



Political Economy in the World of the Future

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AGENDA

- Introduction
- Long-term issues in policy making
- Current context – political cost of the crisis
- Political economy in AUGUR's scenarios
- Summary



Policy-making process – long term issues

- New role of the media
- ICT and political debate
- Reduced influence of voters – rise of undemocratic bodies
- Alienation of society – declining quality of public goods



Political cost of the crisis

Direct cost – ruling parties are losing elections: Spain, Ireland, France

Indirect cost – alienation of society from the political class

- Close contacts between ruling elites and a small management group of financial institutions

- Complicated character of processes

- No transparency in anti-crisis policy-making

- Anti-crisis policy is mainly seen as support for financial sector

- Social and political cost of the fiscal adjustment



Political issues in AUGUR's scenarios

- Reduced government and struggling-on
- EU break-up and US-China accommodation
- Towards federal Europe

Reduced government – economic assumptions

- Global economic stagnation, deleveraging
- Cuts in public spending are not caused by political choice but by pressure from the financial markets
- Lower budget deficit does not mean independence from financial markets – gross borrowing needs will be significant even with lower current budget deficits
- Vicious cycle of austerity
- Resistance to financial market regulation and taxation, financial markets as important players in political decision-making



Political consequences

- Rising support for anti-establishment movements, both left and right, undermining political and social consensus
- Return of economic and political nationalism to the detriment of EU-wide and global policies
- Lower EU budgets, less solidarity
- Low probability of further EU integration and enlargement



EU break-up and US-China accommodation

- Break-up is caused by economic factors, not political decisions
- Euro seen as a net cost for both the South and the North
- Accelerated decline of Europe in global affairs; increasing domination of the US and China
- Inability to tackle long-term global issues like climate change, terrorism, etc.



EU federalisation and multispeed Europe – crucial conditions

- Consensus about policies to end the Eurozone crisis
- Eurozone survival, almost all EU countries adopt euro
- Bigger EU budget – 5% of EU GDP
- EU tax as source of EU budget revenues
- Eurobonds as a source of financing long-term projects
- Stronger macroeconomic supervision and coordination



Political consequences

- Fiscal and tax harmonisation, eurobonds: European Minister of Finance
- Expansion of EU identity, citizenship, rising role of EU civil society, NGOs
- Stronger role of EU-wide parties and EU Parliament
- National policies to focus mainly on ideological issues; economic policy increasingly outsourced to the EU level
- Closer EU coordination on the global arena



Political economy in multipolar scenario

- To reform existing bodies or create new ones?
- Which issues must be treated on the global level?
- Who are the major players – not only nation states anymore
- Can G20 be a platform for coordination of global governance?



Long term issues and AUGUR scenarios

Scenario/long term process	Reduced Government, Struggling-on	EU Break-up, Bipolar	Towards Federal Europe, Multispeed Europe	Multipolar
Role of media	- Focus on short term issues	- Focus on short term, mainly national issues - Nationalistic approach to problem-solving – beggar-thy-neighbour type approach	- More focus on EU level	- More focus on international and global level
Technological changes	Independent from the governance scenario	Independent from the governance scenario	Independent from the governance scenario	Independent from the governance scenario
Rise of undemocratic bodies	- More and more decisions made in undemocratic bodies	- Return to national democracies, decline role of undemocratic international institutions	- EU institutions with strong democratic support	- Global institutions with strong democratic support
Alienation of political elite from society	- Society covers cost of post-crisis adjustment, so distance from politics will grow	- Political parties have to look for support on the national level	- Rising concept of EU citizenship - Rising role of European NGOs	- Society involved in policy making by rise of international civic society



Summary

- Political consequences of current crisis will be long-lasting
- Serious threat of alienation of society from the policy-making process
- Political scene in the scenarios will be determined by economic outcomes