

WHAT'S BREAKING DEMOCRACY?

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The internationalization of economic and financial relationships has undermined the authority of the nation-state and created the conditions for today's confluence of global crises. Worse, the unraveling of neoliberalism has led not to a progressive revival, but to something more politically contingent and uncertain.

CAMBRIDGE – My colleagues Gary Gerstle and Helen Thompson share an academic home at the University of Cambridge, and their new books share a common purpose: how to understand the dysfunctionality that has beset Western democracies. They explore that question in very different but complementary ways, offering deep insights into the disequilibrium dynamics of democratic capitalism. When read together, one sees clearly how the dissolution of Gerstle's Neoliberal Order has stoked the disorder that Thompson analyzes.

The contrast between the two books owes much to the authors' backgrounds. Gerstle, a historian of political ideas, ideologies, and cultures, writes from an American perspective. In *The Rise and Fall of the Neoliberal Order: America and the World in the Free Market Era*, he tracks how initially radical political programs become institutionalized as all-encompassing "orders" when the opposition accepts their terms. Thus, the New Deal Order was established when the Republican Eisenhower administration chose not to try to repeal the Democratic Roosevelt administration's central institutional reforms.

Similarly, after its failed attempt to renew the New Deal Order through health-care reform, the Clinton administration embraced the liberated markets of the Reagan Revolution and thereby extended the Neoliberal Order until its demise in the post-2001 "forever wars" and the 2008 financial crisis. Gerstle presents Donald Trump's ethno-populist appeal as signaling the exhaustion of the Neoliberal Order, the disintegration of which has left the United States polarized and paralyzed in the face of longstanding racial issues and the inescapable challenge of climate change.

By contrast, Thompson's perspective is Eurasian, and her account in *Disorder: Hard Times in the 21st Century* is driven by a granular analysis of the geopolitics of energy. Once oil began to supplant coal at the start of the twentieth century, the political economy of energy became international, and securing access to oil became a high priority for most countries. Thompson focuses presciently on Germany, which chose to become existentially dependent on Soviet and then Russian oil and gas. Strikingly, her book was completed just prior to Russia's invasion of Ukraine.

Basing her analysis on the interplay of transnational energy flows and their financing, Thompson argues that the internationalization of economic and financial relationships has undermined the authority of the nation-state. By retracing how democracy (both the concept and the institutionalized system) emerged within the frame of the nation-state, she establishes a compelling link from lost national authority to the faltering democratic legitimacy that we see today.

THE RISE AND FALL OF THE NEW DEAL ORDER

In Gerstle's brief but insightful account, Franklin D. Roosevelt's New Deal filled the void that had been left after the Great Depression liquidated the political viability of *laissez-faire* economics. Roosevelt not only maintained democratic institutions but also mobilized state power to underwrite unstable economic and financial markets. He thereby restored private-sector profitability while also extending the public sector to ensure minimal levels of economic and financial security for all Americans. Gerstle is correct that Roosevelt adopted a "vernacular" Keynesianism when he rolled out debt-financed public works in response to mass unemployment. But he might have noted that the New Deal's explicit commitment to deliberate deficit spending did not come until the "Roosevelt Recession" of 1937-38, when a premature return to fiscal rectitude and monetary restraint killed the recovery and generated a huge spike in unemployment. By then, the New Deal had already managed "to implant its core ideological principles on the political landscape," as Gerstle puts it.

Although Gerstle does not touch on it, when "Dr. New Deal" yielded to "Dr. Win the War," the public-private partnership that FDR sponsored mobilized resources on an unprecedented scale, enabling the Allied victory. Then came the Cold War, which created the conditions for the Republican Party's acquiescence to the New Deal. The threat of communism, Gerstle argues, legitimized Eisenhower's defiance of hardline Republicans such as Senator Robert Taft of Ohio.

Gerstle also emphasizes US economic and financial dominance after Roosevelt's 12-year presidency and victory in the war. As Eisenhower appreciated, the postwar decades of rising living standards across the board made any attempt to repeal the New Deal

exceedingly difficult. In the event, the only central elements of the New Deal to be rolled back were its labor-market reforms, undermined by the Taft-Hartley Act of 1947, which opened the door for state-level, anti-union “right to work” laws.

As Gerstle notes, when Lyndon B. Johnson succeeded John F. Kennedy, he intended “to secure his place in American history as FDR’s foremost heir” by filling the most glaring holes in Roosevelt’s legacy. LBJ did this with the Civil Rights of 1964 and the Voting Rights Act and 1965. In parallel, he extended the principle of social security through Medicare. As he anticipated, this “Second Reconstruction” delivered the solid Democratic South to the Republican Party. It also divided the working-class base of his party.

Johnson also sought to channel Roosevelt in US foreign policy. But Johnson’s misguided analogy between Roosevelt’s determination to confront Hitler and his own response to the threatened Communist takeover of South Vietnam ended in tragedy. After the decade-long escalation in Vietnam, riots in American cities, the collapse of the dollar-denominated international financial order in 1971, the 1973 OPEC oil shock, and the onset of traumatic stagflation, the New Deal Order lay in ruins.

To be sure, Gerstle reminds us that some key New Deal institutions survived and continued to mitigate the extreme inequality of outcomes that capitalism produces. But as the twentieth-century economist Hyman Minsky observed, the most stabilizing legacy of the New Deal was the institution of Big Government itself. Owing to the combination of the welfare state and the warfare state that was born with World War II and sustained by the Cold War, the federal government came to represent around 20% of the national economy – up from 2% in 1929. That was large enough to offset swings in private investment more or less automatically. Even when the Neoliberal Order arose, its program of deregulation and privatization was significantly underwritten by the aggregate economic stabilizer of a Big Government it could not dismantle.

NEW-OLD LIBERALISM

Gerstle’s account of the rise of neoliberalism begins with the debates among devotees of classical, *laissez-faire* liberalism about how to deal with Roosevelt’s successful hijacking of that term to characterize his interventionist initiatives. The “neo” in neoliberalism was necessary to distinguish it from New Deal liberalism, but its professed goal was the same as that of classical liberalism: to deliver on the “utopian promise of personal freedom.” Neoliberalism thus began with an assault on the overextended administrative state; though, as Gerstle documents, this attack was actually initiated by a Democratic president, Jimmy Carter.

Neoliberalism’s domestic agenda was all about paring down, rather than building up, public institutions. Financial-market deregulation led to an unprecedented leveraging of obligations on the cashflows underlying economic life. The withdrawal of federal support for labor unions contributed decisively to the flattening of real (inflation-adjusted) income growth for most workers. Both changes fueled extreme, persistent increases in wealth and income inequality, which returned to pre-Depression levels.

Neoliberalism also underwrote climate-change denialism, a distinctively American pathology that still infects the Republican Party. And in terms of foreign policy, it could claim as its great triumph the destruction of the Berlin Wall and the collapse of the Soviet Union.

Gerstle offers a compelling account of how neoliberalism became an “order” with Bill Clinton’s embrace of its central tenets. It was Clinton who ended “welfare as we know it” and instilled fiscal discipline in Washington, DC – going further even than Ronald Reagan, whose fiscal deficits could be justified by ramped-up military expenditures intended to outmatch the Soviet Union.

The Democratic Party’s shift was personified by Clinton’s secretary of the treasury, former Goldman Sachs Co-Chairman Robert Rubin. Under Rubin’s watch, the US deregulated the financial industry, and Wall Street duly celebrated with the dot-com bubble of the late 1990s and early 2000s. The digitization of economic and social life accelerated, as did increases in inequality, owing to the skewed distribution of rewards from economic growth and financial exuberance.

The Clinton administration also helped internationalize the Neoliberal Order, not least through the 1994 North American Free Trade Agreement and advocacy of China’s entry into the World Trade Organization in 2001. Moreover, it was during the 1990s that the Washington Consensus (deregulated markets and fiscally constrained states) became the established doctrine that all developing and emerging economies were expected to abide by.

The second great globalization of the 1990s and 2000s surpassed the scale of the first great globalization that had peaked at the start of the twentieth century, before being destroyed by World War I and the Great Depression. At home in the US, however, globalized labor markets were exposing American workers to extreme competition – both directly and indirectly – and the dictates of neoliberalism were undercutting the government’s ability to protect constituents from the forces it had unleashed.

Gerstle finds critical ideological support for the neoliberal project in the work of “originalist” legal theorists, who argue that a strict reading of the US Constitution’s text would reveal many federal initiatives since the New Deal to be unconstitutional, by dint of their resting on an expanded reading of the Commerce Clause. Originalism has since become a potent political force through the Federalist Society, empowered by Trump to install a right-wing majority committed to its principles on the Supreme Court.

One missing element in Gerstle’s great work is a consideration of the economic ideology that was used, even more than originalism was, to rationalize neoliberalism’s program. By 1980, economists of almost all political persuasions had been taught that if economic outcomes came sufficiently close to representing perfect competition, policymakers should respect “the market” as an efficient allocator

of resources and distributor of rewards. Though this was always an extraordinarily big and counterfactual “if,” economists associated with the University of Chicago did not hesitate to push policy proposals that assumed such imaginary conditions were real.

But the Neoliberal Order’s true reach was confirmed by Rubin and like-minded Democratic economists who completed the work of liberating financial markets from regulation. Their efforts set the stage for the explosion of derivative securities that culminated in the 2008 crisis. Fortunately, Big Government (and an aggressively active Federal Reserve serving as global liquidity provider of last resort) was still big enough to contain the fallout and ensure that we would suffer merely a Great Recession, rather than another Great Depression.

LEGITIMACY LOST

The Neoliberal Order was rendered illegitimate not only by this colossal market failure, but also by the newly elected Obama administration’s determination to stabilize the system by privileging the banks over households. This resulted in extreme provocations like the decision to honor bonus payments to AIG executives whose reckless underwriting of financial derivatives had required an \$85 billion bailout from the government.

Moreover, by this point, neoliberalism’s positive political mission of bringing democracy to an unwelcoming Middle East had failed in every particular. President George W. Bush had been determined to use the horror of September 11, 2001, as a catalyst for liberating the presidency from institutional constraints. But his success revealed the US to be the “pitiful, helpless giant” that President Richard Nixon had warned about to justify his own expansion of the Vietnam War into Cambodia in 1970.

In Gerstle’s telling, the Neoliberal Order’s “coming apart” is as much cultural as political or economic – and his account is all the more compelling for that reason. An extreme cultural breakdown is the only thing that could have enabled Trump’s election and complete takeover of one of America’s two main political parties. Gerstle accurately depicts Trump as both anti-neoliberal (closed borders to people and goods) and pro-neoliberal (outsourcing judicial appointments to the Federalist Society, cutting taxes regressively).

Out of this incoherence, Trump’s most lasting institutional legacy will almost certainly be his furtherance of the originalist program to dismantle federal power through the Supreme Court. Gerstle’s emphasis on this strand of neoliberalism is particularly interesting now that the originalist project appears to have created a legitimacy crisis for itself through its decision overturning *Roe v. Wade*. In the name of constraining the power of the federal government, the Supreme Court has reopened the door for state governments to intervene in the most intimate issues of personal autonomy.

Gerstle concludes with the wrenching observation that “political disorder and dysfunction reign.” Even though President Joe Biden has managed to wrest a set of legislative victories from a deeply polarized Congress, neither Trump nor his multidimensional assault on democratic institutions has gone away. Trump’s extreme narcissism and intellectual incoherence may be unique to him; but his brand of ethno-nationalism resonates globally, from Brazil to Hungary. Recall that his election in 2016 was immediately preceded by the United Kingdom’s Brexit referendum.

A HISTORY IN THREE ACTS

By demonstrating that the US is hardly alone, Thompson provides cold comfort to readers of Gerstle’s book. *Disorder* tracks three interlinked histories in great detail: the geopolitics of energy since before World War I; the international financial system since the breakdown of the US-designed Bretton Woods system in 1971; and the more recent erosion of democratic institutions across the capitalist West.

Energy’s central position in Thompson’s account arises not only from its direct economic role in powering economic growth and raising living standards, but also from the inconvenient fact that oil and gas have usually been found far from the centers of industry that need them most. From Britain’s dependence on Middle Eastern oil following the Royal Navy’s shift from coal in the 1910s, to Germany’s reliance on Soviet gas beginning in the 1970s, Europe has long run on imported fuel.

While America’s distinctive domestic energy endowment certainly helped its rise to economic supremacy in the first half of the twentieth century, it has not been completely spared from global energy politics. As Thompson shows, US power has often been tested and found wanting. After the US guaranteed European access to reserves in the Middle East, where it initially deployed no military assets, it discovered that it was critically dependent on access to the same reserves. Thus, in Thompson’s account, the oil crisis of 1973 becomes the hinge between the New Deal and the Neoliberal Order’s central to Gerstle’s work.

When Thompson turns to the history of international finance over the past two generations, she begins with the rise of Eurodollar markets in London in the 1960s. The volume of dollar-denominated deposits held in banks not subject to US regulation rose with the American balance-of-payments deficit, which in turn increased as a result of US sponsorship of the defeated Axis powers’ industrial recoveries and Johnson’s stealthy financing of the Vietnam War.

Thompson correctly asserts that Bretton Woods was doomed from the start, owing to the US delegation’s refusal to accept John Maynard Keynes’s appeal for symmetry in the treatment of creditors and debtors. Instead, the Americans hubristically insisted that the

burden of adjusting payments imbalances between countries should fall exclusively on debtors. After that, America's position as the world's overwhelmingly dominant creditor lasted less than 25 years. The dollar's devaluation in 1971 was followed by OPEC's radical revaluation of oil two years later.

AS AMERICA GOES...

A major strength of Thompson's book is its documentation of the complex process through which Europe came to define itself institutionally. She meticulously describes the European Common Market's emergence and transformation into the European Union, the eurozone's construction following German reunification, and all the strains and conflicts endemic to such complex processes. From this history, it becomes clear that the Neoliberal Order had relatively limited purchase on continental Europe, apart from German labor-market reforms in the early 2000s.

Thompson repeatedly links the world economy's financial and political evolution to the central role of energy. For example, she cites the need for "easy access to dollars to pay for larger oil import bills" as a powerful, direct incentive to deregulate international capital markets. Thus, in describing the global financial crisis, she focuses on the often-neglected role played by the 2006 oil-price spike, when surging Chinese demand fueled a huge increase in short-term dollar borrowing by ostensibly sound banks in northern Europe.

But after the Fed had put a floor under the 2008 global financial crisis by establishing currency swap lines to other central banks, Europe's halting recovery was compromised both by energy economics and a neoliberal transposition of power. In 2011, the European Central Bank, under Jean-Claude Trichet, raised interest rates when Chinese demand again drove oil prices above \$100 per barrel. Yet by then, the Troika – eurozone finance ministers, the International Monetary Fund, and the ECB – had been established to provide credit to weak southern member states, and it approached its task by bringing the Washington Consensus to Europe. Financial support duly became conditional on fiscal discipline (austerity) and market liberalization.

Even after Trichet's successor, Mario Draghi, proclaimed that the ECB would "do whatever it takes" to save the euro, this neoliberal assertion of supranational authority persisted. And though it was devoid of democratic legitimacy (other than reflecting northern constituencies' refusal to accept direct fiscal responsibility for their southern neighbors), northern banks' massive exposure to their weaker neighbors' pseudo-sovereign debt eventually forced a compromise.

ANXIETIES OF DEMOCRACY

Thompson's intensive analysis of energy politics and financing sets the stage for addressing today's democratic anxieties in the US and Europe. Her starting point is the gradual, multigenerational expansion of the franchise within the states that collectively make up the capitalist "West." She shows that tensions between institutions that privilege "one person, one vote" and those that privilege "one dollar [or pound/euro], one vote" were inevitable.

Within the nation-state, then, there is always the potential for either "democratic excess," as when a populist electorate expropriates the rich, or "aristocratic excess," as when concentrated wealth dominates the democratic distribution of votes. Thus, in her own distinctive way, Thompson echoes Gerstle's contrast between the New Deal Order and the Neoliberal Order. She notes, correctly, that under both the gold standard and the neoliberal regime of free capital movement, democratic excess is always constrained by the threat and occasional reality of capital flight. "By the mid-1980s," however, "it was the risk of aristocratic excess... that threatened individual democracies' future."

Neoliberalism succeeded in elevating open markets above national politics. But now, we are witnessing a backlash in the form of nativist populism. Trump's election and Brexit were the opening shots, but ethno-nationalism has since surfaced just about everywhere. (Though ethno-nationalists have not yet gained power in Europe outside of Poland and Hungary, they could soon do so in Italy). And so, like Gerstle, Thompson must leave open the question of whether democracy can survive.

That brings us to a final issue that warrants mention. Both Gerstle and Thompson identify climate change as an existential challenge to the political regimes they consider. While Gerstle avers that the "New Deal never faced an existential question of this sort," Thompson, similarly, is skeptical about our ability to move rapidly beyond fossil fuels to a green future. She foresees deep "distributional conflicts" over how the shift to renewable energy will be financed and incentivized. For now, she notes, the world remains dependent on high-priced fossil fuels, and the "wager on yet to be invented technology" has not delivered a winner.

Yet Roosevelt did see Europe's war as an existential challenge to the US, even before the Japanese attack on Pearl Harbor in December 1941. Following his unprecedented re-election in 1940, he instituted a peacetime draft and approved lend-lease support for Britain and the Soviet Union. Thompson would remind us that in Western democracies, high taxes on the rich and state sponsorship of a larger share of labor have been sustained only in the context of war. The question, then, is whether our political leaders can frame the accelerating climate crisis as what William James called a "moral equivalent of war."

Now that Russia's war in Ukraine has caused severe spikes in fossil-fuel prices and critical energy shortages – and this against a backdrop of mounting climate-driven disasters – it is plausible that today's deteriorating conditions could lead to a renewal of progressive policies

and programs. America's ludicrously misnamed Inflation Reduction Act represents one small step in that direction. Will others follow? It would be nice to think so.