



Adrian Wooldridge

in conversation with
Ann Bernstein

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To mark 25 years since its establishment, in November 2020, CDE initiated a series of discussions with global experts and prominent individuals in South Africa on important questions on democracy, business, markets and development. The series was relaunched in 2022 as CDE Conversations. This is the 32nd event in the series.

Ann Bernstein: It is a great privilege to have Adrian Wooldridge with us today, one of the world's leading journalists, a prolific author and a political commentator. He is currently the global business columnist for Bloomberg Opinion. Before that he worked for *The Economist* for 32 years, serving as the Washington bureau chief from 2000 to 2010 and successively writing the *Lexington*, *Schumpeter* and *Bagehot* columns. He has authored and co-authored some 11 books, including his most recent, *The Aristocracy of Talent: How Meritocracy Made the Modern World* (2021). He co-authored, amongst others, *The Fourth Revolution: The Global Race to Reinvent the State* (2014) and *The Company: A Short History of a Revolutionary Idea* (2003) with John Micklethwait.

The famous American senator, Daniel Patrick Moynihan, once warned that the stability of democratic governments depends on making a clear distinction between what governments can and cannot do. You have argued that Western governments have overreached with increasingly bad consequences. Why do you say this?

Adrian Wooldridge: Daniel Patrick Moynihan is a compelling figure to reflect on. He represents a radical centrism that is now being squeezed out of public discourse. As a moderate democrat, he fought against leftward shifts in the Democratic Party, while also vigorously opposing the Republicans.

For Moynihan the state was a set of institutional arrangements that provided safety nets to protect the poor, expanded economic opportunities, and preserved order and peace. He was concerned, at the same time, to prevent the state from doing too much.

I feel that in many countries, states have effectively overreached. They overpromised, creating 'a revolution of rising expectations' that, given the limitations of most states, has created disillusionment with governments the world over. The backlash sweeping around the world has led to radical calls to completely reorder the state, with potentially dangerous consequences.

Ann Bernstein: I know you have thought a lot about the evolution and impact of the western state. What do you think the state is actually for and what should it limit itself to doing?

Adrian Wooldridge: Ideas about governance and the state in the West evolved over time. Thomas Hobbes was the pioneer who theorised that in nature, human life is "nasty, brutish and short". To stop people from expressing their natural aggressiveness, he argued, they had to hand power over to the state. The state would then become a 'Leviathan', in his words, that would use its power to impose law and order. The foundational role of the state according to Hobbes, is therefore to provide security.

In the mid-19th century, John Stuart Mill developed a liberal view of the state. He saw it as a 'night watchman': a just and efficient entity that should concern itself with maximising the freedom of its citizens. In the early 20th century, a more radical notion of the state became dominant. Sidney and Beatrice Webb were prominent socialists who essentially invented the idea of the British welfare state.

They did not reject the notion of freedom as an important goal but stressed that the freedom to participate in civilised life required welfare provisions such as healthcare, education, and a pension. Those three conceptions – security, freedom and welfare – then became the three main parameters for analysing the boundaries of the state.

During the course of the 20th century, the idea of the welfare state took hold in many countries and was then countered by the so-called neo-conservatives or neoliberals, like Friedrich Hayek and Milton Friedman, who were concerned about the ways in which the state's expanding role crushed many foundational freedoms.

More recently, the scope of the state has been expanded even further to include identity issues. Those on the left want the state to celebrate diverse gender, sexual and racial identities, while on the right, people want the state to stress national identities. The resulting identity politics takes us beyond the question of what the state is for, to who the 'we' are that the state caters for.

Ann Bernstein: On a different but related topic, you once said rather elegantly that many governments and politicians are essentially robbing future generations so that we can stuff our own faces. What did you mean by that?

Adrian Wooldridge: It's fairly straightforward. The baby boom generation, of which I am a member, has been indulging its short-term whims and needs at the expense of future generations. In some countries, certainly the United States and Britain, we have basically bankrupted the pension or entitlement system because we have been paying ourselves more than we have been earning. We have also been plundering and polluting the planet and destroying the environment.

Ann Bernstein: To counter corruption and cronyism, you have argued that we should enrich the civil service and impoverished politicians, and yet you have also said that many civil servants are more interested in prosperity for themselves than for the people. How do you see those issues?

Adrian Wooldridge: I remain convinced that the civil service and the permanent state should be protected to some extent from democratic pressures. However, if the technocratic elite becomes too disconnected from the public and democratic accountability, it risks becoming self-indulgent. It may become oblivious to popular worries and concerns, leading to potential overreach. In some ways, this has happened. One factor driving populism is the anger at the overreach of the permanent state.

Let me give you an example of technocratic overreach. Freedom of movement within the European Union implies that national governments do not have control over their population. This infringes on the nation-state's traditional democratic freedoms and strips the right that people have to vote to determine who should be part of their communities. At the same time, Europe experienced a wave of migration, particularly in 2016, that allowed millions of people to emigrate to Europe based on a supranational decision that was made by German Chancellor Angela Merkel and then underwritten by the European Union. This erosion of sovereignty has sparked a huge backlash. Brexit was just one of the results.

Further, while the legal system must be protected from democratic interference along with independent judicial institutions, lawyers should exercise restraint. Increasingly, however, international lawmakers are passing laws on sensitive domestic issues such as immigration, which is arousing a lot of hostility.

As a result of this, populism is on the rise and we need urgently to find ways to temper that. At the same time, it is equally important to persuade technocratic elites to exercise self-discipline. Unfortunately, these people tend to be self-confident, arrogant, well-paid and rather cloistered from society. So, they tend to take popular opinion as a challenge to be defeated rather than legitimate concerns that need to be accommodated.

Ann Bernstein: Let me ask this: can we reform the state? Is change possible? Tell us about Sweden and Singapore in this respect.

Adrian Wooldridge: Singapore represents a classic example of state reform. It started as an exceptionally poor British colony. Post independence, Prime Minister Lee Kuan Yew emerged as a visionary autocrat who leveraged the private sector to move the country from a low-cost manufacturing base for the British Empire into a key player in global value chains. He was committed to harnessing the power of markets but also saw the state as vital to modernisation and instrumental in the provision of education and healthcare. Today, Singapore has a higher standard of living than Britain.

There are more recent examples of leaders seeking to emulate this approach, such as Paul Kagame in Rwanda and in various parts of the United Arab Emirates. This approach can work under certain circumstances, but it can also fail spectacularly.

Sweden is another good example of reform. Sweden created one of the world's most generous welfare states, but it became stuck as people were disincentivised from seeking employment and income taxes rose to very high levels. This led them in the 1990s to develop a more practical and sustainable approach. They reduced the role of the welfare state – but did not eliminate it – brought public spending under control, privatised the pension system and reformed the healthcare and education systems.

Since then, Sweden has had problems with high levels of immigration. It admitted a huge number of immigrants in a very short period and did not integrate them effectively into the labour market. For a peaceful country, it has an exceptionally high crime rate and the highest level of shootings in Europe, caused by gang violence. A lot of its suburbs are out of control and lack the rule of law. It is tackling those problems in the same systematic way it tackled the welfare trap in the 1990s, in a collective, consensus-based manner, dealing with the challenges practically, one at a time.

Ann Bernstein: You have said that the public sector and the private sector are fundamentally different. Can you tell us how they differ exactly and why that matters?

Adrian Wooldridge: They are different in the sense that they are accountable to different groups of people. The public sector is accountable to the public, and the private sector is accountable to shareholders and owners who demand a return on their capital. These two arrangements lead to very different dynamics and incentives.

State-owned enterprises (SOEs) can however be peculiar in this respect. They can be a bit of one and a bit of the other. Most SOEs are accountable to politicians and/or bureaucrats. Consequently, they are not, on average, as efficient as purely private companies. However, some SOEs have done an amazing job in driving modernisation, especially in China.

Ann Bernstein: Didn't you say that the better SOEs are the ones listed on the stock exchange?

Adrian Wooldridge: Yes, listing on the stock exchange does not completely remove the control of the state, but it means there are additional shareholders with a stake in the company, and that the people who run the companies begin to adopt a business mindset about improving shareholder value. The Chinese especially succeeded in ensuring that many SOEs were globalised and competed with multinational companies such as Shell or ExxonMobil, rather than seeking favour with some overly bureaucratic government department. When a SOE is listed on the stock exchange, managers will see that their purpose is to compete with other businesses, leading to much better results.

Ann Bernstein: Which one, private or state-owned, is more prone to crony capitalism in your view?

Adrian Wooldridge: That is a good question. The simplest answer would be that a nationalised company would be very prone to cronyism. But I am not convinced we have escaped from the problem of cronyism in market-based economies. If we look at the United States, for example, Goldman Sachs is often nicknamed 'Government Sachs' because of the revolving door from government into Goldman Sachs and from Goldman Sachs into government. That is a clear recipe for the emergence of cronyism.

One of the most evident examples of cronyism in the last few decades has been the bailout of the banks after the 2008 financial crisis, where trillions were forked out to prevent big banks from going bankrupt. Cronyism clearly remains present in free markets, particularly when banks are intricately networked, 'too big to fail', or too integral to the future of an economy.

Ann Bernstein: I was intrigued recently by a column you wrote on why you prefer the term 'emerging markets' over the increasingly popular phrase, 'the Global South'. Explain your thinking here.

Adrian Wooldridge: The term 'the Global South' is a misnomer, both geographically and politically. For one, much of 'the Global South' is not in the south. Neither India nor China, and especially not Russia, are in the southern hemisphere. More importantly, the term 'Global South' is used as a tool for political lobbying and is punted by the Russians and the Chinese to revive old Marxist arguments. Grievances about imperialism are framed in this context as demands for repatriation from the rich world to give back some of its terrible, ill-gotten gains.

This Cold War revivalism implies that the Soviet Union and China need to stand up to the bullying, greedy, and exploitative West, to redistribute wealth through the exercise of power. Sergey Lavrov, the Russian foreign minister, has been unequivocal about his intentions when he talks about the 'global majority' uniting against the 'global minority'.

Some of this resentment is justified. The imperialist system was exploitative and destructive, but redistribution cannot solve the core challenge of poorer countries. The solution to poverty is growth, and the way to get growth is through productivity improvements driven by innovation and the extension of markets.

That is why we should be talking about emerging markets rather than the 'Global South'. We should be talking about countries getting richer through increased market activity and trade, generating more wealth and moving up the value chain. That is the only way forward.

Ann Bernstein: I am going to turn to your most recent book, which is about meritocracy. What is the core insight that emerges from this book?

Adrian Wooldridge: The essence of the book is that meritocracy emerged as a revolutionary idea in the 18th century. In most societies in the past opportunities and scarce resources were allocated based on kinship, family connections and patronage networks. A succession of revolutions, including the French Revolution, the American Revolution and the Industrial Revolution, introduced radical new thinking about resource distribution based on merit. Instead of pre-determined positions in society determining what you got, meritocracy was based on the principle that people would be rewarded for their individual qualities, talents, and ability to do a job well.

If we compare meritocratic companies with non-meritocratic companies, or meritocratic countries with non-meritocratic ones, meritocracies outperform their non-meritocratic counterparts. If we examine migration flows, people tend to move from patronage-based countries to merit-based ones.

I regard meritocracy as a way to allocate resources justly, which then drives productivity improvements and makes everyone better off.

There are many ways in which meritocracy can go wrong, and we must factor in ways in which people's backgrounds can influence how well or badly they do in a meritocratic contest. That does not change the fact that successful countries are based on systems that reward merit instead of being dominated by patronage and inheritance.

Ann Bernstein: Are there people pushing against meritocracy? What are their key arguments, and what alternatives are they proposing?

Adrian Wooldridge: Some of the arguments are more rational than others. Some contend that people from privileged backgrounds will fare better because they can afford better education, are more connected and use their resources to put themselves ahead in the queue for opportunities. There is validity to that complaint, but if we look at British history, we see how the provision of universal basic education and universal higher education enabled upward social mobility for the working classes and, especially, women, who were once excluded from most opportunities. Now, 60 per cent of students in universities in most advanced countries are women.

Less convincing arguments against meritocracy express concern about how it elevates competitive behaviours and encourages people to elbow others to get ahead. The reality is that competition is inherent in any system where people are vying for scarce resources. The point is to make the competition as fair as possible and ensure that everybody can access opportunities. To get there, we do need to consider that some people are poorer and more disadvantaged than others. It is important to avoid maintaining the status quo in the distribution of rewards across the population and actively search for talents in disadvantaged groups, not for statistical parity, but because finding people's talents and allowing them to express them is best for everyone.

Under Joe Biden, meritocracy was weakened in America as gender, race, and ethnic identities became focal points for revolts against the principle of merit. That was unfortunate, but Trump has responded by upending all forms of affirmative action and all attempts to help the less fortunate gain access to opportunities they were denied in the past. That is wholly the wrong approach and will make America less fair, while strengthening the opposition to meritocracy. We need to find a middle ground between a wholesale opposition to affirmative action and the tendency for obsessive, anti-meritocratic group categorisations.

Ann Bernstein: This is a real 'cooks tour' of your thinking because I now want to move to your two recent columns about the future of capitalism and President Trump. You argue that the way Trump is operating at the moment is undermining capitalism. Why do you think that?

Adrian Wooldridge: Capitalism is a system that depends on a rules-based framework and as much fairness as possible. Capitalism is about harnessing greed, a very basic human instinct, in a positive way, which requires a system of rules to prevent self-serving behaviour such as corruption, cronyism and favouritism. Trump is dismantling the rules-based framework in dangerous ways. It is not just that he is imposing tariffs – which in itself is not a good idea – but that he is imposing tariffs in an unstable, often illogical way. He is creating massive uncertainty and removing the rules that save capitalism from itself. All the regular, predictable rules about transparency and anti-corruption are being weakened by the Trump administration.

Take Trump's attack on the Foreign Corrupt Practices Act, which essentially prohibits American companies from bribery and imposes strict sanctions, such as imprisonment should they be found guilty. That Act has fostered good practices across the world. Removing it will now permit and, worse, reward bad behaviour. Those willing to engage in corruption will get ahead, while those who are not corrupt will be left behind.

Interestingly, one of the areas that he has not weakened is anti-monopoly legislation. His administration has preserved Biden's vigorous approach to dealing with mergers, acquisitions and potential monopolists. I wonder whether he wants to use this to coerce tech sector companies to support him or to go after his enemies in the sector.

We have an extreme politicisation of the economy under Trump, and that is definitely not a good thing.

Ann Bernstein: Let us talk about chief executive officers (CEOs) in America. In your view, many of them supported Trump and backed him for President, but, in the light of his actions, it is now time for them to 'find their missing backbones'. What exactly do you want them to do, and how hopeful are you that they will find their spines?

Adrian Wooldridge: I want CEOs to become more active against Trump because nobody else has the power and influence to save America. The Republican Party has become a creature of Trump, and the Democratic Party is a waste of time. The judiciary's independence is under attack and time will tell whether the Supreme Court will roll over for Trump. They too are being strong-armed.

The business community needs to find its backbone, but they have been very timid or are protecting their interests or do not want to be investigated for monopolistic practices. The tech people have been particularly feeble about this, but they have duties to their shareholders. Trump's policies are destroying shareholder value. The stock market has declined significantly, and multinationals and businesses enmeshed in global value chains are being threatened by the excessive and seemingly arbitrary imposition of tariffs.

If present trends continue and the market correction continues, there must come a point when business leaders will get sufficiently nervous to take action.

How will Trump respond to these signals? In the past, he has assessed how good a job he is doing based on the stock market's performance, but that signal is often dulled by the feedback he receives from Fox News and conservative media platforms. If Fox News starts to reflect disgruntlement amongst conservative Republican voters about the plunging value of their pensions, Trump may be prompted to reevaluate his policy.

While Trump is not an ideologue, there are people around him who are, many of whom are quite anti-capitalist. But CEOs questioning him in public, coupled with a plummeting stock market and unfavourable coverage from Fox News, could cause Trump to change direction.

Ann Bernstein: What are the other levers in America that could influence Trump? Clearly, voters or state governors could be a possible source of influence.

Adrian Wooldridge: I think he has the Republican Party under his control and whenever Republicans resisted him in the past, he has crushed them. The Supreme Court is a possible constraint on his power. Even though six members of the court were appointed by Trump, many of them are institutionalists who respect the rule of law. If they came up with a ruling limiting his executive fiat, and he tried to override the Supreme Court, that would be a major threat to the liberal order and democracy in the United States.

But Trump is a populist who sees himself as representing conservative Americans, and those could potentially turn against him because they are getting poorer. Then he would probably adjust his course, and he may also not be prepared to take on a Supreme Court that hands down a real, solid judgement against him.

Ann Bernstein: Finally, let's come back to a very big issue that you raised earlier, about migration into Europe. I know you think this is a very important issue with long-term consequences.

Adrian Wooldridge: It is strange to think that there was once a time when a liberal consensus prevailed in Europe on migration. The argument proposed by economic liberals was that migration was good because it expanded the economy and boosted overall living standards, while social liberals argued that it created a more diverse, vibrant country.

Both those arguments are now very widely questioned. One reason is that immigration has not boosted productivity, although it may be boosting overall economic output. A big factor is that there are very high levels of unemployment among certain immigrant groups. It is hard to claim we need to import lots of people when a significant number of them end up in long-term unemployment.

There have, furthermore, been many integration and assimilation challenges, particularly of Muslim communities. Europe has basically changed its collective mind on immigration and there are growing calls to limit it, stop it, or even reverse it.

This has, for example, fundamentally changed the politics of Germany. The Alternative für Deutschland, which is a hard-line right-wing party, managed to convince a large number of Germans to vote for it to send a very clear signal about immigration. Keir Starmer, the Prime Minister of Great Britain, is also clamping down on immigration at the moment. Even Canada, which was in many ways the most left liberal of all the governments in the world, has changed its policy and become much more selective about which immigrants it will accept.

The country that is showing the way for many people is Denmark. They have been very restrictive about immigration and put a strong emphasis on assimilation. They told immigrants that if they wanted to come into the country, they would essentially have to become Danish. The latest figures from Denmark reveal that the proportion of people who are ethnically Danish aged 20 to 25 is higher than amongst older groups. The Danish population is becoming ethnically more homogeneous.

Sweden now has a policy of repatriating people, paying them to leave the country, regardless of their skill levels. The next significant election is in France, where, before a French court barred her from running, the right-wing, anti-immigrant Marine Le Pen looked likely to win. In Britain, Reform UK has come from nothing to consistently moving ahead in the polls. It could overtake the Conservatives or form a right-leaning alliance coalescing around opposition to immigration.

Adrian Wooldridge in conversation with Ann Bernstein

European politics are shifting dramatically at the same time as American politics under Trump, who won largely on the immigration issue and is now adopting incredibly hardline policies. He has already started deporting people.

This has big implications for Europe's economy. Europe is experiencing a significant demographic decline, which means they have to extend working lives and fill the jobs that are not going to be done by immigrants. It also has massive implications for Africa, which is the only continent in the world now with a significantly increasing population. Africans looking for opportunities elsewhere are going to find it increasingly difficult to emigrate to Europe.

Ann Bernstein: Thank you very much, Adrian. This has been fascinating.

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Published in May 2025 by The Centre for Development and Enterprise
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