Populism is the true legacy of the global financial crisis

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Populism

The 'hard working classes' so beloved of politicians were the victims of the crash

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The legacy of the global financial crisis might have been a re-imagination of the market economy. Anything goes could have made way for something a little closer to everyone gains. The eloquent speeches and bold pledges that followed the crash — think Barack Obama, Gordon Brown, Angela Merkel and the rest — held out just such a prospect. Instead we have ended up with Donald Trump, Brexit and beggar-thy-neighbour nationalism.

The process set in train by the September 2008 collapse of Lehman Brothers has produced two big losers — liberal democracy and open international borders. The culprits, who include bankers, central bankers and regulators, politicians and economists, have shrugged off responsibility. The world has certainly changed, but not in the ordered, structured way that would have been the hallmark of intelligent reform.

After a decade of stagnant incomes and fiscal austerity, no one can be surprised that those most hurt by the crash's economic consequences are supporting populist uprisings against elites. Across rich democracies, significant segments of the population have come to reject laissez-faire economics and the open frontiers of globalisation. Large-scale immigration can be disruptive during the best of times. Throw in austerity and immigrants are all too easily cast as scapegoats.

Most striking is how little has changed in the operation of international financial markets. A handful of bankers were sacked and some institutions faced hefty penalties and fines. But the burden has fallen on the state or on shareholders. The architects of unfettered financial capitalism are still counting the noughts on their bonuses. The worst that has happened is that they must wait a bit longer before cashing in.

Despite initial regulatory reforms — banks have to hold somewhat more capital and employ armies of compliance officers — life on Wall Street and in the City of London has gone on much as before. Bankers are paid the earth for socially useless activities, taxpayers fund large state subsidies in the shape of too-big-to-fail guarantees, and clever young mathematicians create new, dangerously obscure instruments to keep trading rooms busy. Now, as then, profit is privatised and risk nationalised. Missing is the competition that keeps capitalism honest.

To the extent there were postmortems, radical conclusions were put aside to gather dust as soon as they were published. Central bankers denied complicity. So did the agencies charged with market oversight. Alan Greenspan, who was Federal Reserve chairman until 2006, was the high priest of unfettered markets. He is still revered as a sage. As governor of the Bank of England, Mervyn King cut its systemic regulatory resources and heaped blame for the crisis on investment banks. Retired from public office, he now consults for Citigroup.

As for the politicians, they promised finance would be pulled from its gilded pedestal, that Main Street would be given primacy over Wall Street and markets would be servants rather than masters of the people. “We are all in this together,” George Osborne, then Britain’s chancellor of the exchequer, used to say. We were not. The cost of the crash fell largely on the shoulders of those least able to bear it. Fiscal retrenchment focused largely on cuts in public spending rather than higher taxes. In Britain’s case, Mr Osborne set the ratio at 80:20. The less you earn, the more you rely on state spending. The “hard working classes”, so beloved of politicians when they need votes, were the victims.

To make these, almost self-evident, observations is to explain the return of populism. Who can be surprised that white, blue-collar Americans turned out of once-secure employment now back Mr Trump? Nor is it strange that similar demographic groups supported Brexit — swayed by the toxic rhetoric that blames their misfortune on immigrants. Look across continental Europe and the rise of extreme nationalism mirrors the erosion of the social market economy — a brand of capitalism that offered a stake to ordinary voters.

The strains have been intensified, of course, by digital technology and by the anti-competitive rent-seeking of a handful of tech behemoths. The cost of Google’s aggressive tax avoidance falls on those least able to bear it. The emotion that has done most to swell the ranks of the populists has been a sense of unfairness — the belief that elites are indifferent to their plight.

Mr Trump et al do not have any answers. To the contrary, the US president’s fabled “base” will be losers from his trade wars. They have already been robbed by his tax cuts for the very rich. British workers will be worse off as a consequence of Brexit. The League in Italy and National Rally, formerly the National Front, in France are selling the same snake oil. But many of the grievances they identify are real.

Historians will look back on the crisis of 2008 as the moment the world’s most powerful nations surrendered international leadership, and globalisation went into reverse. The rest of the world has understandably concluded it has little to learn from the west. Many thought at the time that the collapse of communism would presage the permanent hegemony of open, liberal democracies. Instead, what really will puzzle the historians is why the *ancien régime* was so lazily complacent — complicit, rather — in its own demise.

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