

PREFACE

A quarter century ago in the glow of postcommunist triumphalism, many were predicting that globalization would link democracy with capitalism in a splendid convergence. Instead, we are witnessing a primitive backlash against both the global market and liberal democracy.

In the United States, the rise of Donald Trump revealed broad disaffection with both economics and politics. The British vote to exit the EU reflects a comparable spasm of right-wing populism. Ultrationalists who reject both the EU and the doctrine of liberal trade are now the second or third largest party in much of Europe, and some are in government. Democracy itself is under siege.

This upheaval is occurring not just in nations with weak democratic roots such as Turkey, Hungary, Egypt, and the Philippines, but in the democratic heartland—western Europe and the United States. Autocrats are using the forms of democracy to destroy the substance. As a whole other model, China's state-led semi-capitalism shows no signs of evolving into liberal democracy. Nor is China embracing anything like free markets.

This ultrationalist reaction is compounded by resentment of immigrants and refugees, as well as resurgent racism. But the fundamental driver of these trends is the resurrection of heedless, globalized capitalism that serves the few, damages the many, and breeds antisystem politics. Though the turn was abrupt and extreme, the mass frustrations have been brewing for decades, under the noses of elites.

THE ARGUMENT OF THIS BOOK

My purpose in writing this book is to connect the dots between the rise of right-wing populism and the fall of a social contract that once served the broad citizenry in Western democracies. The story has five key elements.

First, the postwar era was exceptional in the history of capitalism. It was the result of a fortuitous convergence of events that constrained finance and shifted power to organized workers and democratic governments. In the aftermath of World War II, having learned the bitter lessons of the 1930s, enlightened leaders built a mixed economy whose broad prosperity would reinforce support for liberal democracy and reduce the risk of war.

The postwar social contract, with national variations, demonstrated that a social form of contained capitalism could be successful economics. In that era, the economy grew at record rates even as it became more equal. This was true throughout the West, suggesting that common, systemic dynamics were at work. But that era has given way to one alarmingly like the 1920s, and with similar repercussions. A decent political economy is still possible, but it will again require an exceptional politics.

Second, contrary to a lot of commentary blaming the loss of secure livelihoods on such factors as trade, technology, and the shift from manufacturing to services, nothing in the structure of the late-twentieth-century economy compelled a reversion to an unregulated nineteenth-century market. This was a political shift. The economic turbulence of the 1970s opened space for elites to weaken democratic counterweights to capital, substantially using globalization as their instrument. The resulting policies were perverse for efficiency as well as for equality.

Third, the dominant role of the US during and after World War II is central both to the creation and the destruction of a decent economy. In the early 1940s, America was in a rare progressive mood. The global institutions created in 1944, when American power was pre-eminent, were intended to allow both the US and its allies in Europe to build mixed economies in the spirit of the New Deal, insulated from the speculative power of private finance. When American gov-

ernment turned back into an ally of finance beginning in the 1970s and continuing emphatically in the 1980s, its goals for the global system also reversed.

Fourth, today's version of globalization is profoundly antidemocratic. On one flank, global trade agreements narrow the space for national policy and weaken government's ability to housebreak capitalism. On the other flank, the popular revulsion against the results of globalization is elevating antidemocratic leaders, parties, and ultranationalist sentiments. The rise in terrorism and in fear of aliens, in a parallel dialectic, promotes domestic support for anti-foreign strongmen. Radical Islam and right-wing populism in the West are in symbiosis.

The fifth and final observation concerns the collapse of the democratic left. Anger against market excess can go right, toward fascism, or can energize a progressive left that anchors a decent economy. By the 1990s, center-left parties (led by Bill Clinton in the US and Tony Blair in the UK) had joined the neoliberal globalist consensus, undermining their own credibility when ordinary people decided they'd had enough. Social democratic parties across Europe have lost support as much of their working-class base has defected to the far right. The global regime produced such tight constraints on national policy (enforced by financial markets) that even when further-left parties such as Greece's Syriza coalition managed to get elected, they found themselves shackled by the system's rules.

All of this muddled politics. Today, large numbers of citizens throughout the West are angry that the good life is being stolen from them. They are not quite sure whom to be angry at—immigrants, corporations, the government, politically correct liberals, the rich, the poor? The anger is both unfocused and inchoate, but increasingly articulated by a neofascist right. The election of Donald Trump and the British vote to exit the European Union, neither of which will remedy the pocketbook grievances, are emblematic of this muddle.

After the attacks of September 11, 2001, some commentators declared a "clash of civilizations," as Samuel P. Huntington famously termed it—the democratic West against a barbaric form of radical Islam. Well before 9/11, fellow political scientist Benjamin Barber's book title *Jihad versus McWorld* summed it up: the commercial, often

tawdry norms of the globalizing West promoting primitive reaction rather than spreading liberal democracy.

But recent events signal something worse. The threat to democracy is increasingly *within* the West.

THE DANCE OF DEMOCRACY AND THE MARKET

Our deeper story is about the fraught relationship between socially bearable capitalism and robust democracy. When the system is in balance, strong democracy tempers market forces for the general good, in turn reinforcing democratic legitimacy. Democracy must be national because the polity is national. As a citizen of the United States, I can vote for my leaders. My government has certain rules and procedures that are relatively transparent and can be contested.

But there is no global government and no global citizenship. To the extent that democracy requires taming of the market, globalization weakens that endeavor. Today's globalization undermines national regulatory authority. There is no global lender of last resort, no global financial supervisor, no global antitrust authority, no global tax collector, no global labor relations board, no global entity to enforce democratic rights or broker social contracts. Quasi-governmental global organizations, like the International Monetary Fund and the World Trade Organization, are far less transparent and less accountable than their domestic public counterparts, and easier for corporate elites to capture and dominate. Globalization tends to alter the political distribution of power domestically, and to increase the influence of elites who favor more *laissez-faire* and more globalization, so the process feeds on itself.

A key aspect of the postwar system was the very tight regulation of finance, which remained mostly private but was turned into something close to a public utility. Uniquely in the history of industrial capitalism, the ability of private finance to operate globally was tightly limited. The system constrained international movements of capital. Banks, for the most part, could not do business outside the borders of their home countries. There was no specula-

tion in currencies because exchange rates were fixed. Entire categories of financial products that operate globally today and thus add to the system's ungovernability and instability, such as credit default swaps, did not exist.

The tight national controls on financial capital had significant consequences for the broader political economy of the era. In the real economy, finance was the servant, not the master. Interest rates could be kept low, providing cheap capital to the real economy, without the worry that easy money would fuel speculation, instability, and investment bubbles. With strict limits on what finance could do, the wealth and power of financial elites were also constrained, reinforcing the power shift that undergirded the entire social compact.

The unraveling of the several elements of the postwar social settlement had multiple sources. "Globalization" in the current usage—meaning deregulation of constraints on transnational movements of money, products, services, and labor—was not the only element. But it was clearly a driver and an intensifier. Globalization was a key vector in the transmission of neoliberal policies and values.* New global rules not only restored the ability of finance to operate speculatively across national borders, but undermined the capacity of national governments to regulate it. Globalization helped to restore the temporarily suppressed political power of corporate and financial elites, as well as their wealth. Globalization of capital created a reality, even for left-of-center governments, in which there seemed to be no alternative, as Margaret Thatcher famously put it, to even more *laissez-faire*, because of the need to reassure markets. The process was cumulative, both politically and economically.

The fact that the far-right backlash is occurring in nearly all Western nations at the same time is no coincidence, nor is it accidental contagion. It is a common reaction against the impact of globalization on the livelihoods of ordinary people. The resulting sentiments produce a politics that is sullen, resentful, and perverse, further undermining democracy. Elites have won the policy debates but have lost the citizenry.

*Some critics use "neoliberal" as an epithet. I find it to be a useful, neutral term meaning simply a reversion to the verities of classical liberal economics, which mistakenly assumed the efficiency of unregulated and self-correcting markets.

Far-right sentiments are always lurking around the fringes of society, but when democracy does a good job of managing capitalism, they remain at the fringe. When capitalism overwhelms democracy, we get the alt-right with a friend in the White House. We get Breitbart News, Stephen Bannon, and Donald Trump.

Globalized capitalism, increasingly deregulated and unmoored from national restraints, undermines a balanced economy in multiple, complex, and cumulative ways. With global markets and no global standards, domestic workers are thrown into direct competition with more desperate overseas workers. A century's worth of democratic struggles to regulate labor standards are hosed away. At the other end of the wealth spectrum, the worldwide liberation of finance creates astronomical incomes for the elite. The developing world gains access to world markets but, for the most part, becomes an even more extreme case of wealth and poverty. Money becomes more powerful than citizenship, corrupting both the polity and the economy.

Globalization also accelerates cross-border movements of people. Corporate leaders and their political allies have promoted international flows of cheap labor. Remittances have become an important source of income for much of the third world. The European Union requires free cross-border movements of workers as a condition of membership. Immigrants are also refugees from wars or dictators. A few national leaders, from Sweden to Germany to Canada, have idealistically opened their doors to political and economic refugees. Migrants, often poor and often scorned, are outside national social contracts; they are nonparticipants in national democratic deliberation, and vulnerable to both exploitation and retribution. Even before recent terrorist attacks, their presence undermined settled social compromises.

In the democracies, government and politics are hobbled by a seemingly opposite but complementary problem—paralysis in the face of escalating problems. In the US, three decades of cynical Republican and corporate blockage of economic remedies discredited government and politics, and paved the way for Donald Trump. In the EU, neoliberal rules have constrained policy options for member governments. The rise of far-right antisystem parties has narrowed the parliamentary space of the mainstream, necessitating weak coalition governments of center-right and center-left parties, leading to feeble compromise policies at a time when economic stagnation requires

stronger remedies. This blockage, also reminiscent of the 1920s, discredits government and invites Caesarism.

Some have argued that capitalism promotes democracy, because of common norms of transparency, rule of law, and free competition—for markets, for ideas, for votes. In some idealized world, capitalism may enhance democracy, but in the history of the West, democracy has expanded by *limiting* the power of capitalists. When that project fails, dark forces are often unleashed. In the twentieth century, capitalism coexisted nicely with dictatorships, which conveniently create friendly business climates and repress independent worker organizations. Western capitalists have enriched and propped up third-world despots who crush local democracy. Hitler had a nice understanding with German corporations and bankers, who thrived until the unfortunate miscalculation of World War II. Communist China works hand in glove with its capitalist business partners to destroy free trade unions and to preserve the political monopoly of the Party. Vladimir Putin presides over a rigged brand of capitalism and governs in harmony with kleptocrats.

When push comes to shove, the story that capitalism and democracy are natural complements is a myth. Corporations are happy to make a separate peace with dictators—and short of that, to narrow the domain of civic deliberation even in democracies. After Trump's election, we saw corporations standing up for immigrants and saluting the happy rainbow of identity politics, but lining up to back Trump's program of gutting taxes and regulation. Some individual executives belatedly broke with Trump over his racist comments, but not a single large company has resisted the broad right-wing assault on democracy that began long before Trump, and all have been happy with the dismantling of regulation. If democracy is revived, the movement will come from empowered citizens, not from corporations.

A line attributed to Mark Twain holds that history doesn't repeat, but sometimes it rhymes. The current rhyme is a discordant one, with echoes that should be treated as ominous warnings.

A POLANYI MOMENT

We have seen this movie before. During the period between the two world wars, free-market liberals governing Britain, France, and the US tried to restore the pre-World War I laissez-faire system. They put debt collection ahead of economic recovery. It was an era of rampant speculation and no controls on private capital. All this was supposed to promote prosperity and peace. Instead, it produced a decade of economic insecurity combined with heights of inequality, a discrediting of democracy, fascist backlash, and deeper depression. Right up until the German election of July 1932, in which the Nazis became the largest party, the pre-Hitler governing coalition was practicing the economic austerity commended by Germany's creditors and by orthodox financial opinion throughout Europe.

The great prophet of how market forces taken to an extreme destroy both democracy and a functioning economy was less Karl Marx than Karl Polanyi. As Polanyi demonstrated in his 1944 masterwork, *The Great Transformation*, the disembedding of markets from their societies and resulting inattention to social consequences inevitably triggers a reaction. The reaction is more often chaotic and fascistic than politely democratic. "The fascist solution to the impasse of liberal capitalism," Polanyi wrote, is containment of the market "achieved at the price of extirpation of all democratic institutions."

Polanyi saw the catastrophe of World War I, the interwar period, the Great Depression, fascism, and World War II as the logical culmination of market forces overwhelming society. "The origins of the cataclysm," he wrote, "lay in the utopian endeavor of economic liberalism to set up a self-regulating market system."

Rereading Polanyi at a time when events vindicate his vision, one is struck by the eerie present-day ring. Polanyi, like his great contemporary John Maynard Keynes, the architect of Bretton Woods, was an optimist. With the right politics and the right mobilization of democracy, both men believed markets could be harnessed for the common good. They recognized the propensity of capitalism to create calamity but did not believe that outcome to be inevitable. Polanyi lived to see the postwar system confirm his hopes.

The great pessimist, of course, was Marx. In the mid-twentieth century, history failed to follow Marx's script. At the apex of the postwar boom in the United States and Europe, Marx's bleak prediction of capitalist self-destruction seemed ludicrous. A contented bourgeoisie was huge and growing. The proletariat enjoyed steady income gains, thanks to strong trade unions and public regulation. The political energy of aroused workers that Marx imagined as revolutionary instead went to support social democratic and progressive parliamentary parties. These built a welfare state, to temper but not supplant capitalism. Nations that celebrated Marx, meanwhile, were bleak economic failures that repressed their own working classes.

Half a century later, working people are beleaguered and insecure. A global reserve army of the unemployed batters down wages and marginalizes labor's political power. A *Lumpenproletariat* of homeless vagrants and stateless migrants rends the social fabric. Even elite professions are becoming proletarianized. The globalized market weakens the reach of the democratic polity, undermining the protections of the mixed economy.

Ideologically, the neoliberal view that markets are good and states are bad is close to hegemonic, another Marxian concept that once seemed far-fetched, referring to the tyranny of unquestioned, self-serving ideas. With finance still supreme despite the disgrace of the 2008 collapse, it is no longer risible to use "capital," Marx-style, as a collective noun. Goldman Sachs alums provided five of the last six US secretaries of the treasury, Democrats as well as Republicans, even under the alleged populist Donald Trump. If the state is not quite the Marxian executive committee of the ruling class, it is doing a pretty fair imitation.

But Marx got several big things wrong. In countries where rulers invoked his name, there was no "dictatorship of the proletariat," just plain totalitarianism. Most important for our purposes, Marx—in his conjuring of a global proletariat—left out nationalism. He left out the fact that the reaction against a predatory capitalism that annihilates social institutions more typically ended in fascism.

I still believe, with Polanyi and Keynes, that economies can be democratically harnessed for the general good. However, in order to

achieve a democratically constrained mixed economy, almost everything has to break right. Success requires fortuitous historical circumstances, movements that mobilize citizens against elites, inspired democratic leaders, and a good dose of luck.

These moments tend not to last. The institutions often turn out to be more fragile than they first appear, and they require continual renewal. In a basically capitalist economy, financial elites, even when constrained, retain an immense amount of residual power. That can be contained only by countervailing democratic power.

The Bretton Woods era suggests that a more benign form of globalization is possible. But the postwar brand of globalization, balancing citizenship and market, above all required a *politics*. Today, a few thinkers could sit in a seminar room and design a thinner globalization and a stronger democratic national polity. Keynes and his generation did just that after World War II. But they had the political winds at their backs. Today's architects of democratic capitalism face political headwinds. Though ideas do matter, they are no substitute for political movements.

Can we reclaim a decent economy that works for most people, and in turn restore democracy? Perhaps. But once again, it will take leadership, power, and luck. First we need a deeper understanding of how things went off the rails.