FROM THE FOUNDER

A Dangerous Age of Political Discontinuity

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The G-20 policymaking community is in a situation reminiscent of the old joke about Mary Todd Lincoln: "Other than the disruption from the intruder, how did you like the play, Mrs. Lincoln?" Other than completely missing the global political dynamic as exemplified by the Egyptian and Libyan developments, what a masterful job the G-20 has done of managing the world economy.

The truth, of course, is that the world has entered a dangerous age of political discontinuity. The United States, Europe, the Middle East, and even China are all vulnerable to political forces beyond their control. And a lot of the tension stems from the assault by governmental and/or corporate elites on future middle-class wage income.

Over the next decade, 400 million young people will join the global workforce. The head of the International Monetary Fund, Dominique Strauss-Kahn, predicts as a result that the world "could see rising social and political instability within nations—even war." As developments in Tunisia, Yemen, Egypt, and Libya have already shown, a rising global worker population is on a collision course with the elite bureaucratic forces of the status quo. These will be unusually challenging times because populations have the ability to ignite through cellphones, Facebook, Twitter, blogs, and YouTube a spontaneous organizational dynamic in digital space. Problems such as food shortages, inflation, joblessness, corruption, and human rights abuses can become intensified in the public's thinking. The risk is the spontaneous production of what analyst Harald Malmgren calls "leaderless revolutions" that are difficult to predict and sometimes impossible to control.

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The world is also about to experience the emergence of a disgruntled global middle class of mind-boggling size. In the year 2000, for example, the world's middle class numbered only about 430 million people. By 2030, according to the World Bank, the global middle class is expected to total more than 1.5 billion. On the surface, this huge middle-class expansion would seem to be a good thing. It stands to reason that as families enter the middle class, they tend to be more favorable toward democracy and free speech. In one form or another, they tend to be more tolerant of private enterprise and to crave educational opportunities. In other words, they tend to sound more like the American middle class.

Yet like most changes in the global economy, there is the potential for unintended consequences. As Samuel Huntington and other scholars in the field of social change have observed, revolutions seldom happen because people are poor. Severe political volatility happens because as families become more prosperous, their progress cannot keep pace with their expectations. What this means is that the global prosperity produced by several decades of financial liberalization and globalized trade has raised the economic expectations of the global masses. The question is whether, with the rise of this larger middle class, governments can meet those expectations.

The early indictors are not reassuring. In this issue's "Off the News" section, Wall Street analyst George Saghir

Salvation Army bread line, 1931.

offers a disillusioning assessment of the impossible jobs nightmare facing Middle Eastern governments. Over the next twenty years, the region needs to create between eighty and ninety million jobs for what is expected to be a doubling of its population. Such job creation would require China-like growth rates. As Saghir predicts, "The Tahrir Square of every capital [will] occupy our evening news for years to come."

Yet public angst is hardly limited to one part of the world. In the case of industrialized governments, the question is whether the governing elite have already compromised the future of their middle classes with unprecedented amounts of public debt. In Europe, the weak sister economies, as payback for their fiscal profligacy, have been saddled with austerity measures that are eye-poppingly stringent. According to some analysts, the austerity measures demanded of the Greeks rival the measures Germany faced in 1930–31, which helped open the door to Adolf Hitler. The irony is that as these measures have not been adequate, Brussels has resorted to Plan B. The middle class of the strong northern European economies, led by Germany, is being asked to backstop the European sovereign debt fiasco. To recapitalize the banks, the middle class will either be the major contributors to a giant bailout fund, or they will become the debt's ultimate guarantor through the issuance of so-called euro bonds. Translation: higher interest rates and less prosperity. Talk about a recipe for political instability.

Middle-class America has found itself facing stagnant wages combined with cheap loans.

Despite its best efforts at autocratic rule (and clever stoking of ultra-nationalism), China may not be immune to its own version of rising middle-class worker anxiety. Beijing's leaders must be asking themselves whether Hosni Mubarak, with thirty years experience of having a brutal police force clamp down on the Egyptian people, ultimately couldn't do the job, then how can China's leadership be 100 percent confident of being able to do so? Over the past decade, real wage income in China has declined as a percentage of GDP. Soaring food prices now threaten the livelihoods of middle-class workers. In response to the global financial crisis, China offered up a monster fiscal program amounting to more than 50 percent of GDP. Yet little was used to stoke middle-class consumer demand. Instead, most went to further investment designed to prop up the large state-run enterprises, the stock market, commercial real estate, and other elite interests. No wonder China each year experiences more than 85,000 riots and other social disturbances.

The United States has its own middle-class problem. The Federal Reserve's policy of quantitative easing (keeping short-term interest rates near zero percent), has done wonders for the big Wall Street banks. But the policy has meant dramatically lower returns on the passbook savings of the middle class. In general, between 2000 and 2008, middle-class families saw a drop in real income of more than \$4,000. In recent decades, with low interest rates as a result of the globalization and liberalization of financial markets, middle-class America has found itself facing a unique combination: stagnant wages combined with the availability of cheap loans. As Kevin Leicht of the University of Iowa has put it: "All of a sudden you could buy a car or house with no money down… With the American middle class, we've exchanged paying them money with loaning them money." Then there's the ugly fact that one out of every six Americans is either unemployed or under-employed. And as economist Ronald McKinnon argues in this issue (page 30), middle-class anxiety will only skyrocket if inflation returns.

Ultimately, G-20 policymakers need to ask themselves these questions: How did the world reach the point where unemployment for the thirty largest countries jumped an incredible 50 percent in less than three years? How did the world politically so quickly come to resemble a fuel tanker with no driver, careening down a winding mountain road in the direction of the unsuspecting village below?

—DAVID SMICK
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