Europe's Oligarchs

Rich Western nations have long lived in the comfort that government capture by specific private interests was mostly a feature of poor or emerging countries, rather than of themselves. The expression "crony capitalism" referred to Asian countries in the late 1990s, and "oligarchs" sounded as if they were unique to Russia.

But the crisis has shattered the West's sense of relative comfort on this front. A telling indication was the wide impact and debate raised by an article published by the Atlantic magazine in May. Its author, Simon Johnson, a former chief economist at the International Monetary Fund, claims that the US has become prey to a financial oligarchy, which played a key role in both creating the crisis and preventing appropriate policy responses to it.

Nothing new under the sun, to be sure. Five centuries ago, Machiavelli described the very process of lawmaking in a republic as confrontation between the powerful and the many. But democracies sit uneasily with the reality that wealth buys influence or privilege. Thomas Jefferson wrote in 1816 about his hope to "crush in the birth the aristocracy of our moneyed corporations, which dare already to challenge our government to a trial of strength and bid defiance to the laws of our country".

In Europe, business and financial oligarchies are prominent as well, and their responsibility in the crisis is hard to deny. In the United Kingdom, the City of London largely shaped the now discredited "light-touch" regulatory approach of the Blair-Brown years. Next door, a government bail-out in February elicited the dry comment by the Financial Times' Lex Column that "the Irish bank executive self-preservation society has scored another success". In Germany, political and financial elites are interlinked to the point of fusion in much of the banking system, and the epitome of this relationship, the local-government-owned Landesbanken have been among the worst cases of poor risk management. A comparable situation exists in Spain with the savings banks that fuelled a monumental real estate bubble. In France, a few wealthy individuals control most of the media, and the heads of leading financial firms have been reported as providing influential policy advice throughout the crisis. In Italy, the Prime Minister ranks among the country's richest individuals. And so on.

Not all countries have the same oligarchic power structures, though. One indicator: the latest Forbes list, based on market values as of mid-February 2009, puts the US as the world's only large country with more than one billionaire per million inhabitants, and the one with the highest number of billionaires per unit of GDP behind Saudi Arabia. The "billionaire density" is about three times less in the EU, with wide variations – higher in Germany, lower in France or Italy, and close to the EU average in the UK if only British citizens are counted. Even at a low point of its equity market, Russia remains a billionaire-heavy nation, with more per unit of GDP than any country in the EU except tiny Cyprus. Interestingly, this same measure now puts China (including Hong Kong) above the EU, albeit still way below the US.

Oligarchic power also highly depends on size, as Adam Posen, an American economist, had noted just before the crisis: in a small country or regional government, the wealthy few can more easily control the scene than in a large and diverse system (on the other hand, decentralization lowers the risks of bureaucratic capture or of policymakers' estrangement from local realities). From this standpoint, EU institutions may be less prone to oligarchic capture than individual member states. Lobbying is certainly more conspicuous in Brussels than in many national capitals, but partly because it is more transparent -though still insufficiently so. Business elites are generally too diverse in Europe to form a single social group, which comparatively limits their ability to direct the policy process. National oligarchies often attempt to influence EU-level decisions indirectly through national governments, especially of large countries, rather than directly in Brussels.

Still, capture by moneyed oligarchies remains a potential threat to Europe as to other economies. In the current context, their resistance, for instance from the banking-political complex in Germany, is a major cause of continental Europe's failure so far to adequately restructure its banking system, a necessary condition to restore functioning credit provision. Two policy priorities stand out. One is to keep oligarchs in check by preventing them from unduly seizing economic rents that would make their power self-reinforcing: competition policy is the key tool for this. The other is to ensure that special interests are matched by the power of citizenry, which calls for able and accountable public institutions at the level of the EU as much as of individual member states. In Europe as elsewhere in the world, the crisis has both underlined the importance of such efforts, and exacerbated their difficulty.

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