor ones, because of course the rich ones fund them. So, there’s another feedback loop; you’re rich, so you get the politicians to change rules in your favour, which makes you richer with more money to lobby.

“The second related problem is the resentment this causes in the ordinary voter, who thinks that the system is being rigged and leads them to go with the extreme parties who seem to the be the only ones who are willing to change and challenge this. So there’s a sense that there’s a sort of managerial elite running the Western economy with very little difference between the two main parties. Sometimes you can say that on foreign policy as much as you can with domestic policy – so voters in 2005 who were angry about Iraq couldn’t choose between Tory and Labour they had to go to the Liberals, and this adds to this potential long-term threat, if people think the whole thing is rigged, they will rebel.

“You may think that democracy hasn’t been defeated in a rich nation since the Second World War, but of course it is a mistake – think of the “Black Swan” problem here – in 1913 you might have thought that absolute Monarchies would always exist in Central Europe because they always had, or in 1986 you might have thought that communism would never disappear from Eastern Europe, but suddenly, things can fall and attitudes can change. People may rebel against democracy, because it’s the system they’ve got and it’s all that’s there to rebel against.

“Let’s think about how democracy developed. Original Parliaments in the modern version were kind of ways of representing the estates – as in, the estates general – so the King needed to consult the Barons after Simon De Montfort and so on. Then, later on, rich merchants needed to consult the king because he needed to raise taxes. That’s essentially how it worked. You can see the history of democracy in the eighteenth and nineteenth century as them adding in powerful groups as they demanded the right to be represented. So, the broad middle classes came in in the middle of the nineteenth century in Britain, and then the industrial working classes towards the end of the nineteenth century and then in the twentieth century women as well, after the economic role they played in the war.

“So you can kind of see democracy as following power, so you can see a feedback process in which democracy then organises things to the benefit of those who have voted, hence the expansion of the welfare state. The rise of inequality means that economic power has now shifted back again towards the rich, so if you expect political power to follow that economic power, then you have to worry that it might fall back to the rich, and indeed the examples that I talked about earlier are evidence for that. So, funding is provided by the rich, the people who you bring into Government are generally corporate or financial titans and are seen as ‘the experts’ in a way that we wouldn’t have thought of them 70 or 80 years ago, and so that’s a worrying long-term trend, that you may have ‘one person – one vote’, but we don’t have ‘one person – equal influence.’ So, influence has shifted, and of course, the poor vote in smaller numbers than the better off, as well as being missed off the electoral roll in larger numbers. So this increases the sense that we have an unaccountable elite governing policy.”

You mention party funding – is state funding the only way to go, or is that politically too difficult?

“I am sure the idea of state funding will be attacked, but certainly the most egregious example of the current system is in the States, where you will see $6 billion being spent on an election and you don’t actually change any of the leaders, while our last election cost 30 million and Germany also has some limits on spending. I suspect in the end, we’ll have to go for state funding, but it will have to be cheap state funding. The danger, the thing that nags away at me is that adds to the feeling that the system is rigged in favour of the elite.

“So, inevitably the Conservative Party and Labour will get the most funding, and UKIP will start saying ‘well, why aren’t we getting as much as them’. But the scandals have been so persistent and it a problem that both parties have, and state funding looks to be the only way of getting out of it. If Labour loses this significant funding from the trade unions, it is possible for the Conservatives to be funded much better than the Labour Party and it’s not helpful for democracy for one party to have a significant funding advantage over the long run.”

Note: *Philip Coggan was promoting his new book ‘the Last Vote: the threats to Western Democracy’. A podcast of his recent appearance at an LSE event is available here. This interview gives the views of the author, and not those of Democratic Audit or the LSE. Please read our comments policy before posting. Part 1 of the interview can be found here.*

Philip Coggan was a *Financial Times* journalist for over twenty years, and is now the Buttonwood columnist for the *Economist*. In 2009 he was named Senior Financial Journalist in the Harold Wincott awards and was voted Best Communicator at the Business Journalist of the Year Awards. He is the author of *The Money Machine*, and*Paper Promises*, winner of the Spears Business Book of the Year Award and longlisted for the *Financial Times* Goldman Sachs Business Book of the Year Award.