The Crisis of the Liberal International Order: Technological Change and the Rise of the Right Wing

> *That aspect of the modern crisis which is bemoaned as a "wave of materialism" is related to what is called the "crisis of authority". If the ruling class has lost its consensus, i.e. is no longer "leading" but only "dominant", exercising coercive force alone, this means precisely that the great masses have become detached from their traditional ideologies, and no longer believe what they used to believe previously, etc. The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear.* --Antonio Gramsci, *Selections from the Prison Notebooks*

The deterioration of the market value of labor in richer parts of the world has been steady over the last forty years. Some poorer states, such as India and China, have enjoyed dramatic increases in the market value of labor during that same period. However, even those countries are beginning to experience a weakening of labor markets. Globalization has been the driving force of this trend, but the logic of globalization, and its more recent ancillary, robotization, will ultimately create a world, not of rich and poor nations, but of a unified rich elite and an undifferentiated mass of disenfranchised citizens. For self-protection, that elite will divert the anger and despair of those citizens away from policies designed to enhance the market value of labor into the destructive forces of nationalism, xenophobia, and authoritarianism.

That outcome was hardly predicted in 1991 when the last ideological competitor to the liberal world order, socialism, collapsed (an earlier competitor, fascism, had been vanquished by war in 1945). Economic activity conducted along classical liberal lines—market values determined by supply and demand, limited government intervention in that market, and reasonably stable currencies—was supposed to usher in an increasingly more comfortable and efficient world. Indeed, the idea of progress is central to the political attractiveness of market capitalism. There was, in the years following the collapse of the Berlin Wall in 1989, a sense that liberalism had "triumphed". Indeed, Francis Fukuyama wrote that "liberal democracy may constitute the 'end point of man's ideological evolution' and the 'final form of human government,' and as such constituted 'the end of history.'"-(Fukuyama 1992)

That outcome had also been predicted earlier. The world had witnessed a similar wave of globalization in the late 19th century. In both periods, globalization had been marked by dramatic changes in transportation and communications technologies which had the effect of creating global, and not local, supply chains. In both periods, a new economic power had arisen—the US in the 19th century and China in the 20th century—which upset previously well-established supply chains. And both periods experienced dramatic surges in income inequalities within certain socio-economic groups. The 19th century wave of globalization ended with World War I.

The 19th century collapse of globalization has been well documented and articulated by Kevin H. O'Rourke and Jeffrey G. Williamson in their book, *Globalization and History: The Evolution of a Nineteenth Century Atlantic Economy*. They argue:

> The Impact of the railroad and the steamship was reinforced by political developments after 1860 as European economies moved rapidly toward free trade. The world was becoming a much smaller place, and to an observer in 1875, it must have seemed as if it was going to get a lot smaller. Yet nothing is inevitable. History shows that globalization can plant the seeds of its own destruction. Those seeds were planted in the 1870s, sprouted in the 1880s, grew vigorously around the turn of the century, and came to full flower in the dark years between the two world wars. (O'Rourke and Williamson 1993, 93)

This essay argues that in many respects, the current global economy mimics the O'Rourke and Williamson pattern.

The pattern, however, is just a heuristic device. As compelling as some of the similarities between the two periods may seem, there are some very important differences as well. The 19th century contended with 2 billion people; the 21st century, 9 billion. No one in the 19th century regarded human activity as a decisive element in the global climate; the 21st century must address the urgent perils of climate change. The blood and soil nationalism of the late 19th century ushered in a devastating world war, a calamity thus far avoided in the 21st century. Finally, in the earlier time, the human intellect was regarded as singular. Humans in the future must wrestle with artificial intelligences of considerable powers.

Moreover, the pattern places too much emphasis on the process or globalization as the motor force of the backlash implied by O'Rourke and Williamson. The backlash against the liberal system of market capitalism has existed since it emerged: the desire to resist the commodification of social life so brilliantly explained by Karl Polanyi in *The Great Transformation* and described by him as the "countermovement" to market capitalism. (Polanyi 1944) That resistance is a parallel structure to globalization and it exists not only as a response to global economic intrusions on social life, but also in response to purely domestic consequences of market forces. Market capitalism has always had winners and losers—that outcome is not unique to globalization. The critical difference between the earlier period and now is that globalization has accelerated the process of losing and deepened it to include the former winners.

Finally, the pattern reflects a fundamental contradiction in the modern world system. The liberal systems of market capitalism and representative democracy operate in completely different realms. Market capitalism is truly universal and for it to operate most efficiently, the factors of land, labor, and capital should have no national identities. Representative democracy requires an emotional identity which has evolved in a profoundly parochial manner in the agency of the nation-state. The contradiction between global and local interests exists for all systems which purport to be universal. Marx might have believed that the proletariat had no homeland, but World War I and Stalin belied that claim. The nation-state has a hold on the minds of people that in times of distress can easily override the clinical self-interest assumed by the market. Dani Rodrik accurately described these tensions in his analysis of what he called the "trilemma": that democracy, sovereignty and globalization cannot interact simultaneously. (Rodrik 2011)

The Rise in Income and Wealth Inequality in the World

There are wide variations in liberal practices in the world. The social democracies of Europe are at one end of the spectrum. At the other end are societies that adhere to stricter market rules. The United States is an example of the latter. The differences are important, but they also are narrowing. This essay focuses on the practices of the United States since its policies better illuminate how a state can be managed to serve the self-interest of a small group of people. Since 1971 the market has worked to benefit an increasingly shrinking share of the population. According to the Pew Research Center:

> ….”middle-income” Americans are defined as adults whose annual household income is two-thirds to double the national median, about $42,000 to $126,000 annually in 2014 dollars for a household of three. Under this definition, the middle class made up 50% of the U.S. adult population in 2015, down from 61% in 1971. (Pew Research Center, December 2015)

Middle-class income has “trickled-up.” After the Great Recession of 2008-09, the shift of income to higher-income groups was astonishing: “For the United States overall, the top 1 percent captured 85.1 percent of total income growth between 2009 and 2013. In 2013 the top 1 percent of families nationally made 25.3 times as much as the bottom 99 percent.” (Sommeiller *et al*. 2016)

Inequality was not a contentious political issue in post-1945 America until the Great Recession exposed the political foundations of inequality. The bail-outs of institutions that had induced the crisis by their exorbitantly risky behavior highlighted inequality by linking it directly to a political process. Gradually, greater attention has been paid to the question of income inequality, and the scholarly commitment to addressing that question was significantly boosted by the publication of Thomas Piketty’s book, *Capital in the Twenty-First Century*.

The earlier economic debates on inequality had centered on whether the traditional description of inequality—the Kuznets curve—was accurate. Named after the economist Simon Kuznets, the curve represented the rise of inequality as farmers moved into cities in the early period of industrialization, and its steady decline as industrialization matured and the forces of democratization created an economic safety net. Questions have arisen because the safety net has recently proven to be inadequate. (Acemoglu and Robinson 2002)

Why has the safety net failed to address inequality? Democracy has been derailed by rich elites who have used their economic power in the political process to further concentrate their wealth. The political response assumed by Kuznets is not self-executing. Over time, the accumulation of wealth creates the means to prevent the state from taxing it. The public good of a robust economy becomes the private good of a small number of people. Elites rarely, if ever, interact with the less fortunate in substantive ways. Rather, they develop rationalizations to explain the failures of the poor. Similarly, the poor have only a rough idea of how “rich” the rich have become over the last forty years. The scale of the discrepancy between the very rich and the not rich today defies imagination.

The ability of elites to redefine the public good in terms of their private interest is not historically unusual. It is very difficult to measure how this redefinition occurs but there are many studies that suggest that the influence of elites on legislative outcomes is decisive. Two Princeton scholars, Martin Gilens and Benjamin I. Page argue that:

> When the preferences of economic elites and the stands of organized interest groups are controlled for, the preferences of the average American appear to have only a minuscule, near-zero, statistically non-significant impact upon public policy. (Gilens and Page 2014, 575)

The historical record suggests that when wealth becomes highly concentrated, public policy is determined more by the interests of the elites than by the interests of the majority.

Even those who do not believe that income inequality is in and of itself a problem were flummoxed by the consequences of liberalizing the American economy since the 1970s. In October 2008, Alan Greenspan, the former chairman of the U.S. Federal Reserve, testified to the House Committee on Oversight and Government Reform. When asked to explain how the behavior of several financial institutions led to the financial collapse of 2008, Mr. Greenspan told the Committee: "Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself included, are in a state of shocked disbelief". Self-interest is the bedrock of liberalism, but liberal theorists used the term in a social, not a personal, context. Self-interest is not selfishness. Self-interest includes a concern for the long-run, a regard for those with whom one will interact over time, and actions that will create a well-functioning economy that will be shared by all. In other words, the public good is the ultimate objective of liberalism; individual freedom is simply a means to that end.

Mr. Greenspan should not have been surprised that lending institutions involved in the subprime mortgage crisis did not care about the public good—they did not even care about the interests of their shareholders. The chief executives of those institutions had carefully insulated themselves from the consequences of their actions. Mr. Greenspan was remembering a time when investment banks were privately owned, and profits and losses were borne almost exclusively by the partners in the firm. That circumstance assured that the self-interest of the partners was closely identified with the viability of the firm over the long term. That world ended when the investment banks went public. Once the link between private and public loss was severed, the executives of those firms could assure themselves of generous compensation, even if the firm itself suffered a loss or went into bankruptcy. The loss was shifted to the shareholders, or, in the most extreme case, to a central bank or sovereign government. Selfishness no longer required self-interest, if compensation committees and shareholders were passive or co-opted. The executives had eliminated all personal risk to their behavior.

This circumstance was never envisioned by the classical liberal theorists: the public good was never something that should be privatized. For them, it was inextricably tied to the social universe in which capitalists and democrats were born, had children, lived out their lives, and died. Current day pseudo-liberals are fond of quoting Adam Smith's *Wealth of Nations*. They would be better advised to read Smith's *Theory of Moral Sentiments* which

warns of the dangers of accumulating wealth without due regard for the society that collectively creates the condition for that wealth:

> "This disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition....is…. the great and most universal cause of the corruption of our moral sentiments." (Smith 1790. I.III.28)

The present age is one that has deliberately chosen to disregard his advice, and in so doing has compromised the economic progress once promised by the original liberal theorists.

The ideology of neoliberalism is not self-executing. The Kuznets Curve suggests an inherent internal dynamic in the political economy of the market which can correct the tendency toward greater inequality. That suggestion is misleading. Democratization *can* lead to greater measures to protect the poor, but it can also lead to measures that heighten inequality. The US passed through a similar period in the late 19th and early 20th centuries in which incomes and wealth were concentrated among a very few. The Great Depression was a consequence of that concentration and the US took several steps in the New Deal to avoid a repeat of the Great Depression. Those steps were not automatic nor were they part of an endogenous economic dynamic: they required concerted political effort. But the New Deal validated the link between inequality and political action predicted by Kuznets.

The path to the Great Recession of 2008-09 was also laid down by a series of political decisions, such as the repeal of the Glass-Steagall Act, to undo the protections of the Great Deal. In this process of de-regulation, democracy was not used to benefit the greater good. The impact of these decisions was significantly amplified by the accelerating process of globalization which opened even greater opportunities for capital while weakening the power of labor by essentially doubling the available workforce from about 1.5 billion to 3 billion.

This freeing up of capital was not restricted to the US. Relaxing government regulation, reducing taxation, fostering the free movement of capital, and emphasizing economic growth instead of economic development were the mainstays of the liberal economic order designed by the US in 1944 in the Bretton Woods institutions: the World Bank, the International Monetary Fund, and what we now call the World Trade Organization. The collapse of the Soviet Union and the decisions in the 1990s by both China and India to adhere to the rules of these organizations created, for the first time in human history, a truly universal market for capital.

These institutions have fostered the liberal ideology and have been marketed under different rubrics: structural adjustment programs, the Washington Consensus, austerity, and neoliberalism. This ideology is externally imposed at a moment of weakness in the economy of a nation-state, whether that weakness is a debt crisis, a sustained payments imbalance, or a sharp uptick in poverty. In most cases, those policies have been imposed on poor states. But neoliberalism can also be self-imposed. The deep unwillingness of the US to consider tax increases to support the less well off in the United States is a political choice. The objective of those choices is to disarm the power of the state to restrict the freedom of those who own capital.

The American experience was mirrored globally. Poorer countries had had austerity programs enforced on them by the International Monetary Fund and the World Bank for many years and their effects have been, at best, mixed. (Easterly 2005) More recently, richer countries have had austerity programs imposed on them as well as conditions for sovereign debt relief. For example, since 2008 Greece has received three rounds of assistance from international organizations. In return for this assistance, Greece cut its government budget, raised taxes, reduced pensions, and reduced services. The quality of life in Greece has deteriorated. Austerity programs in Greece were imposed so that wealth could be transferred from the ordinary Greek citizen to the banks that hold Greek debt. The programs are designed to protect the interests of the rich at the expense of the poor.

Overall, the global economy has grown prodigiously over the last 40 years. In many countries, such as China, economic growth has lifted millions out of poverty. Dieter Ernst has a more detailed analysis of China and the process of technological change in Chapter 9 of this volume. However, globalization has also punished labor by facilitating the use of the lowest-cost labor linked into a global supply chain which knows no boundaries of time and space. Those who rely on the market value of labor to survive are being economically disenfranchised, and robotization is likely to aggravate that trend.

From 1990 to 2009 the share of labor compensation in national income in 26 of the 30 OECD countries declined from 66.1 percent to 61.7 percent. (International Labour Organization 2013) This decline occurred despite rising productivity in most of these economies, a shift from traditional patterns where labor's share increased as productivity increased. This shift has been noted by MIT professors Erik Brynjolfsson and Andrew McAfee in their book, *Race Against the Machine,* and they attribute this shift to increasing automation in the work place. (Brynjolfsson and McAfee 2012) Oxford researchers, Carl Benedikt Frey & Michael A. Osborne, estimate that 45 percent of US employment is susceptible to computerization. (Frey and Osborne 2013) More recent research suggests that the impact of robotization might be more even significant than expected. (Acemoglu and Restrepo 2017) The chapters by Martin Ford and Irmgard Nübler in this volume give more detail on the issue of how robotization will affect employment.

The current wave of technology is different from previous waves. Technology has often had the effect of reducing the need for human labor and, by and large, these reductions have allowed humans to pursue more productive and less dangerous activities. Usually there is a period of transition as the new technology displaces workers, but, over time, the increase in economic activity has created new opportunities for more creative work. Historically, more jobs have been created by technological innovation.

This time, however, the changes will be different.

First, the changes will affect more people. When the Luddites protested the introduction of technology, their numbers were quite small and the textile factories were not very large in contrast to today. For example, in 1980 the Parkdale Mills in South Carolina produced 2.5 million pounds of yarn every week with 2,000 workers; it now employs 140 workers. (Clifford 2013) Similar job displacements will occur in countries like China. Because robotization expands productivity as much as 20 times per worker, the phenomenon will have

a dramatic effect on Chinese industry. (Middlehurst 2015) Even low wages cannot compete with no wages.

Second, the jobs created by this technological revolution will likely be for highly skilled workers. It is hard to imagine what kind of jobs for unskilled workers will be created by the robotization revolution, although that possibility cannot be discounted. It is harder to imagine societies comprised only of individuals with the aptitude or the inclination to develop higher skills. It is also difficult to imagine the sustained societal commitment necessary to raise skill levels for all. There are very few reasons to believe that the declining share of labor in national income will do anything but continue.

Finally, earlier periods of technological change occurred when there were existing social and economic alternatives for the technologically dispossessed. Think of the differences in the United States between the technological wave of the late 19th century and the current technological wave. Families were more tightly integrated and social groups were deeper and more willing to cushion the blow of unemployment. There were also more ways to keep oneself alive without an industrial job. Farming and other means of subsistence were still viable for many and housing was less expensive. At other times of technological change, unions were strong enough to cushion the impact of dislocation. Today, only the state and private charity offer shelter from hard times.

There is no need to answer the question of whether robotization will bring about the end of jobs. That question is impossible to answer and the wrong question to ask (The Economist 25 June 2016). As Mignon Duffy and Robert Pollin persuasively argue in this book, there are very large number of potential jobs serving infrastructure, the environment, and social needs. The correct question to ask is “how do we pay for these services?” The neoliberal response has always been that only jobs associated with private profit should command an income. That response has assured us all that we can have an unlimited supply of Pet Rocks, but does nothing to assure that we can all drink clean water. David Rueda and Stefan Thewissen address the issue of compensation in Chapter 7 of this volume.

It also matters little to the unemployed that the future might be brighter for employment. Robotization may in fact create more jobs in the long run, but future economic payoffs do nothing to diminish the political effects of lost jobs. Workers must pay a mortgage this month, or a tuition bill this semester, or a doctor’s bill this week. Only relatively few individuals can afford the luxury of a long-run perspective.

The Political Consequences of the Declining Market Value of Labor

Returning to the O’Rourke and Williamson historical pattern, it is not surprising that the world is currently experiencing an anti-globalization backlash as occurred in the 19th century. Globalization has created what Guy Standing calls the precariat and its politics are ones of resentment and anger.

At the end of the 19th century, that anger and resentment was channeled into an intense feeling of nationalism aggravated by a morbid fascination with the emerging “science” of eugenics. Most people relied heavily on the identities created by familial, occupational, and local ties to give themselves a sense of their place in society. The process of globalization created a world quite separate from these traditional markers and it was very

difficult for many people to find their place and a sense of meaning in the new world. Nationalism and race were the surrogates offered up by the political elites at that time, surrogates that ultimately led to World War I and the brutal racial policies practiced against Jews, Roma, Chinese, and Ethiopians by the Axis allies in the interwar period and World War II. These elites exploited the insecurity of ordinary citizens and defined "enemies" that were tangible, but remote from the actual roots of the alienation.

In his book, *Escape from Freedom*, Erich Fromm explained how the greater freedoms afforded by the new technologies of the 19th century—the telephone, the telegram, the railroad, etc.—increased the anxieties of many citizens. The trauma of World War I and the consequent economic disruptions caused by hyperinflation and depression deepened these anxieties to the point where citizens offered up their freedom to authoritarian leaders who promised security and certainty rooted in power, racial identity, and order. The growth of totalitarian regimes, both fascist and communist, crushed the nascent liberal institutions painstakingly developed by Europe and plunged the world into another devastating war.

The economic conditions that led to the rise of totalitarian regimes in the 20th century are similar to the conditions in the world after the Great Recession of 2008-09. The slow economic and political deterioration of liberal institutions since 2009 is palpable. In the United States, the Pew Research Center has been polling American voters on their attitude toward the Federal Government since 2014 and the results of the polls have been consistent and sustained: "Currently, 22% of registered voters say they are 'angry' at the federal government, while 59% are 'frustrated' and 17% 'basically content.'" (Pew Research Center 31 March 2016) The approval ratings for the US Congress hover at abysmally low levels. More broadly, there seems to be a declining faith in the efficacy of democracy as a way of addressing the problem of economic and political deterioration.

Voters in Europe and the US have moved away from traditional parties in an anxious hunt for alternative approaches, and there is little ideological coherence to the platforms of these new parties. Parties have sprung up which have explicitly derided traditional politics such as the Best, the Pirate, and the Dawn Parties in Iceland and the Five Star Movement in Italy. New parties with nationalist agendas have emerged in Europe: the United Kingdom Independence Party in Great Britain, Golden Dawn in Greece, the National Front in France, the Progress Party in Norway, the Freedom Party in the Netherlands, the Northern League in Italy, the Alternative for Germany Party, the Danish People's Party, the True Finns in Finland, the Sweden Democrats, the *Jobbik* Party in Hungary, and the Freedom Party in Austria. In the United States, Donald Trump marketed his position as a genuine outsider to traditional politics. Bernie Sanders mounted a very robust campaign as a political outsider to what he regarded as a compromised system.

This massive reshuffling of "politics as usual" indicates that many voters have given up on traditional parties. There are two threads to the new politics that genuinely challenge the liberal hegemony over politics: a deep-seated distrust of the economics of globalization and a profound aversion to the social manifestations of globalization, what might loosely be called multiculturalism. Both threads suggest that voters are defining their interests increasingly in national, racial, and ethnic terms. And both threads are profoundly inconsistent with liberal values.

The xenophobic response is not limited to the United States and Europe. One can find elements of this mood in the success of the *Bharatiya Janata* Party (BJP) in India, the election of Duterte in the Philippines, the growing authoritarianism of Turkish President Erdogan, and coalition-building efforts of the Likud Party in Israel. Australia has gone through six Prime Ministers in nine years. Russian President Vladimir Putin has tightened his personal control over the Russian state. And Chinese President Xi Jinping is consolidating his political power in a manner reminiscent of Mao Zedong. The enthusiasm for the liberal international order we witnessed in 1991 after the dissolution of the Soviet Union has dissipated almost completely.

The precariat know that many corporations have moved their production facilities abroad and that trade agreements, beginning with the NAFTA Agreement, facilitated the movement of their jobs overseas. The blame for their situation rests on a vaguely articulated "system" that seems rigged against their interests. That feeling deepened tremendously during the Financial Crisis of 2008 when hundreds of thousands lost their homes while bankers responsible for that crisis kept compensation packages that seemed massively unfair and disproportionate. Moreover, the "system" paid out hundreds of billions to preserve those banks while virtually nothing was allocated for the ordinary citizens who lost their homes and their pensions.

However, the "system" does not have a face. Citizens in liberal economies believe that alternatives to liberal economies, such as socialist economies, are antithetical to freedom and cannot deliver robust economic growth. Faced with the prospect of rejecting neoliberalism, the precariat lacks a viable alternative to support. The precariat nonetheless understands that the current system has abandoned them. And, in truth, it has. According to Justin R. Pierce Peter K. Schott: "U.S. manufacturing employment fluctuated around 18 million workers between 1965 and 2000 before plunging 18 percent from March 2001 to March 2007." (Pierce and Schott 2012, 2) Ultimately, many American corporations created many more jobs abroad than they did in the US:

> "During the 1990s, American multinational companies added 2.7 million jobs in foreign countries and 4.4 million in the United States. But over the following decade, those firms continued adding positions overseas (another 2.4 million) while cutting 2.9 million jobs in the United States." (Harrison 25 April 2013)

Who should the workers blame for the loss of their jobs? Presidents Clinton, Bush, Obama, and Trump? The companies that moved the factories? The people who bought cheaper goods at Wal-Mart that were manufactured in China? Or policy-makers who truly believed that freer trade is always the correct policy?

The Politics of Anger

The point at which a citizenry believes that the political and economic system lacks legitimacy is a moment of great danger to any polity. It is the point described by the quotation from Gramsci at the beginning of this chapter when the elite rules by coercion and not by authority. The long-term stability of any polity is determined by the extent to which most citizens are governed by an ideology to which they conform voluntarily.

This loss of faith lies in the seemingly "irrational" actions of the precariat, favoring policies that ostensibly damage their "real" interests: opposition to free trade, suspicion of

immigrants, and hostility toward minority ethnic, racial, and religious groups. These stances violate many of the precepts of liberalism such as the free movement of capital, labor, and the prohibition against discrimination. The corruption of liberalism, however, should first be laid at the feet of the elites. The precariat is hardly irrational; it is those who believed that people would calmly accept a declining standard of living who are irrational.

The anger of the precariat is directed toward elites who hold themselves above the rules but insist that others follow them scrupulously. The elites have managed to create a situation in which they write the rules governing their own behavior in a manner that maximizes their self-interest. Jane Mayer's book, *Dark Money*, outlines the rather sordid fashion in which US politics have changed recently as wealthy individuals have decided to intervene directly into the writing of laws. (Mayer 2016) One of the more extraordinary aspects of the Financial Crisis of 2008-09 was the extent to which activities which most people regard as clearly fraudulent, such as the marketing of collateralized debt obligations constructed to fail, did not land anyone in jail. More revealing is that such actions were not, in fact, illegal—public officials had made sure that such activities could not be punished by law.

It is no wonder that many citizens are rejecting traditional elites and are looking for an alternative. But the alternatives offered have nothing to do with the problem of inequality. The alternatives offered by the elites are meant to distract the precariat. Much of the political rhetoric of neoliberalism is simply an intra-elite war where the interests of the precariat are simply means to the end of protecting the interests of capital. Is there a real difference in the Republican and Democratic Party to an American member of the precariat? When the Socialist President of France pushes through a revision of labor laws rejected by every major union in 2016, one wonders what the party labels stand for. In the current environment, the political elites benefit even if the damages caused by inequality are not addressed, as long as the elites stay in power. The average net worth of a person in Congress is $1.03 million, twelve times the net worth of the average American household. (Gerencer 2015) Campaign finance laws make it possible to win elections without really serving the public interest.

Political elites understand the truth of Hobbes's proposition that if one wishes to wield power over others, one should make the people know fear. Mobilizing fear and hate is an old political tactic. It is difficult to accomplish when the daily lives of citizens hold out the promise of a brighter future. It is remarkably simple when a population holds deep anxieties about the present and the future. There is little question that much of the world's population now exists in that latter state. Ambitious leaders have used fear to mobilize specific political bases, and the three most common fears have been terrorism, immigration, and globalization.

First, the most dramatic fear shared by many in the world is that of terrorism despite its very limited scope. On an almost daily basis, that fear is mentioned on most media, and whenever terrorist attacks occur, the media spends a great deal of time covering the graphic details of those attacks. The media itself has a selfish interest in exploiting those fears: higher ratings.

The right-wing has a dedicated mantra condemning what it calls "radical Islamic terrorism" which stokes incredible anger and hostility toward Muslims. Terror offers

opportunities for the expansion of state power and many states have restricted civil liberties in the face of those attacks. France and Belgium have declared states of emergencies which, as of this writing, have yet to expire; Russia has used the fear of Chechnyan terrorists to dramatically expand its police powers; and Egypt has vastly restricted various freedoms in its efforts to combat the Muslim Brotherhood. China fears the Uighurs, citizens of Myanmar fear the Royhinga, the Dinka fear the Nuer. The list could go on. The United States has departed from its traditional embrace of civil liberties even though its practices thus far remain less draconian than those of other states.

Such changes make it much easier for citizens to accept restraints on personal freedom. In the 2016 US presidential election, many commentators used the word Fascist to describe the appeal of Donald Trump. The use of such a word to describe a single individual at a discrete point in time obscures more than it illuminates. Whatever parallels to the 1930s in Germany to describe the US in 2017 may seem appropriate, one is well-advised to be more careful in such characterizations. Donald Trump is not Adolf Hitler; the US is not Germany, and 2017 is not 1933. As Umberto Eco said of Mussolini in his essay on fascism in 1995: "Mussolini did not have any philosophy: he had only rhetoric." (Eco 1995) Nevertheless, one should never think that the long liberal traditions of the US and Europe insulate them from the possibility of a descent into authoritarianism. Sinclair Lewis explored that possibility in his 1935 novel, *It Can't Happen Here*. Very few Germans ever believed that their country would ever be ruled by someone like Adolf Hitler.

There is no reason to believe that the descent into authoritarianism is inevitable. Liberal sentiments and institutions remain strong in some states. The outcomes of national elections in Austria in 2016 and in the Netherlands in 2017 suggest that right-wing parties are not automatic winners. The legal setbacks to the proposed "Muslim ban" by the Federal Courts in the US in 2017 indicate that individual rights can still be protected. And even though British citizens decided to leave the European Union, voters in Scotland and Northern Ireland remained committed to the multilateral institution. It is difficult to deny, however, that public support for liberal institutions and values seems to be fraying.

Second, the anti-globalization sentiment was aggravated by a long-festering debate in the United States and Europe about immigration. Despite considerable evidence to the contrary, there is a widespread belief that immigrants take away jobs from citizens, exploit the welfare system, and lower wages. Immigrants are sometimes easy to identify and recent immigrants are usually unconnected from the traditional centers of power, political or economic. They therefore constitute a vulnerable and easily targeted sector of the population, serving as a useful scapegoat for the economic malaise of the precariat.

Anti-immigration sentiment melds easily into the terror fear and the syncretic relationship between the two is a powerful political force. It is not easy to identify "others" in the United States and in Europe, but frightened populations easily transform certain signals, such as the wearing of a turban or a hijab or an accent or differently colored skin, to concrete threats. That transformation is made even easier when the knowledge base of the citizenry about other cultures is limited or distorted. Politicians exploit these fears by speaking in stereotypical terms which take on meanings that are far removed from reality. When the Swiss People's Party wanted to communicate an anti-immigrant message, it simply used a picture of a minaret to make the point. In the United States, anti-immigrant

sentiment is expressed with the fatuous phrase, "*Sharia* law" even though there is virtually no evidence that there is any significant group in the US pushing that agenda. Or that the people who use that phrase have any idea about what it means.

Additionally, "the other" is often defined in terms of an imaginary "people." The dominant group in the United States has always been, and, to a large extent remains, white, Christian, male, and heterosexual even though the population of the United States scarcely conforms to those attributes. Populism often applies a soporific to history: "white" ignores the history of discrimination against peoples from southern Europe or Ireland, as well as the heavy legacies of slavery in the United States; "Christian" ignores the rabid anti-Catholicism of the Protestants in the Know Nothing Party and the Ku Klux Klan; and the histories of women or gays and lesbians remain conspicuously invisible. In the US, it is relatively easy for both the elites and some of the politically disenfranchised to adopt a caricature of the "American" people.

Third, and finally, globalization itself becomes an enemy of the people. Anti-globalization comes in two flavors: a left critique which blames companies for sending jobs overseas and a right critique which blames trade pacts signed by the government. For some, the difference is important. For many others, however, the distinction is irrelevant. Populism does not have an economic agenda or any use for traditional parties. In the United States, the election of Donald Trump suggests that the neoliberal agenda of the Republican Party, particularly with respect to taxes, will be aggressively pursued even as non-liberal protectionist trade policies are pursued. If Marine Le Pen becomes President of France, it is likely that left-leaning policies will prevail. Consistency is not necessary for populist politics; anything that protects the nation is justified. Politics is merely the instrument of the nation. Its enemy is the state that embraces globalization. The destruction of those elements of the state that support globalization is the objective of populism, and it matters little to the populist whether those policies are right- or left-wing. For the populist, mainstream parties are always invested in the perpetuation of the state over the interests of the people.

From this perspective, the world itself is a threatening place and the only place of safety is in the company of fellow citizens who share the same values. This sentiment exposes the profound contradiction mentioned earlier between the universal claims of market capitalism and the parochial claims of the nation-state. Nationalism offers a more tangible alternative to neoliberal abstractions. The neoliberal claim that everyone is better off with free trade rings hollow in the ears of the precariat. When one has lost a job, it is difficult to accept that fate as a means to enrich others, particularly when those others are enriching themselves by eliminating jobs. Nationalism creates a shared fate and that belief brings comfort to those who think that they are being besieged by strangers.

Possible Futures

The liberal international order is now more threatened than it was in the struggle against fascism and communism in the 20th century. Those contests were against external threats and the contests were conducted in the unfortunately familiar terrain of normal nation-state competition. The challenge today is internal and it is a crisis of faith and authority—issues that cannot be resolved by a resort to armed force. There are a variety of ways this crisis might unfold.

First, the world can abandon the liberal order and turn toward authoritarianism and balance of power politics as an alternative to the liberal, multilateral order. This alternative seems to be the most likely alternative in 2017 as the United States, under the leadership of President Trump, is signaling that it intends to withdraw from its role as the prime supporter of the global liberal order. Without the hegemonic leadership of the US, the world will revert to the O'Rourke and Williamson pattern which led to a world war and a Great Depression. The disarray of the interwar period suggests that world order is not self-regulating and needs a powerful champion.

Nationalism is overriding essential norms of the 1945 order. The American decision to invade Iraq in 2003 without the sanction of the UN Security Council undermined the multilateral framework of that order, and the election of Donald Trump as President, with his agenda of bilateral trade agreements and reduced commitments to international organizations, signals the end of US support for the liberal international order. The surge in nationalism in Russia, evidenced by the Russian moves in Georgia and Ukraine, and in China, marked by the extravagant maritime claims made by China in the East and South China Sea, induce countervailing nationalist impulses in surrounding countries. As many scholars have noted, not many in Europe foresaw the cataclysm that was to unfold in 1914. In the early 21st century, there is not yet much discussion of a great war, but there are certainly many potential flash points in the Middle East, in the Baltics, in Eastern Europe, and in Southeast Asia that could trigger off an unanticipated war. (Kofman and Sushentsov 2016)

The economic pressures that led to the Great Depression are also paralleled in the contemporary period. There has been a huge technological transformation that has increased productivity to an incredible degree; there has been a dynamic new economic power that has arisen—China in the late 20th century in many respects mimics the rise of the United States in the late 19th century—that has created new economic relationships that unsettles well-established relationships; and there is the specter of underconsumption brought about by the reduced purchasing power of previously well-employed citizens and the concentration of wealth at the very top of the income brackets. Income distributions in the late 1920s look very much like income distributions in the 2010s.

The earlier period also introduced the world to two new ideologies, both of which evolved into totalitarian regimes: Communism emerged after the October Revolution in 1917 and *fasci* began to form in 1915. These ideologies were not spawned by the Great Depression but rather by war. Inequality was not itself the trigger for totalitarian ideologies—the insecurity, loss of faith, and the failure of leadership exposed by World War I were sufficient for many to reject liberalism. But inequality amplifies those conditions. Once the Great Depression occurred, there were many in the US who believed that both fascism and

communism were attractive alternatives, even though World War I had not ravaged the liberal consensus as had the war in Europe. As of 2017, no new ideology has emerged to bring the coherence to the nationalist movements necessary to frame a new world order. They remain diffuse, united only by their rejection of the liberal world order, and offering little more than a return to balance of power politics.

An economic collapse and a descent into authoritarian politics is the most likely endpoint of current neoliberal policies that remain unresponsive to the populist and nationalist challenge . Those policies have emphasized reducing the costs of production at the expense of supporting demand for those products. Consequently, the market now overproduces and the evidence of deflationary pressures is undeniable. Stimulating demand is the correct response, but the opposition of the elites to tax increases to pay for fiscal policies to increase demand in the market renders that strategy nugatory. The opposition to tax increases is both ideological and structural. Some elites foolishly believe that their wealth will insulate them from the negative effects of an economic depression despite the overwhelming historical evidence to the contrary. The structural basis for opposition to raising taxes to achieve a redistributive effect is that the redistributive effect is a collective good. Raising overall demand in a market economy potentially raises the demand for a competitor's product, and in a highly competitive market it is more rational to avoid that risk and hope that other competitors take the losses to their profits to stimulate demand. As of 2017, there is virtually no reason to believe that any redistributive fiscal measures are possible in any of the major market economies and thus the most likely outcome is an economic implosion.

The second possible future is the reform of liberalism in ways that inspire hope and confidence. Again, there is an historical parallel to this course of action. The New Deal stimulated the economy by redistributing wealth through the tax mechanism. The panoply of programs under the New Deal was remarkable, and the opposition to the new economic framework was formidable and fierce. But the exigencies of the moment were also compelling, and slowly, and somewhat chaotically, incomes rose until the Federal Reserve raised interest rates in 1937 in an ideological reversion to neoliberalism.

Government intervention in the economy is far less heretical now than it was in the 1930s and most governments now accept a role in redistribution. The government role in building infrastructure, providing health services, and providing educational services is accepted and expected. Nonetheless, the resistance to raising taxes is profound. Even tax increases that are carefully crafted to include only the very wealthy are opposed by many citizens because they believe that every tax increase is in some sense a Trojan Horse. And the rich are incredibly well-organized to oppose any meaningful tax increases.

A reform of liberalism must involve redistribution of wealth and income. The current system of welfare payments is viewed by many as chaotic, bureaucratic, and subject to political whims. It is also inadequate for the needs of many. In its place, some countries, such as Switzerland and Finland, have raised the possibility of a guaranteed annual income, a policy that had many advocates. As attractive as the proposals may seem, it is difficult to imagine their adoption. When the Swiss held a referendum on a guaranteed income of 2,500 Swiss Francs per month, 77% of the voting population rejected the proposal. Poorer countries

have more opportunity to think systematically about social policy as pointed out by Juliana Martinez Franzoni and Diego Sánchez-Anocochea in Chapter 10.

It is also difficult to imagine Roosevelt's success in passing New Deal Programs being replicated in the current political environment in the world. The opposition to higher taxes is significantly better organized than it was in the 1930s, the loopholes to avoid higher taxes have become ubiquitous in the unreadable tax codes, and the ability to shelter income and wealth from taxes has become more routine and institutionalized. Moreover, with the ability of capital to move freely anyplace on the planet, raising taxes in one nation-state will require a concerted multilateral effort to be successful. That level of cooperation is virtually impossible in a world of rising nationalism and xenophobia.

Some analysts are rethinking neoliberal policies. Different approaches to trade are being discussed. (Prestowitz 2016) *The Economist* extended a *mea culpa* on the issue of free trade after the vote in Great Britain to leave the European Union: "Proponents of globalisation, including this newspaper, must acknowledge that technocrats have made mistakes and ordinary people paid the price." (*The Economist* 2 July 2016) The International Monetary Fund has also published a paper suggesting that neoliberalism has been "oversold." (Ostry *et al*. 2016) All this questioning, however, has yet to cohere in a systematic way. Even if the technocrats and academicians were to come up with a viable alternative to neoliberalism, it is not clear that the political and economic elites who profit from the blind application of neoliberalism would be willing to make that change.

The third possible future is to re-conceptualize a dominant ideology and construct a new world order—built perhaps on the best aspects of liberal thinking but with more emphasis on social responsibilities and less on personal freedom. Liberalism evolved when roughly 750 million inhabited the planet, when virtually everyone was involved in agriculture, and when most human activity had minimal impact on the global environment. The social good was always present in the minds of the early liberal thinkers, but the social good was more obvious and palpable when people lived in small villages and everyone knew each other. It is far more difficult to identify in a world of 7 billion people, where much interaction is anonymous, and when the means to privatize important goods such as fresh water, clean air, and security are becoming more effective.

Liberalism may be an important, but incomplete, phase in human history. It required new ways of thinking about the human condition such as private property, clear checks on the use and abuse of state (and religious) power, and a radical reconceptualization of nature and humanity's place in nature. Those changes were critical to the progress humanity has made over the last five hundred years. But discontent with liberal society, with its refusal to take the distribution of income and wealth as a serious problem as well as its willingness to tolerate the abuse of power in the name of freedom, has never gone away and those concerns are only becoming more acute. Polyani's countermovement has never disappeared and its complaints have never been answered.

For example, one of the principal pillars of liberal thought—private property—will be seriously questioned. It is unlikely that private property will be abolished, but the untrammeled freedom of individuals to "own" valuable or dangerous resources will probably be restrained. Climate change will be the leading wedge for this ideological revision. There

are trillions of dollars of hydrocarbon reserves currently owned by fossil fuel companies. At some point, the world will have to say that these resources cannot be extracted. That declaration will expropriate property, replicating the similar politically difficult, but correct, decision that had to be made when slavery was abolished. Other environmental concerns will also limit how resources such as fresh water can be allocated. The public good will be the critical element of how private property must be redefined.

The liberal international order is threatened from the inside, as is usually the case with empires of thought. There are other orders being advanced by others: China desires to enjoy the economic freedoms of the market without the concomitant political freedoms of democracy; some societies place significantly less emphasis on material progress; and others place a high priority on order and stability. But the liberal international order is not being eroded by those alternatives. It is being eroded because its "center cannot hold." The words William Butler Yeats wrote to describe the sense of loss brought on by World War I are as prophetic in 2017 as they were in 1919: "the best lack all conviction, while the worst are full of passionate intensity."

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