The Crisis on the Left Olivier Blanchard December 2002

After its loss in the last election, the left is in crisis. Some argue for a return to the historical roots of the party. Some argue for the abandoning of the old myths, and a bold move forward.

A description of France after the defeat of the Socialists last April? A Description of the U.S. after the defeat of the Democrats in the last midterm elections? Both, and this is my point.

The left is in crisis everywhere, even where, with more luck than ability (think of Germany), it has been able to dodge the electoral bullet and remain in power. And the crisis is a deep, fundamental one.

In the past, the left came with its own ideology, its own economic theory. The fundamental economic mechanism was the struggle for rents between workers and capitalists. In the "us versus them" view of the world, it was not hard to enroll voters, from the most disenfranchised all the way up the salaried middle class—more than enough to have a majority, and get elected.

The world has changed. More intense competition, within and across countries, has decreased the rents. Financial capital moves around, physical capital relocates. The old view just no longer applies, and the limits on redistribution through the market are much tighter: Trying to appropriate the rents may lead firms to move to emerging countries, or else go bankrupt.

This reality has taken a while to sink in. Not all political parties on the left now profess a respect for the constraints imposed by market forces. Some do, none more explicitly than the U.K. labor party and Tony Blair. Some, typically the old line Communist parties, have kept much of the time tested rhetoric; but even they know that the rhetoric is largely for electoral consumption. They know that the old nemesis, "Capital", has become largely hard or impossible to expropriate, but they are not yet ready to deliver the news to their constituency. And the tension is the same within parties. Witness the muddled debate within the French Socialist party in the aftermath of defeat, with the "left of the left" and the "right of the left", in a fight for both control of the party and its eventual return to power.

Both strategies have obvious pitfalls:

The old rhetoric resonates well with the most destitute, with the workers paid the minimum wage, with the long term unemployed, with all those who feel that anything else would be better than what they have. It also allows easier contact with the fringe groups, the anti globalization protesters, the most zealous environmentalists. In other words, it mobilizes the left. But it makes it hard to keep the center. The middle class does not buy the rhetoric anymore. And, if, by luck, the left comes to power, reality quickly, too quickly, sinks in.

And modernization runs into just the opposite problems. Talk of funding retirement pension plans, of introducing a negative income tax, as sweet as it sounds to economists from all stripes, does not mobilize public opinion. The middle class likes the tone, but wonders how different the program is from what they hear from the liberal right. The poor don't care. The extreme left becomes disenfranchised. And, as France shows, the left loses the elections.

Shift everything I just said a bit to the right, and you get the problems of the U.S. democrats. The choice of a candidate for the next elections is about this, not personalities. Shift everything a bit to the left, and you get the problems facing Lula in Brazil. Should he return to the old Lula rhetoric and see capital fly, or try "modernity" and disappoint many of those who voted for him? And, with minor adjustments, you get Germany, Italy, Spain, Portugal, and so on.

So: Damn if you do, damn if you don't? No, or at least not quite. What fundamentally must distinguish the left and the right is not their view of the economy, but their view of redistribution. One of the first lessons of economics is that there is a trade-off between efficiency and redistribution. The right focuses on efficiency, the left on redistribution. A clear commitment to the poor, to the sick, and to the unlucky, must be the message of the left. And the means must be appropriate, a —boring—combination of better retirement systems, better designed unemployment benefit systems, negative income taxes, training programs, and the like. The commitment will mobilize the troops. The methods will convince the center. And the left, hopefully, will return to power.