

# MANUEL MUÑIZ

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Thank you everybody. It has been a long conference so thank you everybody who has stayed for this session on the closing plenary. My name is Manuel Muniz; I am the Director on Transatlantic Programs at Harvard University. I want to thank the organisers, particularly Thierry, for having us here and allowing us to have this panel with young leaders of the conference. We are going to address some issues that interlink: innovation, change, disruption, and political economy; that is the overarching theme of the panel. I am going to give a diagnosis of where I think innovation is and how it is affecting our politics. I am going to try to land some of the debates we have been having on innovation and change and look at their political consequences. It is just going to be a diagnosis and then I am going to run through the panel. We have a group of entrepreneurs and people who are practice-oriented, so you will see a big difference between what an academic can make a living out of and what entrepreneurs do in action. They are going to come up with deep-dive analysis and solutions for what is going on. I will be quite quick because I do not want to take too much of your time.

I do not know if you have ever seen a graph that runs from 2 000 BC to our time, which is 4 000 years of history. There are two lines showing world population and the other the social development index, a measure of material wealth. They stay flat and then you get the scientific and industrial revolutions and they both sky-rocket. We live on a curve of accelerated change, both in terms of population and material wealth. The same graph in world GDP in history shows the same thing. In terms of our capacity for economic development, there is essentially only one significant historical development; that is the application of science and technology to the economy and productive processes. One of the big drivers is the collapse in the cost of processing power. McKinsey Global Institute has catalogued the various vectors where this change is taking place into a variety of categories: energy, cloud, robotics, etc. It is the convergence of all these that makes change exponential and very hard to predict.

Since the 1970s productivity has increased by 243% while hourly compensation has remained stagnant. As I will say at the end of the presentation, I think that this is a fundamental breach of the social contract, with huge implications for the way we think about the future and how to build a new equilibrium. Curiously, we live at a time when we have never been so prosperous; the United States returned to pre-crisis GDP in 2012. The United States just elected a president on a platform to break the system, at a time when they have never been so prosperous in the aggregate. However, because of that decoupling of productivity and wages, most of that income is going to capital holders. A McKinsey Global Institute report titled 'Poorer than my parents' says that upwards of 90% of Italian households have seen their household incomes stagnate or decline; that is equally true for 80% of US households and 70% in the UK. My thesis in this talk is that this is dynamite right at the heart of our democracies; this is not sustainable politically. 2015 was the first time that the top 1% had more aggregate wealth than the remainder of the planet.

In my mind, there are three consequences, though there are many more. One is the growth in anti-systemic sentiment. I followed the Brexit debate quite closely and, essentially, Brexiteers are highly suspicious of experts. With an avalanche of expert reports saying that Brexit was a bad idea, you still got Brexit. The breach of trust and those they represent has been growing and growing, and is now producing completely unpredictable political outcomes. This is about pessimism and optimism and support for Hilary and Trump. When asked the question 'Compared to 50 years ago, life for people like you in America is', around 80% of Trump supporters would say it is worse, while it would be around 19% for Hilary supporters. If you are a pessimist, there is a high chance that you will prefer Trump as a candidate and those were the people who were ultimately voting for him.



We are entering an anti-liberal era, that is anti-trade, anti-globalisation, anti-cosmopolitanism. Why is this anti-liberal? Because liberalism is quite technical, it relies on precisely that trust between elites and the people, it is very long-term and counter-intuitive. The EU, a project that requires deep and technical analysis and for people to trust those people negotiating these agreements, is going to be one of the big victims of this, as well as free trade and other things.

One of the things I will just point out is how deaf liberal elites have been to this whole process. We have built these huge echo chambers, been quite relaxed about what has been going on, and, in some cases, ignorant about what was happening to our middle class and the erosion of the middle class. This is our capacity to predict Brexit or the Donald Trump victory but it is happening on many other issues. My thesis is that the direct short-term political risks are a weakening of the EU, NATO, and the global trading dream, which we are going to see in the next few months.

I am just going to fly through trade. The last period when we had this sort of interdependence and complexity, as well as an anti-trade mood, was between January 1929 and January 1933. Essentially, international trade collapsed to a third of what it was in January 1929. International trade is incredibly fragile to tariff wars and treaty revisions, which is precisely what we are starting to see.

The third and gravest consequence is a collapse in the support for democracy as a system of government. This, to my mind, is the deepest structural consequence. Data from a recent study by two colleagues in the Government Department shows that around 70% of the people born in the 1920s and 1940s feel that it is essential to live in the United States run as a democracy. For people born in the 1980s, that figure goes down to 20%. The other side of the coin is support for authoritarianism in the United States, where the latest data showed that one-third of Americans were willing to accept that an authoritarian regime was something desirable. People have voted Democratic and Republican and now they have voted an Independent into the White House; if he does not deliver for the people who have been left behind, it is not just the elites and the parties who will be questioned, it is the political framework. I think the Trump phenomenon is inexplicable without this data on authoritarianism. I will finish there. I think the driver of what we are seeing is a big shift in the structure of the economy, in the way wealth is generated and distributed. I think that this is producing a political convulsion of which we are only seeing the beginning. I think it is going to have geopolitical consequences, some of which we are already beginning to see, but fundamentally a weakening of the EU, NATO, and the global trading regime.

I think the solution will require a new social contract. We have been here before; I think the period is similar to the beginning of the 20<sup>th</sup> century, where we also had a big shift in the structure of the economy and the emergence of a new political class. Then it was the proletariat, now it is the precariat; all the under-employed, sub-employed, precariously employed people, the losers in the process of technological innovation. The question is how do we build a new equilibrium. Where is the new equilibrium after the convulsion? In the case of the 20<sup>th</sup> century, it was the expansion of the vote and the establishment of the welfare state. In our time, we can have a debate about how that looks; I think that the fundamental message for me is that this is far more structural than we think, and we need to think very deeply about the interplay of these dynamics and the consequences. I will leave you with a final note – the liberal order is a huge generator of prosperity. We have basically found a way to eliminate extreme poverty; we have managed to reduce extreme poverty at an incredible rate at a time of population growth. This system with the rule of law, free trade, etc. is an incredible generator of wealth. We are literally failing to manage prosperity and it is a failure of intelligence we are going through right now. Thank you.