

The Decline of Trust in Government

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Observers' surprise at the recent rise of populist parties in many European countries, the triumph of Brexit in the UK referendum of June 2016 and the election of Donald Trump to the US Presidency in November 2016 has shown how poorly questions of generalised social trust are understood by most political commentators and social scientists. The best explanation for these epochal events is a sharp decline in public trust. The Edelman Trust Barometer records this decline in recent years. It is a worldwide poll, but its figures show European countries and the USA as being among the worst affected, with half or more of their populations believing the present system is not working. The Edelman figures suggest that public trust in government, business, the public media and NGOs are all falling, trust in the Chief Executive Officers of large businesses especially sharply. The result is a rising sense of injustice and helplessness, a lack of hope and confidence in the present system, and a desire for radical change. All of these features help to explain the public's loss of faith in established parties of government and opposition and its growing attachment to populist parties which offer faith in ordinary people and simple solutions to complex problems.¹

In order to understand what is going on, then, it is crucial that we study generalised social trust systematically. I offered a framework for doing so in my *Trust: a History* (Oxford University Press, 2014), and I also suggested why social distrust is growing within modern Western societies. In this paper I take that account further, up to the critical votes and decisions of 2015–16.

Trust is a universal human need. We all need to take decisions every day about how to behave in certain situations. Most of those decisions concern the future in some way. We are virtually never in a position to know and weigh rationally all the factors affecting any given decision; instead we have to trust certain constants in our life, and decide according to habit, feeling and personal taste.

The trust involved here can always be traced back to general social trust. Individual trust is always placed within a framework of broader trust vectors within society. The guarantees of our trust are cultural and social entities:

¹ The Edelman Trust Barometer Global Report 2017.

symbolic systems and the institutions which harbour and develop them.² In practice all individuals seek confidence in the future within a collectivity to which they have become accustomed or which they believe to be stronger or more reliable than rival collectivities. We grow up in communities which have certain norms about personal behaviour and interaction, and inevitably we are strongly influenced by them. Those norms, and the resulting configurations of trust, dominate our lives unless we consciously turn against them. Mostly our search for the trustworthy takes place unreflectively: we do not think about why we trust banks or doctors or lawyers. We simply place our spare money in banks, take the pills doctors prescribe and sign the contracts lawyers draw up, because everyone else does so, we long ago became used to doing so, and we lack the expertise to perform ourselves the assessments we presume they carry out. We trust unthinkingly until something goes seriously wrong: the bank is threatened with bankruptcy, the pills turn out to be harmful, the contract does not protect us against incompetence or fraud. Distrust is much more conscious than trust.

In recent decades it has become clear that the populations of Europe have lost a good deal of trust in their governments and in the established political parties of right and left which had ruled most European countries since the end of the Second World War. From the 1980s those parties had championed a form of economic globalisation which encouraged large-scale immigration and a set of neo-liberal financial policies which led to serious cuts in welfare state provision as well as the weakening of state control of broad swathes of the economy. The theoretical basis of these policies was that financial markets were rational and self-correcting and therefore trustworthy, that they brokered actors' self-interest to work for the benefit of all and that state intervention was therefore unnecessary and indeed harmful.³

The financial crash of 2007–8 refuted that theory – or it should have done. Testifying to a Congressional committee, Alan Greenspan, former chairman of the US Federal Reserve, confessed 'Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity – myself especially – are in a state of shocked disbelief'.⁴

On the whole, though, governments in Europe and North America continued to work on the basis of the discredited theory, as if the crash had been

2 For development of this idea see my *Trust: a history*, Oxford University Press, 2014, Chapter 2.

3 Sue Jaffer, Susanna Knaut and Nicholas Morris, 'Failures of regulation and governance', in Nicholas Morris and David Vines (eds.), *Capital Failure: rebuilding trust in financial services*, Oxford University Press, 2014, 121.

4 *The Independent*, 24 October 2008, 43.

a minor disruption which could be corrected by somewhat more disciplined budgetary policies. Such reforms as were carried out tended to enrich the already wealthy while depriving many of the poor and disadvantaged of basic protections.

Many people were left with the feeling that neo-liberal globalisation had surrounded them with alien citizens whom they could not trust and who were claiming state benefits they had not paid for. Moreover, people no longer had confidence in the safety nets provided by state benefits in case of adversity such as accident, sickness, unemployment or old age. Islamist terrorism then added extra impetus to their fears. The result was widespread exaggerated distrust of all immigrants and of international institutions generally.

An early sign came in France in 2002, when in the first round of the presidential election, the Socialist Party was outvoted by the Front National which thus gained second place and the right to challenge the centre-right Republicans in the second and decisive round. The Front National's programme called for resistance to further immigration, especially of Muslims (the election came soon after Al-Qaeda destroyed the New York World Trade Center in September 2001), and for an end to the European Union's open market in order to protect French jobs for French people. In 2004, moreover, both France and the Netherlands voted in referendums to reject the proposed Constitutional Treaty of the EU, which would have transferred more power from nation-states to the central EU institutions.

In both cases it seemed that national populations were rejecting the consequences of economic globalisation, which had curtailed the political power of nation-states and their parliaments, and had placed it in the hands of EU bureaucrats and unelected international business tycoons who could transfer resources across frontiers at the click of a mouse regardless of the needs and wishes of local communities. After the financial crisis of 2008 disillusionment intensified sharply. In the Netherlands in June 2010 the Freedom Party headed by Geert Wilders gained 15% of the vote and 24 seats (out of 150) in the parliament. Wilders was calling for a moratorium on the immigration of non-westerners and on the construction of new mosques and Islamic schools. He also proposed that the Quran should be banned as a book which incites hatred. Europe, he asserted, was gradually turning into 'Eurabia'. 'Take a walk down the street and see how things are going. You no longer feel you are living in your own country. There is a battle going on, and we have to defend ourselves. Before you know it there will be more mosques than churches!'⁵

5 *Expatica*, 13 February 2007: www.expatica.com/actual/article.asp?subchannel_id=1&story_id=36456, accessed 8 August 2012.

In Finland the True Finns won 39 seats in 2013 and became the third largest party in parliament on a programme of opposition to the EU, of limiting immigration and deporting immigrants convicted of serious crimes. In Hungary Jobbik won 16.7% of the votes in calling for a 'struggle against the EU, which colonises and enslaves Hungarians'.⁶ Jobbik described itself as a 'principled, conservative and radically patriotic Christian party... protecting Hungarian values and interests', and resisting 'ever more blatant attempts to eradicate the nation as the foundation of human community'.⁷

What has been happening is that right-wing populist parties, in response to the widely perceived economic crisis, caused at least in part by globalisation, were utilising an opportunity to make themselves more acceptable to the general public. They were purging their programmes of their more obviously racist and neo-Nazi features and moving closer to the mainstream of political life in their various countries. In the face of cultural and religious conflicts apparently caused by immigrants and terrorism, the populist parties claimed to stand for 'European values', national sovereignty, national democracy and civil society against Islamism and multi-culturalism; some, though not all, also inveighed against gay liberation and same-sex marriage.⁸

The populist parties were rejecting the 'double liberalism' taken for granted by elites in most European countries: (a) economic liberalism, which required national borders as open as possible to capital, commodities, services and labour; (b) social liberalism, which promoted religious and ethnic toleration, and individual rights, including the rights of sexual minorities. Against both forms of liberalism the populists asserted the rights of long established communities, those of family, religion and nation, as the most worthy repositories of generalised social trust. They claimed to represent the authentic people, whom they portrayed as pure, generous and united, a healthy contrast to the corrupt, greedy, feuding politicians and financial elites who had become alienated from their own voters.⁹

In order to make such a grandiose claim, the populist parties had to dissociate themselves from the political fringe of the racist and violent neo-Nazis. In France from 2011 the Front National under Marine Le Pen launched a 'de-demonisation' of its political line, and in 2015 actually expelled its previous

6 www.jobbik.com/jobbik-news/jobbik-announcements/3245.html, accessed 8 August 2012.

7 www.jobbik.com/about_jobbik/3207.html, accessed 8 August 2012.

8 Alina Polyakova and Anton Shekhovtsov, 'On the rise: Europe's fringe right', *World Affairs*, vol 179, 1 (spring 2016), 70–80.

9 Pierre Rosanvallon, *Counter-Democracy: politics in an age of distrust* (translated by Arthur Goldhammer), Cambridge University Press, 2008, Chapter 12.

leader, Marine's father, Jean Marie, for discreditable racist attitudes.¹⁰ With the party's newly detoxified brand, it was able to become the largest single French party in the European Parliament after the 2014 elections. Moreover Marine Le Pen gained 21.3% of the vote in the first round of the French presidential election of 2017, and 33.9% in the second round, the highest national vote it had ever attained.

Similar trends could be seen elsewhere. In Britain UKIP (the United Kingdom Independence Party) advocated withdrawing from the EU and reclaiming for the Westminster parliament all the powers it had ceded to the EU. At the European Parliament elections of 2009 UKIP won 12 out of 75 UK seats, and in 2014 24 seats, to become the largest British party represented in the parliament. In local government elections of 2013 it picked up 23% of the votes in the constituencies it contested.¹¹

In Hungary the centre-right Fidesz government under Viktor Urban moved somewhat in the opposite direction, closer to Jobbik's position. His party became more sceptical about neo-liberal economic globalisation, and indeed about liberalism in general: Urban boasted that Hungary was an 'illiberal democracy', by which he apparently meant that Hungary would restore elements of national protectionism and reinforce its borders against unwanted immigration. In 2015 in response to the large influx of refugees from Syria and other war-torn Middle Eastern countries Urban closed the border with Serbia.¹²

The isolationist, protectionist trend culminated in the British people's June 2016 vote to leave the EU, the first time that any nation (with the partial exception of Greenland, a Danish federal territory) had opted to quit what had hitherto seemed an inexorably expanding supra-national organisation. The margin of the Brexiteers' victory was not huge (51.9% against 48.1%), but it was definite. Examination of the voting patterns revealed that the vote for Remain (57%) was highest in the two top social strata (As and Bs), was lower (49%) in the middle (Cs) and at its minimum (36%) in the lowest strata (Cs, Ds and Es). The main fault lines, however, were not social class, but education and age. 68% of voters with completed higher education voted Remain, while 70% of those who never advanced beyond GCSE (basic secondary school graduation) voted Leave. Of people over 65 years of age 64% voted Leave, 36% Remain,

10 BBC News Report 20 August 2015: French National Front expels founder Jean-Marie Le Pen.

11 *Keesing's Contemporary Archives*, 2009, 49273; 2013, 52696.

12 BBC News report 15 September 2015: Migrant Crisis: Hungary's closed border leaves many stranded.

while of those aged 18–24 71% voted Remain and only 29% Leave.¹³ The greatest contrasts then depended on level of education and on stage of life rather than on social class as such, though of course those with better education tend to belong to a higher social class; furthermore, older people will tend to have been less well educated. It is noteworthy too that, while the Remain campaign concentrated on economic arguments, the Leave campaign put questions of identity, national sovereignty and immigration at the forefront, claiming that Britain was losing control of its own frontiers, its nationhood and its political system. ‘Give us back our nation!’ summed up their campaign in a few words.¹⁴

Why in an era of increasing economic globalisation and of increased mobility around the world should there be such a marked reassertion of national distinctiveness? At the heart of the explanation for this apparent anomaly lies social trust, whose significance I outline above. I shall concentrate here on two forms of trust in particular: trust in money and economic institutions, and trust derived from the norms of national culture and national institutions. I shall argue that the symbolic attraction of the nation is far stronger than that of the economy.

Wolfgang Streeck has diagnosed the present crisis as a culmination of the breakdown of the alliance of capitalism and democracy, a process which he sees unfolding in four stages following the postwar glory years of capitalist democracy: starting with inflation in the 1970s and going on to public indebtedness in the 1980s, private debt in the 1990s and 2000s, and terminal crisis beginning in 2008.¹⁵

Streeck is not alone in diagnosing a dangerous tension between capitalism and democracy. In 2014 the sober *Financial Times* economic columnist Martin Wolf, at one time a staunch supporter of globalisation, wrote:

In democratic societies, a tacit bargain exists between elites and the rest of society. The latter say to the former: we will accept your power, prestige and prosperity, but only if we prosper too. A huge crisis dissolves that bargain. The elites come to be seen as incompetent, rapacious or, in this case, both.

He added that globalised elites have

13 ‘How Britain Voted’, <https://yougov.co.uk/news/2016/06/27/how-britain-voted/>, accessed 11 July 2017.

14 David Goodhart, *The Road to Somewhere: the Populist revolt and the future of politics*, London: Hurst, 2017, 19–26.

15 Wolfgang Streeck, *How Will Capitalism End? Essays on a failing system*, London: Verso, 2016, Introduction and Chapter 2.

become ever more detached from the countries that produced them. In the process, the glue that binds democracy – the notion of citizenship – has weakened.... The loss of confidence in the competence and probity of elites inevitably reduces trust in democratic legitimacy. People feel even more than before that the country is not being governed for them, but for a narrow segment of well-connected insiders who reap most of the gains and, when things go wrong, are not just shielded from loss but impose massive costs on everybody else.¹⁶

This is a pretty good description of what has been happening to Western societies for several decades, and of what has propelled populist parties into the foreground of politics. The financial crash of 2007–8 naturally intensified the resultant resentments. At the roots of the crash was the massively untrustworthy behaviour of banks, financial institutions and building societies. During the 1980s and 1990s most of the legal restrictions which had previously kept them cautious and undynamic but trustworthy had been lifted by governments anxious to promote rapid economic growth. Britain experienced the ‘big bang’ of 1986, which removed restrictions and opened British banks to full-scale international competition.

The resulting ‘freedom’ left them well placed to respond to growing demand. In the last 50–60 years in most Western countries we have made ever increasing use of financial trust to minimise the impact of disaster. Whereas previously people usually relied on family, friends, local community, charities or religious institutions to help with facing risks, nowadays most put their trust at least to some extent in savings banks, insurance policies, pension funds and, only failing all else, state welfare systems. In 1963 pension and insurance funds owned 19 per cent of UK shares; by 1998 that was 65 per cent.¹⁷ In the USA total pension fund assets rose astronomically, from \$0.2 trillion in 1975, to \$3tr in 1990, \$8tr in 1998, and £16tr in 2006.¹⁸ With the deregulation of capital markets, between 1980 and 1995 investments from mutual funds, insurance funds and pension funds grew some tenfold. This growth played a major role in the globalisation of finance, since much of this investment was in foreign markets.¹⁹

16 Martin Wolf, *The Shifts and the Shocks: what we've learned – and have still to learn -from the financial crisis*, L: Allen Lane, 2014, 351–2.

17 Jonathan Ford, ‘A greedy giant out of control’, *Prospect*, November 2008, 22–8.

18 Michael J. Clowes, *The Money Flood: how pension funds revolutionized investing*, New York: John Wiley & Sons, 2000, 277; OECD statistics at <http://stats.oecd.org/wbos/Index.aspx?usercontext=sourceoecd>.

19 Robert Gilpin, *The Challenge of Global Capitalism: the world economy in the 21st century*, Princeton University Press, 2000, 140–1.

This expansion, however, did not fully include those who have never had enough money to invest extensively in insurance, pensions or real estate.

Another form of security which attracts those with the means to attain it is real estate. Not only do bricks and mortar provide a roof over one's head, but in the decades from the 1960s they have also been a reliable form of investment – the most reliable form whenever returns from stock market investment were meagre. Real estate worked well for those who could afford to take out a long-term mortgage, but, as Martin Wolf pointed out in 2008, it also turned them into 'highly leveraged speculators in a fixed asset that dominates most portfolios and impairs personal mobility'.²⁰

To enable the less advantaged to undertake this form of investment and extend real estate purchase as far down the social scale as possible – and of course enhance their profits – banks and building societies used their ingenuity to find ways to offer access to the housing market to those who would not normally qualify. They offered credit (financial term for trust) to them on easy terms. To cover the extra risk involved, they split up the debt into different packages with calibrated degrees of risk, and offered them as securities for other financial institutions to buy. However, the mathematical models on which these operations were based were hopelessly outdated: they did not take into account the possibility of a major depression, such as had occurred seventy years earlier, in the 1930s. Hence they ignored the possibility of one default sparking off a chain of others. The trade in such securities had risen dizzyingly in very recent years: in the USA from \$80 billion in 2000 to \$800 billion in 2005, in the UK from £13 billion in 2000 to no less than £257 billion in 2007.²¹

In the end the whole process became so complex and involved such huge sums that very few bank employees even understood how the securitised packages were made up or what they were worth. The Dutch anthropologist Joris Luyendijk worked for a time in an international bank in the 2000s; he reported that the competition between banks and between individuals within the same bank became so acute that all restraints were dropped. Traders worked, he reported, on 'vast trading floors where mercenaries survive in a haze of complexity and *caveat emptor*, an atmosphere of deep mutual distrust, a relentless and amoral focus on profit and "revenue responsibility", a brutal hire and fire culture'. Yet at the same time, this ruthless competition forced some traders to form expedient alliances with one another which in the end, under constant

²⁰ *Financial Times*, 10 September 2008, 15.

²¹ Gillian Tett, *Fool's Gold: how unrestrained greed corrupted a dream, shattered global markets and unleashed a catastrophe*, London: Abacus, 2010, 52–9, 111–2; *Financial Times*, 12 December 2008, 11.

pressure, became 'tribal bonding, belonging and sticking with your mates'. This frenetic attachment to temporary allies readily degenerated into groupthink, in which individuals were absolved from individual calculation and went along with what everyone else was doing.²²

In 2007–8 the result was a massive financial crisis in which no one could work out any more which banks were solvent from one hour to the next. Banks refused to even make overnight loans to one another – hitherto a normal practice to help each other cope with momentary liquidity problems – because they no longer trusted the solvency of the rival institutions. The climax was reached in September 2008 with the collapse of Lehman Brothers, one of the five top investment banks in the USA, with tentacles in most countries of the world.

Alistair Darling, British Chancellor of the Exchequer, was faced with the imminent bankruptcy of the Royal Bank of Scotland, the second largest UK bank, and he realised with horror: 'It was that stark: the banks did not trust one another any more.... If we didn't act immediately, the bank's doors would close, cash machines would be switched off, cheques would not be honoured, people would not be paid'.²³ The invisible bonds of routine trust which enable complex economies to function at all would freeze up, with unpredictable and potential terrifying consequences.

Faced for the first time with such a horrifying scenario, Luyendijk reports that in other banks colleagues 'sat frozen before their screens, paralysed, unable to act... Some got on the phone to their families: "Get as much money from the ATM as you can". "Rush to the supermarket and hoard food". "Buy gold!" "Get everything ready to evacuate the kids to the countryside". Bankers were stocking up on guns, ready to bed down in bunkers if civil society collapsed'.²⁴ In a supreme crisis like this, all normal unreflective modes of trust break down and no one knows what they can have confidence in any more.

Darling and other finance ministers had to decide swiftly that major banks could not be allowed to fail, to avert the total financial collapse which he and Luyendijk's bankers feared. State treasuries had to provide first aid to their stricken banks through subsidies, guarantees, large-scale share purchases and sometimes outright nationalisation, in order to enable economic activity to continue at all.

22 Joris Luyendijk, *Swimming with Sharks: my journey into the world of the bankers*, London: Guardian Faber, 2015, 153–4.

23 Alistair Darling, *Back from the Brink*, London: Atlantic Books, 2011, 150, 154.

24 Luyendijk, *Swimming with Sharks*, 32.

As a result of the outlays they incurred, governments were themselves left with huge debts – debts which in effect they had taken over from feckless and untrustworthy banks. In order to balance their budgets and make their bonds attractive to international investors those governments imposed spending cuts whose brunt was borne by the disadvantaged, i.e., by those who depend on welfare and social security systems. In the UK, for example, the costs have included funding cuts to hospitals and schools; the closure of numerous public libraries; extreme strain on the facilities of the National Health Service; repeated crises in the prison service caused at least partly by a shortage of prison officers; families forced out of their homes and communities because they are deemed to have too many bedrooms, because their housing benefit has been cut, or because the local council or housing association has sold their home to a developer; reductions in invalidity benefits and tax credits, which have left many claimants with anxiety-creating forms to fill in and intimidating tests to undergo; the withdrawal of many youth services and careers advice centres; reductions in legal aid which exclude many people from access to the law, especially women, recent immigrants and people newly dismissed from employment. One could go on. Cumulatively, these cuts deprived many people, especially the poor and disadvantaged, of their confidence in the future and of their feeling of belonging to a community. That is what has made them prey to populist parties.

It is not even clear that treasury cuts have improved the economic situation. UK GDP may have recovered since the crash of 2007–8, but the wages of ordinary employees have not. Many people are aware that their pay is stagnant while prices are rising and welfare cuts are making their standard of living hard to maintain. The result is a steady rise in private debt as hard-pressed households make maximum use of their credit cards or take out loans on unfavourable terms.²⁵ Altogether, the ‘austerity’ mandated by the Conservative-Liberal Democrat coalition government in 2010 has lasted far longer than expected and has not delivered the intended results. The public therefore not only resents the effects, but also has little confidence in the government’s competence.

The disruption to stable routines and to household budgets, the restriction of access to the law, the impoverishment of collectively provided facilities – all these deprivations loosened the bonds of attachment and routine confidence in the future which most of us take for granted most of the time and which are the underpinning of democracy and civil society. Not many families follow politics closely, but most have become aware of the gradually increasing

25 Zoe Williams, ‘With Britain’s addiction to debt, another crash is certain’, *The Guardian*, 4 Sept 2017, 23.

disentitlements imposed on them by a national government yielding to the demands of global finance. They also notice that the already wealthy are actually augmenting their wealth at the same time, apparently at everyone else's expense. The victims of this process feel that the government has violated the tacit social contract which holds democracies together. That is a perfect setting for the rise of populist parties.

Global finance has, then, revealed itself to be untrustworthy. It rests on a neo-liberal consensus regarding the well-springs of a functioning economy. It has long been taught in economic theory that the economic behaviour of individuals – therefore of efficient markets – was driven by rational calculation of self-interest. In a misunderstanding of Adam Smith's term 'the invisible hand', the aggregate of everyone's individual selfishness, was held to generate the public good. Trustworthiness was irrelevant. Markets were self-correcting because good risk models enabled them to cope with short-term anomalies. In the crisis of 2007–8, however, huge banks lost the most elementary trust in each other. The crisis revealed that, contrary to previous assumptions, risk had been grossly under-estimated and that mutual trust was much shakier than everyone had assumed.²⁶ Markets were not self-correcting and trustworthiness was relevant after all.

In the years after the crisis it gradually became clear that the big banks and international firms which had caused the crisis through their underestimate of trustworthiness had actually profited from it, while imposing the costs on the poor and disadvantaged in their own societies, who were in no way responsible for it. By 2017 figures showed that FTSE chief executive officers were earning 386 times the national living wage, or more specifically 132 times more than the average police officer, 140 times more than a schoolteacher, 165 times more than a nurse and 312 times more than a care worker.²⁷ Moreover, inherited wealth had become a far better determinant of social and economic status than either exceptional talent or hard work.²⁸ Those with inherited wealth could expect to have it protected and enhanced by dedicated, discreet and

26 Sue Jaffer, Susanna Knautd and Nicholas Morris, 'Failures of regulation and governance', in Nicholas Morris (eds.), *Capital Failure: rebuilding trust in financial services*, Oxford University Press, 2014, Chapter 5.

27 Equality Trust report, March 2017: equalitytrust.org.uk/paytracker, accessed 4 December 2017.

28 With a few specialised exceptions such as pop singers and international footballers. For a detailed presentation of the thesis that inherited wealth offers better returns than exceptional talent or hard work, see Thomas Piketty, *Capital in the twenty-first century* (translated by Arthur Goldhammer), Cambridge, MA: Belknap Press of Harvard University Press, 2014.

extremely confidential wealth managers, handpicked for their trustworthy qualities.²⁹ Much of it would be placed in minimally regulated private equity funds, hedge funds or in tax havens (many of them in Switzerland or in British dependencies), where it would be concealed from the tax authorities.³⁰ The resulting inequalities severely undermined confidence in the political and economic system as a whole.

Statistics on the extent of the sums thus spirited away are naturally mostly unavailable, but, according to Gabriel Zucman, who has made a special study of what can be inferred from national statistical records, some 8% of international wealth – \$7.6 trillion dollars – is hidden in this way, leading to an average 1% loss of wealth tax revenue by nation-states. Other sources of tax revenue are also reduced by tax havens. Zucman estimates that the equivalent of 10% of global GDP is held offshore by rich individuals, mostly through the facade of faceless shell corporations, foundations and trusts.³¹ The higher the level of wealth, the greater the tax evasion: he estimates that the top 0.01% evade 25–35% of taxes (probably somewhat more in the UK, Spain and France), compared with an average 3% for all levels of wealth.³² States of the EU lost about \$78 billion in 2014; the effect is especially strong there because most countries are practising the economics of austerity, and the ratio of public debt to GDP is rising. If France could tax all its citizens' hidden wealth at 100%, Zucman estimates, it would immediately raise about €350 billion, or 15% of GDP.³³ The loss is more significant than appears on the surface for another reason: 'When tax evasion is possible for the wealthy, there can be no consent for taxes.'³⁴ In other words, tax havens undermine trust in the tax system: potential taxpayers feel they are being taken for a ride, become reluctant to contribute to an unjust system, and try to find their own small-scale ways of avoiding tax. Martin Daunton, in his major history of British taxation, asserts that 'the creation of

29 Brooke Harrington, *Capital without Borders: wealth managers and the one per cent*, Cambridge, MA: Harvard University Press, 2016.

30 Philip Coggan, *Paper Promises: money, debt and the new world order*, London: Penguin Books, 2012, 153–4, 189–91; Coggan, *The Money Machine: how the City works*, revised edition, London: Penguin Books, 2009, 82–90; Nicholas Shaxson, *Treasure Islands: tax havens and the men who stole the world*, London: Bodley Head, 2011.

31 The Guardian, 8 November 2017, 31.

32 Annette Alstadsaeter, Nils Johannesen & Gabriel Zucman, 'Tax evasion and inequality', available at gabriel-zucman.eu/files/AJZ2017.pdf. This analysis draws on the massive HSBC Switzerland leak of 2007, the Panama Papers and random audits conducted by tax authorities.

33 Gabriel Zucman, *The Hidden Wealth of Nations: the scourge of tax havens*, University of Chicago Press, 2015, especially pp. 52–5.

34 Zucman, *Hidden Wealth*, 56.

a high degree of trust in the state and public action permitted a shift in attitudes, away from criticism of the state as prodigal to acceptance of the state as efficient'.³⁵ Tax havens encourage the reverse process, towards distrust of the state.

The publication of the Panama Papers in 2016 opened the eyes of many to the clandestine procedures by which 1% of the world's population was able to hold half of the world's wealth and avoid being taxed on much of it. The confidential documents, summaries of which were published in several European newspapers, derived from Mossack Fonseca, a law firm based in Panama, which provided legal services to clients wishing to set up 'offshore' companies in tax havens. The papers disclosed an intricate web of ownership structures by which firms and individuals made their identity, and the identity of beneficiaries, almost impossible to trace. Tax inspectors who came looking for information were fobbed off with claims of confidentiality or with confusing and unhelpful information. Among the beneficiaries of such offshore manoeuvres were the prime ministers of Pakistan and Iceland, the president of Ukraine, a close friend of the president of Russia and the late father of British Prime Minister David Cameron.³⁶

The effect of these publications was deepened by the later publication of the so-called Paradise Papers. These were obtained by the German newspaper *Süddeutsche Zeitung* from the company registers of 19 tax havens and two offshore service providers, and were shared with the International Consortium of Investigative Journalists, which conducted a thorough examination of them. In many ways the most shocking aspect of the materials was that the practices they disclosed (unlike the Panama Papers) were all legal and accepted as legitimate by those involved. They showed that a large number of respected individuals and companies had knowingly or unknowingly hidden a considerable proportion of their wealth in tax havens, where they were taxed at a minimal rate or not at all. The investors included several actors, a prominent motor-racing driver, the footwear company Nike, advisers of President Putin, members of President Trump's cabinet, the governor of the Nigerian Central Bank, subsidiary companies of Apple, colleges of Oxford and Cambridge Universities, the estate of the British Queen – and many more.³⁷

35 Martin Daunton, *Trusting Leviathan: the politics of taxation in Britain, 1799–1914*, Cambridge University Press, 2001, 178. See also the conversation between Bo Rothstein and a Russian tax-inspector in Bo Rothstein, *Social Traps and the Problem of Trust*, Cambridge University Press, 2005, 2–4.

36 *The Guardian*, 5 & 8 April 2016.

37 *The Guardian*, 7–11 November 2017, *passim*.

While the general public in the UK and other European countries did not know many details – and would probably not have been able to understand them if they had – they were aware in general that the wealthy and influential were protecting and increasing their own fortunes at everyone else’s expense, at the very time when national governments were pursuing a policy of ‘austerity’ (as explained above). As the economist Thomas Piketty commented, ‘Austerity is what led to the rise of national selfishness and tensions around national identity’.³⁸

What we are dealing with here is the tension between two types of generalised social trust: in (a) the trustworthiness of the nation-state as a provider of security, a protector of rights and a purveyor of services, and which has the right to demand loyalty as a corollary; in (b) the trustworthiness of financial stability as a guarantee of the timely servicing and repayment of debt, making investment a reliable option for those who wish to save for the future. In effect, democratic governments have to appeal to two sets of constituents: those who vote them into office and those who purchase their bonds and enable them to issue debt securely.

Wolfgang Streeck has labelled these two categories *Staatsvolk* and *Marktvolk*. The former are the democratic electorate who choose between the main parties’ manifestoes and leaders and who depend on the safety nets provided by the state; the latter are the financial markets, who guarantee investors’ financial security by demanding from governments that they prove their reliability as borrowers. Streeck lays out the main features, demands and expectations of the two categories as follows:

| <i>Staatsvolk</i> | <i>Marktvolk</i> |
|----------------------|----------------------------|
| national | international |
| citizens | investors |
| civil rights | contractual claims |
| voters | creditors |
| elections (periodic) | auctions (continual) |
| loyalty | ‘confidence’ |
| public opinion | interest rates |
| public services | debt service ³⁹ |

38 Thomas Piketty, *Chronicles: on our troubled times* (translated and annotated by Seth Ackerman), London: Viking, 2016, 174.

39 Streeck, *How Will Capitalism End?*, 124.

It is evident that the ongoing development and separation of these two categories will tend to generate increasing inequality, since the *Staatsvolk*, more dependent on public services and welfare benefits provided by the state or local government, will tend from the outset to be poorer and more disadvantaged than the *Marktvolk*, and will become progressively more so.

The clash between global markets and national democracy (or between *Marktvolk* and *Staatsvolk*) was dramatised in the Greek crisis of 2010 and after. This crisis is worth observing closely, since it vividly illustrates the collision of global markets and national democracies, as well as the role of trust in driving that conflict.

Underlying the Greek conflict was a fundamental defect in the design of the euro, the currency shared by nineteen nations in the EU, including Greece. It was launched without several of the pre-conditions for creating confidence in a currency: a common fiscal policy, a single finance ministry, central financial supervision or a central bank able to act as lender of last resort. Hence in a crisis the euro lacked the full and credible commitment of all its members, an essential prerequisite for mutual trust. Its founders were aware of the problem, and tried to maintain confidence through a 'Stability and Growth Pact' (1997), which committed member states to keep their annual budget deficits under 3% of GDP, and their total national debt lower than 60% of GDP. Governments continued however to bridle at having their budgets controlled by an international institution, and in 2003 France and Germany breached the prescribed limits; thereupon they both agreed not to enforce the Pact, so that they could promote economic growth in their own ways. Most of the other members followed suit.⁴⁰

This breach by two leading members of the eurozone eliminated the one tangible restraint on the expenditure of member governments. Henceforth they could continue to pile up debt uninhibited by the disciplines normally imposed on a national currency. That was a recipe for untrustworthy and destabilising behaviour. The problem was exacerbated by the fact that among some of the more recent entrants the state had never really been trusted as public risk manager, since many people regarded it, with some justification, as staffed by employees looking primarily after their own interests, finding jobs for their cronies and generally cushioning life for their elites. This suspicion fuelled a general reluctance to pay taxes among the whole population; hence tax

40 Ivan T. Berend, *Europe in Crisis: bolt from the blue?*, London: Routledge, 2012, 86–7; David Marsh, *The Euro: the politics of the new global currency*, Yale University Press, 2009, 196, 212, 234.

proved difficult to collect, welfare difficult to finance, and people sought risk mitigation in traditional patron-client networks, at local or national level.⁴¹

These newer and less competitive members had initially gained from the stable currency: they were able to borrow as if their economies were as sound as Germany's. The drawback was that they could no longer cope with financial crises by devaluing their currency. Because of the absence of any collective responsibility for debt, they had to bear the entire brunt of any crisis inside their own national economy: a supra-national currency was relying on national treasuries to deal with risk. That meant that when the international financial crisis burst on the euro in 2008–9, investors' trust in the weaker eurozone economies turned abruptly to toxic distrust. Individual nation-states had to bail out their own banks, even though some of those banks were huge international players, with assets which exceeded the entire annual GDP of their home countries. As a result national treasuries fell deep into debt: 137% of annual GDP in Greece, 119% in Italy, 85% in Portugal, all well above the prescribed eurozone maximum of 60%.⁴²

The crisis hit Greece especially hard. Its government had gained entry to the eurozone by misrepresenting its fiscal position, then had used the advantages of the single currency to buy huge quantities of arms, play lavish host to the Olympic Games, support a bloated and corrupt state sector, turn a blind eye to tax evasion and put off reform designed to make the economy more competitive. In 2010 the newly elected government of George Papandreou published a more honest set of budget figures. They caused consternation among Greece's creditors: its bonds were downgraded to junk status on international markets, which made them virtually impossible to sell.

Since inside the euro Greece could not escape the crisis by devaluing its currency or by defaulting on its debt, it requested a bailout from the eurozone and the IMF, which it was granted under very stringent conditions: steep tax rises, the privatisation of much state-owned property and swingeing cuts in welfare spending. (To add insult to injury, most of the bailout funds released never entered Greece, but went straight to international banks which had incautiously purchased Greek treasury bonds earlier.) These conditions were so onerous as to provoke a direct clash between markets and democracy. Papandreou decided to ask the Greek people through a referendum whether they were prepared to accept the bailout conditions. The other euro countries' leaders reacted with horror at this proposed 'interference' with financial markets. Under pressure

41 Berend, *Europe in Crisis*, 29–30.

42 Berend, *Europe in Crisis*, 52–9.

Papandreou withdrew his proposal and resigned.⁴³ His successor accepted the bailout conditions. For the moment, at least, markets had triumphed over democracy.

However, tens of thousands took to the streets in Athens to protest against mass unemployment and the degradation of their education, health care and welfare systems.⁴⁴ The uninquisitive trust of ordinary people had turned into convulsive distrust.

The clash was recapitulated in January 2015, when the left-wing Syriza party was elected to government committed – at least initially – to obtaining large-scale reduction of the debt, or, failing that, its outright repudiation and a default which would probably entail Greece's exit from the euro.

The new Greek government contained one minister, an economist, who was not a member of Syriza, but who offered them a programme for dealing once and for all with the debt crisis. That was Yanis Varoufakis. He was invited to join the government because the party leader, Alexis Tsipras, was impressed by his plan for negotiating with the institutions responsible for the Greek bailout. What Varoufakis proposed was that, faced with an ultimatum to accept the eurogroup's demands or have Greek banks closed down, the government should accept the bluff, announce a default, nationalise the Greek banks and mobilise an alternative payments system through temporary tax credits, to be converted later if necessary into a new Greek currency.⁴⁵ Varoufakis argued that such a response to the eurozone's threat would wreck the illusions on which the euro economies were based and spark off similar threats from other debt-burdened governments: Spain, Italy, Portugal, Ireland. For that reason the eurogroup would never allow it to happen, but would pull back at the mere threat and offer Greece massive debt relief and a serious plan for relaunching its economy.

The EU, however, refused to contemplate any possibility of reducing the debt. The Finnish vice-president of the European Commission, Jyrki Katainen, reacted to Syriza's election by reaffirming the EU's demands on Greece with the words 'We don't change policies depending on election results'. To which Timothy Garton Ash justifiably responded in *The Guardian* 'Oh yes you bloody

43 Berend, *Europe in Crisis*, 13–22.

44 Berend, *Europe in Crisis*, 52–9.

45 The plan is summarised in full in Yanis Varoufakis, *Adults in the Room: my battle with Europe's deep establishment*, London: Bodley Head, 2017, 95–8. As the title of this book suggests, Varoufakis writes in a dramatic and 'black-and-white' manner, depicting himself as a hero with uniquely correct policies conducting a battle with an entrenched and mendacious EU bureaucracy. Allowing for these personal foibles, the picture Varoufakis presents seems substantially accurate.

well do. It's called democracy and it's Europe's greatest political invention'.⁴⁶ Moreover, Wolfgang Schäuble, Germany's Finance Minister, told Yanis Varoufakis, his Greek counterpart: 'Elections cannot be allowed to change economic policy', adding that Greece had assumed obligations which must be honoured before its bailout programme could be reconsidered. The clash Streeck posits between democracy and capitalism could not be more starkly expressed. Varoufakis adds, 'The fact that the Greek programme *could not* be completed was apparently of no concern to him'.⁴⁷

When the Tsipras government decided (like Papandreou earlier) to hold a referendum to determine whether to surrender to the demands of the eurogroup or to defy them and declare a default, 'the idea that a government should consult its people on a problematic proposal put to it by the institutions met with incomprehension and was treated with a disdain that bordered on contempt'. An Italian financial official asked, 'How could we expect normal people to understand such complex issues?' Varoufakis replied, 'We are strong believers in the capacity of the people, of the voters, to be active citizens, and to make a considered analysis and to take decisions responsibly concerning the future of their country. That is what democracy is all about!'⁴⁸

The crisis also offers a lesson in the need for trust to be mutual and for trust to be placed in what is trustworthy. Jeroen Dijsselbloem, chairman of the eurogroup (a committee consisting of representatives of the European Commission, the ECB and the IMF) told Varoufakis that the Greek government needed to 'build trust', to re-establish 'confidence that the [repayment] programme will be back on track'. Varoufakis replied, 'I accept that. I understand that. But do you understand that confidence is a two-way process? That the Greek population does not have confidence in the eurogroup to deliver this? The eurogroup does not have confidence in Greek governments. Trust has broken down on both sides of the equation'.⁴⁹

The final stages of the 2015 crisis illustrates the way trust functions in circumstances of great uncertainty and high risk. On this occasion the Greek government ignored the threat and went ahead with the referendum, held in July 2015. It confirmed Varoufakis's assertion: the Greek people voted No to the eurogroup's terms by 61.25%.⁵⁰

To accept the referendum verdict and to follow through by defaulting obviously involved a critical risk. Accepting it entailed Tsipras reposing enormous

46 *The Guardian*, 9 March 2015, 29.

47 Varoufakis, *Adults in the Room*, 237.

48 Varoufakis, *Adults in the Room*, 446–7.

49 Varoufakis, *Adults in the Room*, 446.

50 Varoufakis, *Adults in the Room*, 467.

trust in Varoufakis's economic and political judgement. When it came to the crunch, however, Tsipras, though torn by the dilemma, understandably in the end decided not to take the risk and capitulated in the face of the eurogroup's threat to respond to a Greek default by closing down the country's banks. One has to understand Tsipras's decision in the light of Greece's turbulent history since 1945: it had been through a murderous internecine civil war and then, at a later stage, the tyranny of the colonels. For many Greeks, especially the 38.75% who voted Yes, both the EU and the eurozone were trust-generating institutions which gave them unprecedented security. Their demands might provoke enormous resentment, but a serious break with them seemed to carry the hazard of once more turning its back on Europe and lurching back into a destructive recent history.

There was another motive influencing Tsipras as well. All groups of people interacting in the framework of certain institutions learn gradually to speak an 'insider' language and even to adapt their thinking to the mentality which that language articulates. It helps to explain why a number of senior economists (including Christine Lagarde, president of the IMF) assured Varoufakis they agreed with him, but then in public joined the eurozone consensus.⁵¹ Tsipras and many of his advisers had learned that language and absorbed that mentality. Tsipras fell under what Varoufakis calls 'Merkel's spell': he thought (wrongly) that he had an agreement with Merkel to support him against her own colleague Wolfgang Schäuble, who was especially rigid and adamant in his demands on Greece. He still hoped against hope that a solution could be found *within* the existing euro system.

'Insiders don't criticise other insiders'.⁵² That, rather than deliberate conspiracy, is the key to understanding the collective response of the eurogroup and the EU institutions. As individuals, they might approve Varoufakis's ideas, but as members of institutions they had to stick to their variety of groupthink. Institutions have to protect their members, and those members, to 'deserve' such protection, have to agree to repeat the same formulas, like members of a tribe before a major battle with another tribe.



To return to the question posed earlier. The crisis unleashed on Europe in recent decades is mainly an economic one; why then do the political conflicts

51 Lagarde did not entirely: she demanded a serious reduction in Greek debt, as Varoufakis wanted to achieve. Otherwise, however, she joined the consensus putting extreme pressure on the Greek government.

52 Varoufakis, *Adults in the Room*, 499, n 1.

generated by it take a nationalist form? Why is it that the *Staatsvolk*, who have suffered most from the financial crisis of 2008, have tended to place their trust in nationalist politicians and their movements?

As we have seen, there are two distinct modes of trust in our economic future. Even in a globalised economy, the nation-state remains our public risk manager and the trustee of what I call the 'fiscal covenant', the tacit agreement that, if you pay your taxes, the state will look after you, or at least prevent you slipping into utter destitution, if you suffer unemployment, a serious accident or illness, and when you reach old age. The second world war generated widespread public consciousness of the need for mutual solidarity within society, including between rich and poor. The fiscal covenant created a way of making such solidarity real: the sharing of national wealth through progressive taxation proved a powerful factor in consolidating the sense of nationhood engendered by war. The national treasury became the clearing-house through which the whole nation shared the cost of providing mutual security and well-being: defence, communications, education, health services, pensions, welfare benefits and other forms of social good. The fiscal covenant became a major component of national identity.

The global economy, however, demanded security of a different kind: through states offering secure returns on the bonds they have to sell to finance their own debts. States can do that only if they sustain budgetary balance. The global economy made its demands on nation-state treasuries, but it did not provide equivalent pooled security to compensate states unable to balance their budgets. In the absence of any international pooled financial security, nation-states remain our public risk managers, and populations are therefore very loath to surrender control of that management to outside institutions. This has applied even within the EU's eurozone, where the creation of a single currency was not supplemented by the establishing of supra-national risk-bearing collective provisions. The result is that the populations of Europe have increasingly looked to their own nation-states as public risk managers and as guarantors of the fiscal covenant.

Those are the economic motives for clinging to the nation-state. There are other, no less important, symbolic reasons why the *Staatsvolk* should look first of all to their own nation-states. Streeck's *Marktvolk*/*Staatsvolk* dichotomy roughly corresponds to the dichotomy expounded by another thinker concerned with the condition of our contemporary democracies: in a recent book David Goodhart distinguishes between 'somewhere' people and 'anywhere' people.⁵³

53 David Goodhart, *The Road to Somewhere: the Populist revolt and the future of politics*, London: Hurst, 2017.

The people Goodhart classifies as Anywheres are animated by what he calls 'progressive individualism', that is, they value individual freedom very highly and are prepared to accept its social corollaries. Their worldview 'places a high value on autonomy, mobility and novelty, and a much lower value on group identity, tradition and national social contracts (faith, flag and family)'. They 'are comfortable with immigration, European integration and the spread of human rights legislation, all of which tend to dilute the claims of national citizenship'. By contrast, the Somewheres hold a worldview which Goodhart calls 'decent populism' (though he notes that a small minority of 'hard authoritarians' among them do not qualify as 'decent'). They 'are more socially conservative and communitarian by instinct.... They feel uncomfortable about many aspects of cultural and economic change – such as mass immigration, an achievement society in which they struggle to achieve, the reduced status of non-graduate employment and more fluid gender roles'.⁵⁴ They react against both forms of 'double liberalism'.

Drawing on recent opinion polls, Goodhart observes that in recent years more than half of the British people have agreed with the statement 'Britain has changed in recent times beyond recognition, it sometimes feels like a foreign country, and this makes me feel uncomfortable'.⁵⁵ One cause of this feeling has been the recent steep growth in immigration: there were approximately 1 million immigrants from EU countries living in Britain in the late 1990s, whereas by 2016 there were 3.3 million.⁵⁶ Somewheres are not totally opposed to immigration, but feel there are too many immigrants in the country, that their ubiquity has changed the country beyond recognition, and that their presence has put unacceptable strains on the NHS, the education system, the social welfare budget and the demand for housing, especially in certain localities. The perception takes root that immigrants have come to Britain only to claim welfare benefits without having paid their share into the system first. Their dress, their food, their music, their customs and their religion (often Islam) feel alien and even threatening to native Brits, especially in certain towns, usually economically disadvantaged ones, in which immigrants have clustered in large numbers, and in some cases have recreated Pakistani, Bangladeshi or Somali communities as distinct ghetto-like areas. The growing problem of Islamist terrorism has naturally exacerbated this hostile perception.⁵⁷

54 Goodhart, *Road*, 5–6.

55 Goodhart, *Road*, 2–3.

56 ONS dataset, 'Population of the United Kingdom by country of birth and nationality', August 2016, quoted in Goodhart, *Road*, 122–5.

57 Goodhart, *Road*, 129–31.

Clearly here we are talking about both nation and state. The state is public risk manager and guarantor of the fiscal covenant, but it is the nation which evokes the trust-generating symbolic motifs augmenting social solidarity. The nation is the largest collective – usually many millions of people – with which the individual can feel a sense of community solidarity. A nation is a huge community, each of whose members can know personally only a tiny proportion of its other members. Imagining the unknown members as people to whom one can extend at least a preliminary presumption of trust and with whom one can engage more readily than with those outside the nation's borders requires a symbolic repertoire capable of summing up the nation's identity and projecting it to all its members. The characteristics of this symbolic repertoire have been summed up by Anthony D. Smith in his seminal work *National Identity*, in which he defines a nation as 'A named human population sharing a historic territory, common myths and historical memories, a mass public culture, a common economy and common legal rights and duties for all members'.⁵⁸

Let us consider some of these symbolic motifs. Sometimes the nation will be conceived as akin to a family, if you like, a hugely augmented extended family, which has its own established territory, its own heritage, its lineage reaching back into the distant past, its own shared memories and narratives, which evoke a sense of community and impart confidence in the continuity of that community, extending well into the future.

Historical memories and shared myths about the past provide common reference points which enable members of the nation to communicate more readily with each other. They intensify the feeling of belonging to a community which will support one through difficult times, which has done so for one's ancestors and is likely to continue to do so for one's descendants, and can thus underwrite our confidence in the future. That is why romantic nationalists attribute a 'primordial' quality to national identity, implying that it has existed from time immemorial, will always do so, and that therefore the nation has the right to make demands on us which outweigh those of individual personal interest.⁵⁹

National memories tend to be selective: nations 'forget' the less creditable elements of their past, the periods when they were oppressors or committed atrocities. As Ernest Renan remarked, 'every French citizen must have forgotten St Bartholomew and the thirteenth century massacres in the Midi [in the

58 Anthony D. Smith, *National Identity*, London: Penguin Books, 1991, 14.

59 Anthony D. Smith, *The Nation in History: historiographical debates about ethnicity and nationalism*, Cambridge, UK: Polity Press, 2000.

Albigensian crusade]'.⁶⁰ British history tends to screen out the unpalatable fact that the country's wealth and economic dynamism in the eighteenth and nineteenth centuries were built quite largely on slavery. The invention of tradition⁶¹ is not possible, but its exaggeration, selection and partial falsification certainly are.

Smith's 'mass public culture' includes regular customs and ceremonies which bring people into contact with each other in shared activity, enable them to get to know each other better, and strengthen the sense of community. These will include national anniversaries, celebrated with public processions or marches, usually accompanied by music which bears a distinct national flavour. Or there may be performances of drama, opera or pageant in which the audience is drawn in through the setting of myths, legends or heroicised history. Matthew Riley and Anthony Smith describe national music's function as 'celebration of community and citizenship, evocation of landscape and homeland, recreation of heroic histories, and commemoration of national sacrifice and destiny'.⁶²

Another crucial symbolic system is the spoken and written language. Customs, ceremonies and myths are usually expressed in a generally understood national language. This includes such taken-for-granted features of everyday life as dress, food, music and body language. There is often an elite culture which takes elements of popular mythology and projects them in a wider context of political and cultural debate, couched in a national language. In some countries, e.g., Finland, where a national language did not exist, one has been consciously created, to enable these symbolic elements to be articulated in a distinctively national way.⁶³ According to Jürgen Habermas, since the eighteenth century a mass public culture, couched in the national language, has created a 'public space' in which diverse parties and currents of opinion can exchange knowledge and ideas within a shared consensus on non-violent contestation.⁶⁴ The shared culture enables individuals to communicate with each other, even when they disagree, much more easily and peacefully than in its absence, and thus to lay a bedrock of mutual trust.

60 Ernest Renan, *Qu'est ce qu'une nation*, Paris: Calmann-Lévy, 1882, 9.

61 As evoked in Eric Hobsbawm & Terence Ranger (eds.), *The Invention of Tradition*, Cambridge University Press, 1983.

62 Matthew Riley & Anthony D. Smith, *Nation and Classical Music: from Handel to Copland*, Woodbridge: Boydell Press, 2016, 22.

63 See the introduction to *The Kalevala: an Epic Poem after the Oral tradition*, by Elias Lönnrot, translated and introduced by Keith Bosley.

64 Jürgen Habermas, *The Structural Transformation of the Public Sphere: an inquiry into a category of bourgeois society* (translated by Thomas Burger & Frederick Lawrence), Cambridge, UK: Polity Press, 1989 (original 1962).

Religion plays a complex role in national identity. Some nations see their religion as an essential element of their nationhood and as a distinctive marker against alien 'others'. In the nineteenth and much of the twentieth centuries, for example, the Irish, Poles and Lithuanians have viewed Catholicism as their own national faith, defending them from the oppression of the English or the Russians, giving them a feeling of moral superiority and cementing their sense of their own communities. In England and the Netherlands Protestantism served as an analogous spiritual bulwark against 'Popish' domination by the French and/or Spanish; though in England it is also true that two distinct types of Protestantism, Anglican and Nonconformist, delineated two distinct types of national identity from the sixteenth through to the early twentieth century.

In some cases nationalism itself takes on some of the characteristics of a religion, providing the core element of the national identity, generating law, a moral code, spiritual comfort and a sense of solidarity in an otherwise comfortless and threatening world. The idea of a covenant with God gave the Jewish people for centuries a moral code, a sense of mission and of community which were crucial when they had no territory of their own; it underpinned their legal traditions and their sacred texts. Something similar might be said of the Armenians in their embattled homeland surrounded by rival empires and religions, or of the Afrikaans in the struggle against both black Africans and the British.⁶⁵

In yet other cases nationalism transfers religious conceptions of the sacred on to the secular institutions of the modern state and the population underlying it: something of the kind could be stated about post-1789 France and the USA. In France, though, the secular republican concept of the state was not universally accepted; it had to battle with a traditional Catholic hierarchical concept – a battle which reached its climax with the Dreyfus affair in the early twentieth century. In all these cases, national identity combines with religion to deepen and spiritualise the sense of community inherent in the nation.

Law is another symbolic system which nowadays mainly functions within national boundaries – though there is of course international law, and also local bye-laws. Law is especially important for civic concepts of national identity. The Abbé Sieyès, in his seminal *What is a nation*, defined it as 'a body of people who join together to live under common laws and be represented by the same legislative assembly'.⁶⁶ His vision was of a democratically constituted nation,

65 Anthony D. Smith, *Chosen Peoples: sacred sources of national identity*, Oxford University Press, 2003, Chapter 4; Donald H. Akenson, *God's Peoples: covenant and land in South Africa, Israel and Ulster*, Ithaca: Cornell UP, 1992.

66 Quoted in D. Williams (ed.), *The Enlightenment*, Cambridge University Press, 1999, 494–5.

in which representatives of the people would make laws for them all. But even in more authoritarian states, to have a known and settled law provides a framework of peaceful interaction within which individuals, families and businesses can carry on their everyday interactions in the confidence that they will be able to settle disputes without fearing violence or sudden disruptions.

A national currency can become a booster of patriotic pride. Most national banknotes carry a portrait of the country's sovereign (monarch or president) together with an image recalling a famous event or personality from the nation's history. Even the supra-national euro bears distinctive national as well as European symbols. Islamic notes bear a quotation from the Quran, implying the absolute dependability of the currency. On English banknotes the chief cashier of the Bank of England gives the following undertaking: 'I promise to pay the bearer on demand the sum of...'. This promise implies the existence of a permanent 100% reliable stock of gold bullion covering every banknote in circulation, available to be drawn upon at any moment. The claim is of course false, and most people know it is, but we continue to act as if it were true: we continue trusting the banknotes we receive. US treasury bills make an even more ambitious claim: 'In God we trust', implying that the Almighty himself guarantees the trustworthiness of the dollar as a means of payment.

In some respects the conflict between the international economy and national democracy recalls the 1930s, when widespread poverty tended to induce not only distrust in government and the ruling class, but also to strengthen social solidarity among the poor. Nationalism and socialism were in ferocious competition with each other. Today that class solidarity of the poor and disadvantaged is no longer in evidence. One reason for this is the decline of large-scale industry as a dominant factor in Western economies. The proportion of service employment requiring individual rather than collective input has increased greatly.

In many of those service industries pay is low, while 'zero-hours' contracts render it also irregular and unstable. Individuals feel their contribution is not valued, while they themselves lose much of their motivation, self-respect and sense of personal dignity. More and more, as a result of financial machinations, they are cast afloat in the 'gig economy', on zero-hours contracts or precarious self-employment without sickness or holiday pay. Feeling undervalued, not having a social status and fearing for the future leads to loss of self-respect and self-confidence, indeed a weakening of the sense of settled personal identity which enables one to trust at all.

The victims of this process have sought a way to regain some control over their lives, to rediscover identity and the sense of belonging to a community. Needing to find a recipient of the trust without which life is impossible, they

find it easier to relate to persons rather than institutions; and they look for a spiritual anchor in the national community. That is why populist politics focuses on strong leaders and national identity.

Social media have provided further impetus to populist politics. Their prevalence in recent years has greatly reduced the incidence of public meetings as well as of membership of collective organisations such as political parties. While it is possible to organise collective activities such as strikes and demonstrations through Twitter and Facebook, the prior communication of the individuals involved is minimal. For these reasons nowadays class identity has totally lost its connection with political party voting.⁶⁷

Social media also tend to act as an 'echo chamber'. That is, individuals receive the kind of news they want to hear and the kind of political comment whose lines of argument they already find congenial. In a parody of Habermas's 'public sphere', public discussion tends to proceed in closed boxes of strongly held and often exaggerated opinions without differentiated mutual debate. This is the milieu in which 'fake news' and 'post-truth' assertions become apparently valid currency. These are all symptoms of fragmented social trust.

As a result of these developments, poverty today has become an individual rather than a collective experience. As a recent analysis of the socio-psychological effects of the post-2007 crisis shows, poverty tends to isolate those afflicted by it. It ensures that their participation in social life is restricted: they can no longer buy a return round of drinks or offer reciprocal hospitality during social contact. They feel deprived and rejected, even if they own a car or a colour television. The resulting anxiety, depression and low self-esteem leave lasting scars, so that they are more vulnerable to the next bout of unemployment or of exploitation on low wages.

Public attitudes have reinforced these feelings: in 1993, according to a British Social Attitudes survey, the idea that welfare benefits were too high was rejected by 55% of the population, as against 24% who thought it was true. By 2011 the reverse was the case: 19% rejected the idea, compared with 62% who accepted it. This was partly the result of high levels of immigration in the intervening years: people accept the welfare state provided they can readily identify with its recipients,⁶⁸ which is more problematic where there are many immigrants bringing alien languages and cultures. Politicians have also contributed to this change, however: the Blair–Brown Labour government redistributed

67 Lecture by David Sanders, 'The UK's changing party landscape', British Academy, 4 July 2017.

68 Peter H. Lindert, *Growing Public: social spending and economic growth since the 18th century*, vol 1, CUP, 2004.

income for the benefit of the poor and disadvantaged, but avoided advertising the fact, as if ashamed of it, while since 2010 Conservative leaders have implied that those receiving social security benefits were 'scroungers'.⁶⁹

1 Conclusions

The decline of trust in governments and in the established parties of government and opposition arises from factors in which economic causes and identity politics are intertwined. In both Britain and the EU a substantial minority, in some countries a majority, of the population feels that the economy no longer works for them. They connect this perception with the intrusive operation of remote international firms and institutions and with the mass immigration which partly results from the domination of international financial institutions and from the enlargement of the EU. They can no longer have confidence in their economic future, nor can they trust the human solidarity embodied in the symbolism of national identity and in the fiscal covenant guaranteed by the nation-state.

In this sense, there is a serious tension between democracy and the global market. Does that tension amount to total incompatibility? We do not know yet, because governments and established political parties have not even acknowledged the problem. The populist parties have recognised it, but their proposed solutions seem likely actually to make the problem worse. Where do we go from here? That is the question all democratic societies face. There is one possible comfort: democracies tend to be better at solving serious problems than authoritarian states⁷⁰ – *provided they retain the basic principles of democracy*. They certainly need to demonstrate that superiority now. So far there is precious little sign that they know how to do so.

69 Tom Clark with Anthony Heath, *Hard Times: the divisive toll of the economic slump*, New Haven: Yale University Press, 2014.

70 David Runciman, *The Confidence Trap: a history of democracy in crisis from world war 1 to the present*, Princeton University Press, 2013.