



CONVERSATIONS
A Global Forum

Edward Luce

in conversation with
Ann Bernstein

Democracy | Markets | Development

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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 was the 21st event in the series.

Ann Bernstein: I am delighted to welcome Edward Luce, author of three excellent books, U.S. national editor and a columnist for the Financial Times. Ed now spends most of his time in America, but when he was the FT's South Asia bureau chief, he spent a great deal of time in India and wrote an excellent book on the rise of that country. Apart from his focus on American politics, he maintains a keen interest in global events.

Let us start with American politics. What happened to the Republican Party? Where have all the voters and leaders who were anti-Trump gone – the people who helped build the international world order that led to so much prosperity around the world – what happened to them? Can we ever imagine the party returning to what it was, a key pillar of American democracy?

Edward Luce: That is probably the most important question confronting those who favour American democracy today. When Donald Trump essentially hijacked the party in 2016, none of the senior Republicans endorsed him. But when he won without their support they quickly fell into line. They saw how strongly Trump's message resonated with the Republican base.

Many of those who initially opposed him are now coming across as very loyal Trumpians, because their careers depend upon it. The power of Trump was well illustrated by Liz Cheney's recent defenestration from her district in Wyoming. She was punished for having very accurately said that the 2020 election was not stolen. It was a fair election, and Biden won fair and square. To admit that is now taboo for Republicans. When I speak privately to senior Republican senators, congressmen and congresswomen, they mostly agree it was a fair election. But their spines have gone missing. Until they rediscover them the Republican Party will remain a Trumpian party. I think that is the reality for the foreseeable future.

Ann Bernstein: You have argued that the Democratic Party has carved up the US voting public into so many different subgroups that the whole is smaller than the parts. What do you mean by that exactly and what have been the consequences?

Edward Luce: Democrats are very puzzled about the fact that in 2016 Trump got about a quarter of the Hispanic vote. In 2020 it went up to about a third. During those four years he said some ghastly things about Mexican Americans, describing them as rapists, criminals, and that they cause more crime than 'real Americans'. Yet the Hispanic share of the of the vote for Trump went up markedly during his presidency.

One explanation is that there is no such thing as a Hispanic vote. 'Hispanic' is a made-up category and is as problematic as talking about a 'European vote'. That does not exist either. Democratic party consultants seem to think that you can automatically get votes if you tailor your message to demographic groups. You appeal broadly to African Americans and to Hispanic Americans, while Trump helps you by being deeply insulting to both. Especially with 'Hispanics', that has not proven to be the case, largely because they do not see themselves as Hispanics. They see themselves as Cuban Americans, Colombian Americans, Puerto Ricans, Mexican Americans or Dominican Americans. Most of them are in America legally and therefore do not identify with attacks on illegal

immigrants. They mostly have the same concerns as non-Hispanic Americans. They are concerned about making ends meet and want to be upwardly mobile, while also being fairly patriotic and pro-American.

I think this misreading of the Hispanic vote is emblematic of how Democrats get things wrong, and it stems from the old machine politics of Chicago, New York and other big cities where Democrats were able to secure ethnic voter blocks. In today's America this is not an accurate reading of how most Americans think of themselves. It may be accurate for African Americans, who continue to be victims of structural racism, but it is not really true of other ethnic groups. Talking to them purely about the disadvantages they face as a group as a way to motivate their vote, is a gigantic category error which the Democratic Party continues to make.

Ann Bernstein: Most populists follow a common strategy. They take a germ of truth that reflects a reality in people's lives, and then they exaggerate it and turn it into an explosive issue. That is what Trump has done, but why is he continuing to have so much support in your view?

Edward Luce: Trump's continuing support is an important question with huge implication for the future of the American republic. Despite all that he is and everything that has happened, 40 percent or so of Americans continue to back Trump. In addition, an increasing share of that 40 percent is not white and is increasingly blue collar. One explanation is the deep cynicism about politics in America. To those cynics Trump looks like the most effective bomb to blow up politics as usual. The other explanation is the deep polarization in media consumption. If you are on conservative websites such as Infowars, The Alex Jones site, Breitbart, or if you watch Tucker Carlson on Fox News every night, then you are consuming a completely different set of 'facts' than people who read the New York Times or watch CNN. In that alternative, conservative world, Trump stands against the cultural elite, for whom many Americans feel nothing but contempt.

In this context, Trump, as the consummate populist, is able to associate his own completely fictional sense of persecution with the alienation that large sections of America feel. I need to add that a significant portion of this alienated group are white racists, but they do not make up the whole 40 percent. They are probably not even a majority. 'Trumpism,' it is fair to say, has cult-like qualities that are impervious to evidence. There is a faith-based element to it that is very difficult to combat.

The worst consequences of this entrenched populism and these trends is yet to come. The only real lasting solution to this kind of phenomena, which has happened before in America and in other countries, is repeated defeat at the ballot box. Unfortunately, the Democrats are not really helping themselves in this regard.

Ann Bernstein: Would you say that American democracy is at risk in 2024? Do you see the political divisions in the country as irreconcilable, driven by the extremes in both parties? Is America two nations that could potentially split up?

Edward Luce: America splitting up is unlikely. In contrast to the Civil War of the 1860s, the divisions are not sufficiently geographic (i.e. North versus South) or clear cut (anti-slavery versus pro-slavery) to permit a clear split between two Americas. The real threat to the Republic is a constitutional coup in 2024. This could be done on the basis of an interpretation of the constitution referred to as 'sovereign legislature theory'. This theory holds that state legislatures can decide the electoral college results for their state. If they decide that the votes in their states have been contaminated in some way, then they can choose a separate, more acceptable, set of electors. If that happened then the head of the Senate, vice president Kamala Harris, would reject the move. There would be a standoff which would end up in the Supreme Court.

This court is now full of Trumpian appointees who are hard-line conservatives. They may rule in favour of the states. That, in my opinion, is a realistic threat to democracy and the stability of the Republic.

One way to think about how divided America is, is to contrast it with my country, Britain, which is currently going through a comic opera of turnovers from one prime minister to another. There have been three in the last eight weeks. This is a source of political humour, but there is a silver lining. These shenanigans in the Tory Party have resulted in the electorate shifting from giving the Conservatives 35 to 40 percent of the votes, to less than 20 percent support in current polls. The British electorate is very flexible. They are ready to punish those making unforced, unacceptable errors, by switching their support to the other party. That does not happen in America. Trump's gets between 40 to 45 percent of the vote, as does Biden, and their performance does not seem to affect that. These are rigid voting blocs which are far more tribal than what you see in other democracies. This is not healthy for the future.

In Britain, many people hate the BBC. They may hate it for different reasons, some see it as too conservative, others as too 'liberal'. But these critics are all watching the same thing, they are debating around a commonly consumed set of facts. In America, people are not consuming the same media. They are living in separate narratives and cannot find common ground. That is an important reason why I have existential concerns about the future of democracy in America.

Ann Bernstein: Are US political divisions irreconcilable? There have been some major bills in the past two years that have received bipartisan support. Is the polarisation of US politics being exaggerated with almost 95% of bills passed in 2022 for example receiving bipartisan support? Any sign of bipartisanship in the state legislatures?

Edward Luce: It remains the case that it is far easier for a Republican administration to get Democratic votes for certain initiatives than a Democratic administration to get Republican votes. Nevertheless, under Biden's leadership there have been two significant bipartisan bills. One was the infrastructure bill where more than 10 Republican senators cleared the filibuster threshold of 60 votes in the senate. The second was the CHIPS Act, which offers a big subsidy for American semiconductor manufacturers. These are examples of the system working as it used to in the Senate where Biden spent most of his career. It is a good thing for America that these bills were passed, but the vast majority of Bills have essentially been voted on in terms of the party line, and that is unlikely to change any time soon.

One minor gun reform bill requiring background checks, which was, at best, symbolically important, did receive some Republican votes, but they have been pilloried for doing that, and they are unlikely to repeat this kind of support if presented with a second opportunity. What concerns me is what form bipartisan voting will take if Republicans regain control of the House in the 2022 mid-term elections. Kevin McCarthy, who will likely become the speaker, is planning an 'impeachment revenge' strategy. Because Trump got impeached twice, McCarthy wants to impeach Biden. To do that he will launch investigations into people who work for Biden, as well as his relatives, and his son, Hunter Biden.

If they win, the Republican majority will not support any legislation proposed by the Democrats. Thus, no legislation will be passed through Congress, and there will be an extraordinary hyper partisan atmosphere in the build up to the 2024 elections. At the same time, any legislation proposed by Republicans will likely be vetoed by Biden.

All of this will likely end up in a rerun of Biden versus Trump in 2024. That is, in my opinion, not good for American democracy. If 2020 was a dress rehearsal for what is going to happen in 2024, then the midterm elections in 2022

must be seen as a critical predictor of the 2024 outcome. If Trump runs, he will espouse the same old line: "if I lose the election it will be because it was stolen." Only this time he will have many more Republican officials in place who explicitly support that view. We must remember that in 2020, his attempted 'putsch' failed because Republicans, starting with Mike Pence, refused to sign on to his theory of a stolen election. That will not be true in 2024.

Ann Bernstein: Traditionally in America, when things were terrible in Washington, one could look to the states or to the cities for new ideas. 'Laboratories of democracy,' they were once called. Is there any hope of positive things happening in these places that might brighten the bleak national picture?

Edward Luce: America is large and diverse. I often say it is more a continent than merely a country. As a result, there is always a chance of different, positive developments happening somewhere. However, many trends are in the other direction, of polarisation and rigidity at the local level. For example, school board elections used to be completely non-partisan, no one would even mention a candidate's political affiliation. These are now completely polarized along culture war lines, with Republicans opposing any discussion of gender identity and gender fluidity, while Democrats argue strongly for gender as a central issue and seek to characterise America as a slave country, from 1619 until today.

Ann Bernstein: You have argued that the Democratic Party has stopped listening to America's voters. Your article on this kicks off by asking: How do you tell if America's cultural liberals have gone too far – and answer by saying when San Franciscans throw them out of office. Tell us about the culture wars and give us some examples of where the Democrats are – in your view – going too far.

Edward Luce: The most obvious and significant example is the governor's race in Virginia last year. Glenn Youngkin, a wealthy Republican, defeated Terry McAuliffe, a stalwart of the Democratic Party. This was a big shock to the Democratic Party, because a large part of Virginia consists of suburbs surrounding Washington DC. Washington DC is to Democrats what Utah is to Republicans. It is 90 percent Democrat.

McAuliffe ran his campaign on bigger ideological issues, like the threat to democracy that the January 6th attacks on the Capitol represented. Voters, however, were more concerned about local issues, such as the state of their children's education. Many were deeply irritated by teachers' unions preventing children from returning to schools longer than was necessary during Covid. A lot also came to dislike that critical race theory was taught in their children's schools, and that in some of the more well-heeled areas children were sorted into 'affinity groups,' which essentially meant that children were sorted according to pigmentation. Youngkin used this discontent and made exaggerations about critical race theory, but they were based on a kernel of truth that a lot of parents did not like.

San Francisco has seen a similar push back against extreme identity politics. In a number of schools parents expressed their discontent and threw out education board ultra-liberals in special recall elections. If that is happening in San Francisco, which has always been the most liberal city in America, then I think the Democratic Party needs to take notice and pull back on some its more extreme identity positions. It is, in fact, only about a tenth of Americans who describe themselves as hard-line progressives, and they are almost exclusively white. Very few African Americans agree with strongly progressive views, although they will vote Democrat. They actually tend to be fairly moderate on some of these issues.

The way forward for the Democrats can be found in the senate campaign Tim Ryan is running in Ohio. He is battling a hyper Trumpian, JD Vance, in a state that has been declared as permanently 'red,' but is holding his

own. Ryan's campaign appeals to working-class people of all colours. His message is: "what we have in common is vital, including our economic concerns, our children's education, crime, etc. We should unite against abusive policing, but we should also not paint all police as bad apples". If his campaign does well it might make the Democratic Party revamp how they reach the electorate. That at least is the hope.

Ann Bernstein: To what extent do you think the Biden administration is responsible for the inflation America is experiencing, because of the enormous stimulus package they introduced? Larry Summers argued against the stimulus very strongly, but the administration went ahead with it. Why didn't they listen?

Edward Luce: Politicians are always fighting the last war, and the last war in this context was the 2009 \$800 billion stimulus that Obama passed after the devastation of the previous year's global financial crisis. This stimulus was better than nothing, but it did not come close to covering America's output gap at a time of low, mostly zero, interest rates. The stimulus could have been twice its actual size without causing any difficulties, and America's rebound would have been far stronger. Some of the disaffection that led to the Tea Party and the poisoning of American politics could thus have been prevented.

That was front of mind in the Biden White House, and the majority of politicians and economic advisers came to believe that we were in a permanent zero interest rate or even negative real interest rate world where you can afford to spend as much as you like.

As a result, this stimulus was five times the output gap, which Larry Summers and others like Jason Furman and Olivier Blanchard warned must lead to inflation. In their defence the Biden administration points to the fact that inflation is a global phenomenon. If the 1.9 trillion American Rescue Act is supposed to have caused inflation, they argue, then how does one explain that there are similar inflation rates in Europe. The answer is that Europe has got very specific energy hyperinflation that does not affect America in the same way. Some American inflation has come from now receding supply chain problems associated with the pandemic as well as from the consequences of the Russian invasion of Ukraine. A significant portion, however, comes from the much-too-large stimulus, which with hindsight will come to be seen as quite a big mistake by Biden.

Ann Bernstein: Russia's invasion of Ukraine drags on. In your view when does this war end and in what way? Do you think the US would like to see Putin's downfall now that he is struggling in Ukraine?

Edward Luce: Overthrowing Putin is not an active strategy pursued by the Biden Administration. There have been a couple of ad-libs by Biden, most notably in Warsaw in April, where he talked about Putin being a war criminal. There has also been some wild talk in some foreign policy circles in America of breaking up Russia. But none of that is official policy. If you want a nuclear equal to end the war, then promising to put its leader on trial in The Hague is not offering the right incentive.

At the same time, the brutal way that Putin has conducted this war from the very beginning, makes any talk of off-ramp or diplomatic solutions almost taboo. A group of 30 progressive Democratic lawmakers recently wrote a letter to Biden calling on him to pursue a diplomatic option, which then some of them disavowed, before the letter was finally withdrawn. The uniformity and ferocity of the condemnation they faced for even raising the question of diplomacy was very striking.

It is worth remembering, though, that as a nuclear power, Russia will never offer unconditional surrender, so at some point there will have to be some settlement or deal, so diplomacy will be needed and back-channel diplomacy between America and Russia happens even now.

Right now, though, is not the time for diplomacy. Ukraine is regaining territory that it lost to Russia early in the war. I am very doubtful that Ukraine will get Crimea back. I think those who looked at this in detail realise that most of Crimea's population is Russian. That was not a referendum that had to be rigged in 2014. It was authentic by most accounts.

A peace deal could therefore include the recognition of Russia's control in Crimea in exchange for it recognising Ukraine's boundaries and its right to join NATO in some 10 years time. Right now, though, neither party feels like ending the war, nor shows any sign of changing their position. Ukraine wants to keep regaining lost territories and Russia cannot stand the humiliation of defeat. Only Putin can change that, so I do not know when this war will end.

In terms of funding the war, I suspect America will hold the line, but the temptation at some point to push Ukraine to the negotiating table and try and just draw a line under this is getting stronger all the time.

Ann Bernstein: You have argued that in some ways China is weaker than it appears. Why do you think that?

Edward Luce: China in the foreseeable future is no longer going to be the chief engine of global growth. China is hitting a middle-income status, which makes high growth much more challenging. In addition, political changes will pose challenges for the economy. Xi Jinping's move to an unprecedented third five-year term, and his extraordinary purges of anybody not perceived to be ultra-loyal, mean that China is moving from a collective autocracy to an individual autocracy. Collective autocracies tend to be predictable, while individual ones are more capricious. That has consequences for the predictability of the investment environment.

The Chinese are getting older, and societies that get older tend to be less dynamic. Extreme zero Covid measures are still in place in many Chinese cities and are likely to remain for some time. China has been reluctant to use Western vaccines, even though the Chinese homemade vaccines are not particularly effective. The years of big Chinese infrastructural investments all over the world have been hit by the need for austerity and will become considerably smaller in scale than we saw in the last decade. The relative attractiveness of China as a model is being tarnished, and the importance of China as an export market has probably peaked.

Ann Bernstein: You wrote a wonderful book about India. Why do America and the West not pay enough attention to India. It is, after all, the world's largest democracy. At the same time, how worried are you about democracy in India?

Edward Luce: American foreign policy and media tend to focus on global problem areas, especially where American interests are threatened. They also focus on the most dynamic economic areas. In that regard, India has always been behind China.

That is changing. India's growth will be twice China's growth this year and it is projected to outstrip China at least for the next few years. India is becoming the fastest growing large economy in the world. It will get more attention because of that. Supply chains are moving out of China and into India, with iPhone 14 being assembled on a large scale in Tamil Nadu. At the same time, the Covid picture is a lot more benign in India than it is in China. These are all positives.

However, I have for many years been deeply concerned about the Hindu majoritarian political project overseen by Narendra Modi. India's pluralism and its tolerance and love of dissent, debate and argument is its inherent

strength. This was famously pointed out by Amartya Sen in his book *The Argumentative Indian*. This inherent strength is part of the reason why Indians run so many fortune 500 companies here in the United States. They are accustomed to differences of opinion, culture and language, and therefore find it easy to operate in a diverse, global economy in a way that maybe their Chinese counterparts cannot.

Narendra Modi's project is to try and homogenize India, mostly through Islamophobia and making Indian Muslims de facto second-class citizens. He is also trying to remake India's postcolonial identity from a secular, pluralistic one to a much more theocratic, Hindu dominated identity. That is a terribly worrying direction.

Free speech is definitely becoming endangered in India. The way that is done is by withdrawing government advertising and conducting tax raids on independent media, and by suing independent journalists. The chilling effect of this is to create loyalty and quiescence in most of the media. This is happening at a large scale and is a sign that an illiberal democracy is being successfully, efficiently and ruthlessly created under Modi. The economic effects of this are difficult to predict, but the human costs are profound, and it is a very troubling direction for India to take.

Ann Bernstein: Will Biden run for a second term?

Edward Luce: I think that is likely. Biden thinks with some justification that he is the only person who can beat Trump. One could argue that Trump beat Trump in 2020, through his handling of the pandemic and other debacles. But if Trump is on the ballot, Biden will want to run regardless of whether his memory and articulation are not as good as they used to be, and nobody will be able to stop him.

However, if Trump is not on the ballot and the Republican nominee is somebody much younger, like DeSantis, the governor of Florida, then it might be easier to persuade Biden that there should be a younger Democrat running in his place. I have no idea who that would be. I would not put high odds on it being the current vice president, Kamala Harris, but I might be wrong.

Ann Bernstein: Thank you so much for giving us this time and sharing your broad insights from across the world. It has been fascinating.

Edward Luce: It was a pleasure and great questions, thank you.

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