



BOOK REVIEW

Martin Wolf. *The Crisis of Democratic Capitalism.* New York: Penguin Press, 2023. 496. Hardcover: USD18. ISBN 9780735224216. E Book: USD14. ISBN 9780735224223.

Martin Wolf, Chief Economics Commentator at the *Financial Times*, is one of the world's leading economic journalists. A canny observer with deep expertise and a commitment to pragmatism over dogmatism, Wolf offers views worth attending to regardless of one's personal economic or political philosophies. His most recent book, *The Crisis of Democratic Capitalism* (2023), is no exception.

The catalyst for the book is the question of why democracy and capitalism both broke at the same time in fundamental ways and across the globe. The answer to this question is somewhat intuitively evident; after all, one would expect the two systems that dominate people's lives—politics and economics—to reflect each other in their health, especially when these systems are both outgrowths of Enlightenment ideas of freedom and the individual. As Wolf notes, “The shared idea underlying both the market and democracy is the right of people to shape their own lives wherever choices need to be made, individually and collectively.” (26) There are few genuine surprises in Wolf's book, though he has done a tremendous service in providing fine-grained detail about both our political and economic situations, in tracing the history that brought us to this point, and in making explicit the intimate connections between our politics and our economics and how they operate in tandem. Wolf's diagnosis is well reasoned and powerfully supported; his prescribed treatment is thoughtful and compassionate.

The Crisis of Democratic Capitalism is lucidly and smartly organized. Wolf provides a cogent overview for each section before diving in deeply, and his proclivity to enumerate key points empowers his reader to focus on the sections of greatest interest to them should they so choose. In his preface, “Why I Wrote This Book,” Wolf shares the family history that gave rise to his values, which have not changed even as his understanding of how to manifest them in the world has evolved. He is transparent about why he maintains a fundamentally centrist position as the best hope for a future that is better and safer for his grandchildren than it was for his parents, who fled their homes in advance of Hitler's approach. Chapter 1, “The Fire This Time,” is primarily devoted to defining the specific contours of what he means by democracy (“liberal democracy” as traditionally understood) and capitalism (market capitalism, though he is keenly and explicitly informed by Karl Polanyi's warning in *The Great Transformation* that a truly free market system would be anathema to those who suffered under such a program). He starts by noting, as have others, how the triumphalism of Francis Fukuyama's seminal essay “The End of History?” (1989) was rapidly belied by the intertwining of economic precarity and the resurgence of populist and authoritarian political currents; Wolf provides an overview of the arc he will trace in the book's remainder, centrally stating that “[t]his book will argue that economic disappointment is one of the chief explanations for the rise of left- and right-wing populism in high-income democracies.” (12) Again, the importance of Wolf's insights lies in the details of the dynamic rather than its formulation.

The book is divided into four parts. Part I explores the history and interdependency of democracy and capitalism. While one might reasonably disagree with Wolf's claim that "capitalism cannot survive in the long run without a democratic polity, and democracy cannot survive in the long run without a market economy," (18) he is methodical and transparent about why he holds this view. Here, as throughout the book, Wolf is poignantly attentive to the fact that economic systems should be serving the needs of embodied people who are fundamentally dependent on the material world for their continued existence; this drives the pragmatism of his work. Thus, he begins by recognizing that a fundamental human activity is the capture and use of energy. He traces the development of economic and political systems as they become more effective and efficient at energy capture and use to provide steadily increasing living standards for people. Throughout, Wolf attends keenly to questions of inequality. He argues that overall increases in prosperity and rates of survival allowed for a tolerance of degrees of inequality while simultaneously creating the conditions for political evolution. He endorses Austrian economist Joseph Schumpeter's theory of "creative destruction" as the fundamental dynamic of the past two centuries, the period in which market capitalism and democracy blossomed in their various forms and their relationship became symbiotic. Wolf avers, "It is no accident, then, that the high-income democracies have market economies, just as it was no accident that market economies brought forth universal suffrage democracy." (28) He recognizes that this relationship—their "marriage" as he terms it—is fragile, and he looks at whether alternative systems, notably the market-driven prosperity of authoritarian China, are sustainable.

Part II advances from the fundamental premise established in Part I that "a democratic capitalist state depends on maintaining a delicate balance between complementary opposites—the market and democracy" (61) to show how this balance

has been destabilized and the attendant political outcomes. Healthily, he observes that "Even if the system works not too badly in aggregate, the emergency of an excessively large gap in wealth and power is likely to make democracy fragile." (61) The foolhardiness of relying on GDP as the ultimate arbiter of a nation's economic health, and the political costs that follow, is evident. Wolf connects the contemporary destruction of the middle class to the warnings of Aristotle, the collapse of the Roman Republic, and the current conditions of political instability that have fueled the success of malign forces. A populace that venerates the dignity of choice cannot help but be shaken by feeling out of control of their fate, making it easy for populists and demagogues to misdirect citizen fury to easy scapegoats: immigrants, elites, etc. Status anxiety makes it easy to atomize a polity and disrupt what ought to be natural alliances, creating significant challenges to forging political solutions to economic problems in a self-reinforcing spiral. Wolf provides overwhelming detail of the radical inequality that has arisen in wealthy nations since 1990 and tracks the increasing political influence of extreme wealth. That the mechanisms of wealth creation are increasingly unproductive, in combination with the failure of governments to anticipate crises and respond with sound policy, exacerbates both the economic problem and the radical political reaction. The bleak turn to authoritarianism is the sad result.

Part III addresses what needs to happen if democratic capitalism is to survive, a prospect he recognizes as far from certain. Wolf observes that "it will be impossible to combine universal suffrage democracy with a market economy if the former does not appear open to the influence—and the latter does not serve the interests—of the people at large," (151) a formulation that neatly captures his view of the interdependency of these systems. Core to Wolf's belief is that government does, in fact, have a central role in the success of a market economy that will work for the majority of the people.

While he eschews government direction of capital (he excoriates socialism, though his definition is overly broad), setting the rules so that laissez-faire capitalism and its associated problems do not dominate is a crucial function of healthy administration. His approach is fundamentally conservative, or, as Wolf would have it, “Reform, Not Revolution.” He looks to Karl Popper’s idea of “piecemeal social engineering” as the proper road, one in which we aim to address and eliminate our most significant problems rather than strive for utopian transformations oriented around a vision of the greatest ultimate good. Wolf suggests four broad aims for economic policy: security, opportunity, prosperity, and dignity. Taking inspiration from Franklin D. Roosevelt, Wolf outlines five guiding principles for shaping economic policy to achieve his broad aims, devoting detailed attention to each. These five principles are: “1. A rising, widely shared, and sustainable standard of living; 2. Good jobs for those who can work and are prepared to do so; 3. Equality of opportunity; 4. Security for those who need it; 5. Ending special privileges for the few.” (160) In particular, the current imbalance of power makes that final point especially elusive while utterly indispensable. Wolf examines fiscal and monetary policies that would conform an economy to his five principles without requiring frequent government intervention but would also preserve the robustness of national and international systems. The final chapter of this section is devoted to renewing democracy. Addressing key aspects of a healthy democracy and how to move nations in that direction, Wolf also notes that it requires citizens to trust in and care for each other. He thoughtfully sets forth different alternatives for achieving more democratic institutions. Wolf also pays attention to the role of media as it could work for or against democratic renewal. His specific suggestions for reform include greater regulation to combat hyper-partisanship, funding for local news, and greater public oversight of private social media companies such as Facebook.

Wolf concludes in Part IV, aptly titled “A Hinge of History.” His goal is to focus the reader on three broad challenges: the unhealthy political and economic systems that have arisen as a result of the damage to the balance he outlined in Part II, the emergence of China as a superpower, and the environmental crisis humanity has wrought. He frames this section as an analysis of how these factors provide the critical environment within which we should look to achieve positive outcomes (restoring a democratic capitalism that serves the needs of citizens) while avoiding disaster (the rise of authoritarian regimes, environmental collapse, and conflicts both military and economic). Central to this program is international cooperation among democratic nations, particularly as a bulwark against China, but also to address the climate crisis. He concludes with suggestions for restoring citizenship. He is harshly critical of elites, both economic and political, and he yearns for higher standards of virtue for both classes. While he does not here articulate how this is to be achieved, his earlier calls for accountability and transparency surely loom large. He suggests three critical aspects of citizenship: “concern for the ability of fellow citizens to have a fulfilled life; the desire to create an economy that allows citizens to flourish in this way; and, above all, loyalty to democratic political and legal institutions and the values of open debate and mutual tolerance that underpin them.” (257) While this seems wise, a program to get us there is needed.

Ultimately, Martin Wolf’s *The Crisis of Democratic Capitalism* is a useful guide for understanding our current economic and political problems and the interrelationship of these two systems. His suggestions for the remedies at which we should aim are specific enough to be profound while broad enough to allow for many possible pathways to achieve those goals. As a warning, however, they come rather late. Wolf shares that at the time he wrote the book (finishing in the winter of 2022), he found himself “doubting whether the

US will still be a functioning democracy by the end of the decade.” (256) It is not so much that he has shut the barn door after the horse has fled; rather, the horse is nowhere to be seen and the barn appears to be uncontrollably aflame.

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