

THE CRISIS

OF

GLOBALISATION

SOCIAL EUROPE DOSSIER

THE CRISIS OF GLOBALISATION

SOCIAL EUROPE

PART I

**UNDERSTANDING THE
CRISIS OF GLOBALISATION**

Chapter 1

CRISIS OF GLOBALISATION: FROM ITS CAUSES TO EMANCIPATION

BY HEIKKI PATOMÄKI

The dynamics of the capitalist world economy have been mystified as globalisation. In its technical sense, globalisation refers to the possibility that social relations can be maintained with increasing ease and intensity across time and space. As a *political* project, however, globalisation is based on a conviction that competitive, self-regulating markets, or their administrative simulation within organisations, are the best guarantees of efficiency, freedom, justice, or all of these. Exaggerated claims about globalisation in the technical sense have been used to obscure the dynamics that have led to the triumphant rise of globalisation as a specific project. The project of neoliberal globalisation is now facing a backlash.

Many scholars and pundits have concluded that it suffices to reveal the myths of globalisation and expose the ways in which they have been mobilised for specific political purposes. A careful look at recent developments shows that there is in fact a variety of capitalisms that can be successful. We need smart globalisation, not hyper-globalisation. The state can be reclaimed and the social-democratic project resuscitated. The state is more autonomous than is usually assumed, although the full realisation of its sover-

eighty may require institutional changes (e.g. exit from the euro). We need to get rid of the prevailing false consciousness.

This is an appealing story and, like many good stories, it is not without its merits. Human actions involve the possibility of doing otherwise. States have arranged and approved many of the constraints on economic and social policies. If there is political will, the same states can in principle remove these constraints and realise alternative possibilities for economic and social policy.

The origins of globalisation

A key problem of the state-centric story is that it omits the deep historical roots of globalisation. Paul Hirst and Grahame Thompson published a book called *Globalisation in Question* in 1996, arguing that most indicators suggest that the capitalist world economy was more integrated at the end of the 19th century than it was at the end of the 20th century. They maintained that claims about globalisation were drastically overstated. An alternative reading is that the processes of globalisation are much more deep-seated historically than they considered possible.

Roland Robertson, who introduced the term 'globalisation' in 1985 (almost in parallel with Theodore Levitt), distinguishes between three consecutive waves of globalisation that have radically transformed human societies and their economic activities during the past 500 years. Already Marx and Engels discussed the nature of globalisation in the opening pages of the *Communist Manifesto* (1848). Starting their historical account with the conquest of the Americas and the rounding of the Cape, they argued that "the East-Indian and Chinese markets, the colonisation of America, trade with the colonies, the increase in the means of exchange and in commodities generally, gave to commerce, to navigation, to industry, an impulse never before known, and

thereby, to the revolutionary element in the tottering feudal society, a rapid development”.

The industrial revolution speeded up these developments. “The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe”. “The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country.”

The pre-1914 cosmopolitan world economy was based on competitive, self-regulating markets and the Gold Standard. This world was twice disrupted by the catastrophes of the 20th century. The 1920s attempts to restore the 19th century order failed with shattering consequences, resulting in the Great Depression and WWII. It was under these highly exceptional circumstances that the Bretton Woods system was created in 1944, enabling the building of democratic welfare states after the war.

The causes of the rise of neoliberal globalisation

Living standards rose and socio-economic inequalities went down under the post-war settlement. However, the Anglo-American agreements of 1944 created only a limited capacity for global regulation and governance. Territorial states remained the main locus of regulation and the sole locus for tax-and-transfer policies.

At the same time, the rules and principles of the post-war system – including the free trade orientated General Agreement on Tariffs and Trade (GATT) – ensured gradual liberalisation and reintegration of the world economy after the crises and wars of 1914-45. The rapid expansion of world trade was a key source of economic growth during the “Golden Era of Capitalism”, especially for industrialised states. An open world economy had diverse consequences. By the early 1960s, this reintegration of the world economy had already opened opportunities for some actors to

resolve their day-to-day problems through spatial relocation, e.g. through the use of tax havens.

The decisive structural condition explaining the shift from social-democracy to neoliberalism is the discrepancy between the limited reach of territorial states and an increasingly open liberal world economy. The origins of neoliberalisation lie in the struggles over income distribution, competitiveness and power within this growing discrepancy. Actors make history, but not under the circumstances of their own making. The decisive choice was made by President Richard Nixon in 1971. His decision to delink the dollar from gold was ultimately about unilateralism versus further development of multilateralism and common institutions. Ethical and political ideas associated with neoliberalism entered the public political stage only after this nodal point in the early 1970s. However, once neoliberalism gained ascendancy, it started to have its own effects, propelling a self-reinforcing dynamic.

The field of economic liberalism in an open world economy involves positive feedback loops through the realisation of its preferred institutional arrangements which, in turn, tend to strengthen its potential force. For instance, freely convertible currencies, financial deregulation and the principle of national treatment imply more exit options for capital. The dynamics of this self-reinforcing process, characterised by feedback that is positive from the point of view of some or many of the key actors, has had the power to support and institutionalise the chosen arrangement.

From causes to emancipation

No self-reinforcing process can continue boundlessly without countervailing forces coming into effect. The process of neoliberalisation has slowed down economic growth, especially in the OECD world. It has increased inequalities and insecurities and led to the rise of nationalistic and xenophobic movements. What is

noteworthy, however, is that most of these movements and parties have adopted market fundamentalism as part of their platform. Ambiguity has increased but neoliberalism remains the prevalent ideology as far as economic policy is concerned.

The state-centric story of the emancipatory left is premised on the assumption that current conditions and contradictions can be overcome and the social-democratic project revived without global changes and worldwide collective actions to revise or establish new common institutions. This not only overlooks the current degree of institutionalisation of transnational practices and relations, but it also ignores the underlying tendency of the capitalist market economy to expand in space (nowadays also into planetary orbit and to other parts of the solar system).

Moreover, to the extent that particular state-actors see things only from their own limited point of view, they are liable to resort to contradictory actions – for instance via the fallacy of composition. The fallacy typically arises from the assumption that what is possible for one actor at a given moment must be possible for all (or many) of them simultaneously. If the economic policies of different states are contradictory, for instance if states simultaneously attempt to transfer their economic difficulties abroad by increasing their exports relative to imports, the end result can be damaging for many countries, or for all. Our fates are irrevocably interconnected.

Unrecognised contradictions tend to have negative unintended consequences, which easily amount to vicious circles stemming from increasingly self-regarding and myopic perspectives. The recognition of contradictions takes time and requires learning, involving shifts toward more holistic and solidaristic modes of consciousness and building collective agency. Contradictions can be best overcome by means of collective action and by revising old or building new institutions.

There is no shortage of good ideas about better global institutions. As the prevailing political imaginaries and institutions remain national, many of these ideas may seem far-fetched, if not utopian. From my point of view, however, the very supposition that we can continue with the current institutions of the world economy – leaving all the most important global problems and contradictions unresolved – seems hopelessly utopian.

The real choice is between learning & collective action and a catastrophe. The best hope to emancipate ourselves from the current unnecessary, unwanted and unneeded sources of determination is by way of building better global institutions.

Chapter 2

THE GLOBALIZATION BACKLASH: IT'S BOTH CULTURE AND THE ECONOMY, STUPID

BY CATHERINE DE VRIES

Political and economic cooperation across borders is experiencing mounting levels of popular resistance. The outcome of the Brexit vote, the election of Donald Trump, and the electoral success of nationalist forces across the globe seem indicative of a growing backlash against international cooperation. While many thought the process of greater cross-border cooperation to be irreversible, in part because it was expected to lead to a universal acceptance of liberal and capitalist values, isolationism, nationalism and protectionism are back on the political scene with a vengeance.

While Donald Trump's slogan to "Make America Great Again" is at the heart of his campaign and current administration, Nigel Farage's mantra of taking back control ("we will win this war and take our country back") dominated the Brexit campaign. Although we should not overestimate the extent to which current developments represent a 'real' break with the past and arguably identification with the nation-state and national interest have always been important aspects of the political belief systems of citizens and elites alike, something seems to be have changed. A growing number of citizens and elites are willing to take considerable economic and political risks to protect what they perceive as vital

national interests (be that societal cohesion, national control, borders, trade, etc.).

A fierce debate has developed about the origins of these developments. Are they the result of economic grievances of those who feel threatened by globalization (a term for increasing international cooperation and increasing interdependence), or do current developments represent a cultural backlash based on immigration fears and prejudice. While proponents on both sides of the debate have put forward ample evidence by focussing on either side of it we seem to have lost track of one important point, namely that economic and cultural grievances interact. Opposition to globalization is gaining such a foothold in the political and public domain in advanced industrial democracies, precisely because processes of economic interdependence have coincided with increasing migration flows.

Recent developments in Europe perhaps most clearly illustrate this. There, the financial crisis of 2008 was accompanied by a refugee crisis. Hence, political parties running on anti-immigration platforms combined with an appeal to protect pensions and social provisions for the “native population” have made considerable political strides in virtually all member states of the European Union. The politicization of free trade and the free movement of people have become largely intertwined in the European context.

Sceptics north, south and east

In my recent book *Euroscepticism and the Future of European Integration*, I show that the recent rise in Euroscepticism and in support for Eurosceptic parties is largely a response to both developments. I suggest that the way people view the EU is intrinsically linked to the national conditions in which they find themselves, as well as their comparison of these conditions with those at the EU level. Euroscepticism is on the rise in Europe albeit for very

different reasons. While sceptics in the North demand less intra-EU migration, those in the South wish to see more economic investment and employment programs, and again others in the East wish to see less interference of the EU in minority rights. These differentiated patterns in Euroscepticism are the result of the fact that the financial crisis has exacerbated structural imbalances within the EU, and the refugee crisis has affected certain member states more than others. As a result, the experiences with the EU have become more distinct and varied than ever before. Therefore, coming up with a joint EU response to these challenges has proven so difficult.

This European experience demonstrates clearly that framing economic grievances and cultural concerns as opposing explanations is not fruitful. When we continue to frame the debate as either/or, we are missing out. We need to understand how economic and cultural explanations of recent developments shape both political demand and supply. Work by Italo Colantone and Pietro Stanig has started to do so by showing that exposure to rising levels of Chinese imports increases extreme right vote shares and anti-immigration sentiment. Could exposure to economic hardship, such as job loss, lead to a higher demand for extreme right or socially conservative policies? And if so, does economic dislocation have these effects? Is it due to a loss of social status or an increase in envy, or something else? When it comes to supply, political parties may also drive people to demand more extreme right or socially conservative policies. Governments facing an economic crisis may shift their attention to values or identity-related matters to divert popular attention away from deteriorating economic conditions. Work by Margit Tavits and Joshua Potter suggests that parties on the right may have a specific interest in diverting attention to cultural issues with rising inequality. Rising levels of inequality shrink the constituency favoring less government intervention in the economy, policies traditionally at the core of right-wing platforms, while expanding

the share of voters who wish more government regulation and who could thus be receptive to the economic message of left-wing parties. In these circumstances right-wing parties have been shown to shift their emphasis to cultural values to keep their electorate intact.

Although current societal and academic debates are mostly framed in either economic or cultural terms, it is important to realize that these types of explanations are not mutually exclusive. We should focus more of our efforts on trying to understand how cultural and economic fears interact and fuel the recent popular backlash against globalization. It is important to remember that globalization, like European integration, is an inherently complex phenomenon embracing economic, political, social and cultural aspects that bring about tensions. In his seminal book on the topic, Dani Rodrik for example notes that globalization represents a “trilemma” for societies. They cannot be fully internationally integrated, completely sovereign, and democratically responsive all at the same time. Societies will need to make trade-offs, for example in Europe one can think of the trade-off of being part of the single market, but having to follow the jurisdiction of the European court or accepting free movement of people. Much of the current polarization is about differing views about how to make exactly such trade-offs. Therefore, it is crucial for academics, policy makers and journalists alike to understand better how people make them and how parties shape their thinking.

Chapter 3

THE CRISIS OF GLOBALISATION, CAPITALISM AND THE ENVIRONMENT

A CONVERSATION WITH MARK BLYTH

Mark Blyth, thank you very much for joining me today to discuss the crisis of globalisation and what political and economic consequences it might have. Let me ask you the first question. Basically, do you think there is a crisis of globalisation? And if there is one, in your opinion, what are its main characteristics?

It's always a tough one. I hate using the word 'crisis', because I've been doing this stuff for about 30 years now, and when I went to graduate school I read books about crisis. Then we had a crisis. Then we had another crisis. A crisis of this and a crisis of that. There's a danger that the term becomes meaningless. So I will try and put it in a slightly different cast.

Capitalism itself is usually quite a robust system. That is to say, it can not only deal with shocks—it can sometimes benefit from shocks, depending on the type of shock. What's happened since 2008 is not the type of shocks that you're robust to, nor do you benefit from. You have a giant real-estate bust, which tends to then accumulate, through the banking sector and the bail-out of the

banking sector, into a series of public debt bail-outs, which then leads to greater fragility on that side.

The entire financial sector on the private side, whether it was corporates through corporate debt markets or whether it was consumers through consumer debt, are extremely levered. Wages aren't growing, which is the real big problem. Inequality has literally never been higher in many cases. And we're finally waking up to the fact that there's an environmental crisis that is very, very serious and is going to hit us much sooner than we thought.

I look at it this way. We have 15 years to solve and really make a dent in a joint crisis. That joint crisis is one of the environment and one of inequality. And the two of them are linked. If we do that then we could be in a much better place. If we don't do that, this is the [most] serious challenge that capitalism as a model has faced since its inception.

What you're saying is there has been, obviously, some very severe instability at the heart of the capitalist system, and what is described as a crisis of globalisation is basically just a political expression of that crisis of capitalism?

Yes, but there's also something specific about globalisation. Earlier in my career I spent a long time thinking about economic ideas and how they spread. I'm hardly the only person that's puzzled over the spread of neoliberalism, but the more that I think about it now the less that I think about neoliberalism as a set of ideas and more of a set of practices. Those practices are to liberalise, integrate, privatise, otherwise knock down barriers to competition, etc.

When you do this with what were essentially national labour markets and national financial markets that were relatively closed—let's say homogenous states that looked the same, made the same stuff and occasionally traded with each other but kept their finances separate—once you change that, through the practices of

neoliberalism, and you become one big market in the [Polanyian] sense of integrated finance and capital movements etc, a couple of interesting things begin to happen.

The first one is labour's ability to command its share of the surplus declines to zero. The strike becomes a meaningless weapon. Strikes decline to function—like to zero—in the western world. And you get prolonged wage stagnation, because essentially all the surplus goes to capital. There's no reason for it not to. So labour's ability to push up wages goes to zero.

But there's also something interesting that's happening in financial markets and product markets at the same time. It's like the second-order effect of neoliberalism. Which is the following. We dumped about 17 trillion dollars—yen, euros and everything else we could get our hands on—and we're continuing to do so in Europe through QE-type programmes, through central banks, because of the financial crisis. And the weird thing is there's no inflation anywhere. In fact, Europe is still deflating. It hasn't hit its 2 per cent target in almost a decade. So there's no [structural] inflation, despite a massive, absolutely unprecedented monetary injection. That's also weird.

Then think about the third section, which is competitive product markets. Think about the price of a computer. Think about the price competition going on in all sectors. If you look at words called 'mark-up' and 'margin data' across firms, what you find, particularly in the US but not exclusively, is that if you're a digital monopoly you're making 50 per cent to 60 per cent profits. If you're a small or medium-sized firm and you're in global competition, your margins are tiny, your profits are tiny and you're very resistant to push[ing] up wages, because that literally could drive you out of business.

Add this all together and you've got a very, very strange world that we haven't experienced before. One in which you're going

to have [structurally] low interest rates because there's no inflation to combat. Then you've got a world in which labour markets [can have] full employment but it does nothing for wages, which means sustaining and perhaps making worse the inequalities that are already there. Then in product markets you have a winner-takes-all dynamic, whereby quasi-monopolists get monopoly rents and everybody else [gets to return to perfect] competition.

That seems, in a very abstract sense but in a very real sense, to characterise a world we haven't been in before, and the consequences of thinking through that world are quite profound.

You're basically straddling the Atlantic. Do you see any significant differences in how this pans out in the United States and how it pans out in Europe? What would you say is maybe specifically characteristic of the United States and what is a European thing?

Well, let's start with the fact that Europe still has significant welfare states and welfare transfer. If you look at Ireland, for example, which is a very small unrepresentative country admittedly—because it basically lives off American FDI stocks and them being a trans-shipment point into Europe—but Ireland has a very high pre-tax Gini [inequality] coefficient [yet comes] amongst the lowest when they do post-taxes.

So government policy matters and Europe still has policies. It actually wants to do something on climate change. It's finding out the distributional politics of that: [in] France in particular [they] are more tough than we thought. But there's effective governance and an attempt to basically deal with these agendas.

In the United States you have a governing class which is utterly in denial about the challenges that it faces. So in a sense what you see in the United States is the most accelerated version of these pathologies. If you don't even accept that global warming and the

consequences of climate change are real, it's very hard to do anything about it.

That's a big difference that we have at the moment between America and Europe. But at the same time 30 per cent, I believe, of Germany's electricity is still produced by coal. Poland is somewhere around the 60 per cent mark. We're all talking a good game, but very few of us are walking a good game.

You also mentioned some of the big tech companies. As these tech giants spread they are using, basically, their quasi-monopoly power in one sector to muscle into another. In the United States there's a discussion about what big-tech company is going to disrupt healthcare next year, because that's a big share of GDP that is utterly inefficient in the United States. Market segmentations that used to shield or at least structure competition seem to be disappearing. At the same time you have the user-network effect, that gives these tech giants a big advantage to use these disappearing boundaries to go after all sorts of different market segments—or what used to be market segments. The inequality tendencies that are not least the result of this, are they likely to get worse before it gets better? Or what kind of policies do you think need to be implemented in order to address these issues?

Well, this is where Europe once again has disappointed, unfortunately. The whole point of [the General Data Protection Regulation] (GDPR) wasn't about data protection. It was essentially scaring Facebook and Apple and the rest of them into paying some taxes—basically saying: 'If every time that you switch on your platform you have to click through 12 screens of approval you know you're going to lose 80 per cent of your users. Most of your business is data accumulation from your users.' Particularly on the Amazon and Facebook side of things. 'So you really need to wise up and play ball.' It seems that, with the intervention of the Dutch and the Estonians and a few others who love tech, that's gone by

the wayside. We're going to have some nominal taxation and they're going to be able to continue doing what they want.

The truly damaging thing here with these companies is what they do to innovation. If you're running a start-up company here—I was talking to someone yesterday about exactly this—the ambition for their company is to be annoying enough to be bought by Amazon. Then Amazon will do what they did in the 1930s with critical technology, such as beryllium and others at that point in time for steel. Which is you simply put them on the shelf and you don't roll them out, because you don't want the competition to ever [get an edge].

This is all market preservation and killing innovation by buying it and putting it on the shelf. This is exactly what monopolists do. Now, we're meant to know what to do with this. It's called bust them up. But there seems to be no political will to do this.

I heard a very good presentation by an economist the other day, who came up with a theory. The question is: what is the difference, say, between the current crop of internet or technology giants and the first ones? After all, Facebook wasn't the first social network; Google wasn't the first search engine—nobody talks about AltaVista anymore. He came up with the idea that the difference is not just user-network effects but the underlying data. Basically, if you're just sitting on the biggest pile of data the marginal costs of innovation are actually reduced by such an extent that it becomes completely inefficient and demoralising for your competitors to even think about competing. That then stifles innovation, because it's concentrated in the monopoly power.

I would agree with that. I would go [further]. What exactly is the fuel for these corporates? It's our data. And we give it up for free because their platform is free, so we use their platform. Very simple then. Charge for the platform. Make them charge for the

platform and then watch their users drop off. Or have a free version versus a pay version. Alternatively, even better, get people to individually license the use of their data to these firms. We auction off the digital spectrum to telephone companies. Why don't we auction off our personal data? Basically give the data on a ten-year lease that's revocable.

There are lots of things we could do. We just simply choose not to. There's the real commonality just now in governance. This is the bit that's truly disappointing.

The quality of political capital of the governing classes has just been eroded, and it's very clear to see why. There's no money in it. What you do is you jump into a party. You become well known for a couple of years. You then get some expertise. You parlay that [into a] selling opportunity with the private sector. Then you jump ship and work with the private sector. So there's a huge governance failure, which I think is to do really with the quality of politicians that we have.

What can be done? If you wanted to come up or start with a policy agenda to address some of these issues, what would you do?

The one thing we want to do is not do that. Here's why.

In a sense, what we've run across the world during the globalisation era is a kind of meritocracy. A meritocracy is people like you and people like me, and people who are slightly different from us but nonetheless went to the same universities and studied the same courses. We get to run everything and we become the technocratic class. The technocratic class really has nothing to do with the rest of society. We send our kids to the same schools. We read the same newspapers. We have the same social habits. We're a kind of transnational class. I was part of this. I saw it emerging.

Now, you've got everybody else who lives a very different life,

where wages aren't rising. The real-term costs are going up. The politicians are telling them 'There's no inflation' but it seems that the cost of everything nonetheless is going up for them in real terms. And there's a disconnect between the two.

Now, go back to the story about globalisation and how it emerged. The first thing neoliberalism did, in a sense, was to globalise labour markets and thereby render labour's ability to command its share of national income obsolete. Then you have that product-market effect, and it [eats through product] markets. In a sense what happened was all of the little cartel structures, corporatism in Germany—let's think product-market coalitions, all that sort of stuff, that kept the national economy insulated, all the little rules about who could buy your stocks on the stock market etc—all of that was stripped away.

Once all that was stripped away and everything really did go global, then you've got a question as to what happens to the political-party structures. Because what made all those little labour-market cartels and cushy arrangements possible, what made all those product markets safe for domestic companies and all the rest of it, were the political classes that mediated that post-war compromise—that were based everywhere on either a two-party system, Labour and Conservative, or a majoritarian coalition system of the type that you have in Germany.

Now you've destroyed the labour-market cartels. You've destroyed the product-market cartels. You've globalised everything. What's the point of the existing parties? They don't really have one. They were there to stabilise structures that no longer exist. Which is why they're strangely clueless about what's going on.

So the thing we don't want to do is to say: 'Well, let's hand it over to the technocrats. Let's get some policies. We will have some policies.' This was the 2016 [US] election. Senator Clinton had hundreds of policies. They were all ranked. You could see the

R[andomised C[ontrol] T[rials] that they were scored against to prove that they worked. And we could just add them together and that was a platform. Except it's not—because what people are crying out for is a vision, a reason to believe in something.

What they actually want is someone to explain to them why, if global warming is so important, they have to pay through their wallets, through a diesel tax, when people that own yachts seem to get off scot-free. What they need is somebody to explain to them why it is that inequality has got so out of whack and our politics is run by the very people who are sitting at the top of the pile pulling the strings of the politicians. They're not stupid. We think they're reading 'fake news'. They're not. They're just looking for an alternative account, because they don't believe a word that comes out of our mouths anymore.

So until we actually get over the fact that the post-war party system is dead—[that] populism is the new normal—and we somehow reconfigure political action to basically create new parties and new structures or renovate old parties, and move forward with a much more progressive agenda ... *Then* we can talk about policies. Just simply going 'What are we going to do in terms of policies?'—we tried that in 2016. It was a disaster.

And the institutional structures of existing parties are not really accommodating. How would you reform parties? What would they need to do? Mainstream conservative, mainstream social-democratic parties are under pressure everywhere. What would you recommend they should do?

Well, the first thing that they should do, to quote—I think it was Planck, the physicist, that said this—'Society evolves one funeral at a time.' Let them die. I think you've got to start from scratch. When I had to give a speech at the SPD [*Stiftung*] in 2016 I said: 'You are two electoral cycles from extinction.' And I think I was

exactly right. You might get three. But they're dead. So there's no point in trying to renovate something that's dead.

What you can do is you can do what Corbyn did, although he's not doing much with it, which is to take the dead husk of the Labour Party, in a kind of free-leveraged buy-out—take it over, build a whole new membership and then run it from the inside out. Until you assemble [in Germany] some kind of red-red-green coalition, you're not going to stand in the way of the nationalists [in *Alternative für Deutschland*].

What do you think will happen once populists are in government? Look at Italy right now.

Yes. This is the really interesting one. When the Italian thing came up I said: 'Look, here's your real problem. It's not this government. It's what happens when this government fails.' Because at the end of the day what populism has going for it is the notion of sovereignty.

Chris Bickerton, a political scientist at Cambridge, had a really nice observation about this. There's a book he did a few years ago called [*European Integration: From Nation-States to Member States*]. Sovereign states have their own printing press. They can devalue. They can default. They can do all these things. Once you join the euro you can't. It's off the table. Essentially, you enjoy the backing of the ECB, who will back your sovereign debt and thereby back-stop your credit markets, so long as you play by the rules. Hence the importance of rules in the system.

But those rules really don't work for large, consumption-based economies like France or in particular Italy. They work for the ones that can globalise their supply chains through eastern Europe, and then sell their stuff to the rest of the world and suck in demand from abroad. That's Germany, the eastern Europeans and some of the north. So you have a real north-south split on this.

The populists come to power in Italy. They may even come to power in France. They're going to find out unless they leave the euro there's not much they can do. But if they leave the euro they will destroy probably somewhere in the region of 40 per cent of national savings while trying. That's not a good option. So you've now got people in charge who said: 'Screw them all. We will change everything.' And they're not going to change anything. What does that do to democracy and people's faith in democracy?

The constraints are in many cases not just confined to the national circumstances. Even though the initial expression might lead to a populist government of sorts, without actually triggering a cataclysmic event they won't be able to do very much about these issues.

Right. What happens is in electoral cycle one, since the crisis, whoever was incumbent gets thrown out and whoever was the establishment opposition got in. In electoral cycle two the establishment opposition, who is now the government, is voted out. Half the time the old establishment incumbents in 2008 got back in but then had to share power with populists. Or populists themselves massively increased their vote share, typically eating away at [the] centre-left. Run the next electoral cycle. You will have more populism. More collapse of the centre-left going on, because it won't be able to reconfigure itself in any important way.

More of these people will get into power and they will fail. And I really worry about that, because when they fail we could say: 'Well, good, because they're all idiots and they've got stupid policies.' Yes, but what does that do to the public's faith in democracy? Because they're basically saying: 'You can vote for the radical alternatives and you still don't get to change anything.'

So you've given up hope that there is some way to reform, not just party structures—party structure is just a function—I

mean reform the political economy, which is basically the constraint on many of these issues?

I think that it can be done if there's activism to try and do it—if basically remnants of the progressive forces actually realise that unless they hang together they will definitely hang apart. And we're really at that moment. Germany is the classic example for this again. If you had done red-red-green six or seven years ago we could have been in a completely different space now, but it wasn't done. If you can reconfigure that now you can offer an effective opposition to AfD, but if you can't then you won't, because the SPD is dead. And that's a choice that's facing lots of countries.

This is not a counsel of despair. I have zero faith in the incumbents. They've had 10 years to fix it. They resuscitated the system with a massive liquidity injection. Didn't change anything. And it turns out the world has changed and those structures don't fit anymore.

Humans are incredibly adaptive, and when we're faced with crises, as we are—environmental and inequality—there can be various responses. Just now what we see is the exclusionary nationalist response but that doesn't have to be the only one. We are totally masters of our destiny here.

My point is this: if you're waiting for a bunch of superannuated, septuagenarian social democrats to save your arse start looking elsewhere.

Chapter 4

THE OVERLAPPING CRISES OF DEMOCRACY, GLOBALIZATION AND GLOBAL GOVERNANCE

BY DAVID HELD

The crisis of contemporary democracy has become a major subject of political commentary. But the symptoms of this crisis, the vote for Brexit and Trump, among other things, were not foreseen. Nor were the underlying causes of this new constellation of politics. Focussing on the internal development of national polities alone does not help us unlock the deep drivers of change. It is only at the intersection of the national and international, of the nation-state and the global, that the real reasons can be found for the retreat to nationalism and authoritarianism and the emergence of multifaceted threats to globalization.

In order to grasp the reasons why we are at a crossroads in global politics, it is important to understand 'gridlock' and the way it threatens the hold and reach of the post-Second World War settlement and, alongside it, the principles of the democratic project and global cooperation (see Hale, Held and Young, 2013).

The post-war institutions, put in place to create a peaceful and prosperous world order, established conditions under which a plethora of other social and economic processes, associated with globalization, could thrive. This allowed interdependence to

deepen as new countries joined the global economy, companies expanded multi-nationally, and once distant people and places found themselves increasingly intertwined.

Four pathways to gridlock

But the virtuous circle between deepening interdependence and expanding global governance could not last because it set in motion trends that ultimately undermined its effectiveness. Why? There are four reasons for this or four pathways to gridlock: rising multipolarity, harder problems, institutional inertia, and institutional fragmentation. Each pathway can be thought of as a growing trend that embodies a specific mix of causal mechanisms.

First, reaching agreement in international negotiations is made more complicated by the rise of new powers like India, China and Brazil, because a more diverse array of interests have to be hammered into an agreement for any global deal to be made. On the one hand, multipolarity is a positive sign of development; on the other hand, it can bring both more voices and interests to the table that are hard to weave into coherent outcomes.

Second, the problems we are facing on a global scale have grown more complex, penetrating deep into domestic policies and are often extremely difficult to resolve. Multipolarity collides with complexity, making negotiations tougher and harder.

Third, the core multilateral institutions created 70 years ago, for example, the UN Security Council, have proven difficult to change as established interests cling to outmoded decision-making rules that fail to reflect current conditions.

Fourth, in many areas transnational institutions have proliferated with overlapping and contradictory mandates, creating a confusing fragmentation of authority.

To manage the global economy, reign in global finance, or

confront other global challenges, we must cooperate. But many of our tools for global policy making are breaking down or prove inadequate – chiefly, state-to-state negotiations over treaties and international institutions – at a time when our fates are acutely interwoven. The result is a dangerous drift in global politics punctuated by surges of violence and the desperate movement of peoples looking for stability and security.

Four stages of crisis

Today, however, gridlock has set in motion a self-reinforcing element, which contributes to the crises of our time in new and distinct ways (see Hale and Held et al, 2017, pp. 252 – 57). There are four stages to this process: see figure 1.



| **Figure 1: The vicious cycle of self-reinforcing gridlock**

First, we face a multilateral system, as noted, that is less and less able to manage global challenges, even as growing interdependence increases our need for such management.

Second, this has led to real and, in many cases, serious harm to major sectors of the global population, often creating complex and

disruptive knock-on effects. Perhaps the most spectacular recent example was the 2008–9 global financial crisis, which wrought havoc on the world economy in general, and on many countries in particular.

Third, these developments have been a major impetus to significant political destabilization. Rising economic inequality, a long-term trend in many economies, has been made more salient by the financial crisis, reinforcing a stark political cleavage between those who have benefited from the globalization, digitization, and automation of the economy, and those who feel left behind, including many working-class voters in industrialized countries. This division is particularly acute in spatial terms: in the cleavage between global cities and their hinterlands.

The financial crisis is only one area where gridlock has undercut the management of global challenges. Other examples include the failure to create a sustainable peace in large parts of the Middle East, following the post 9/11 wars. This has had a particularly destructive impact on the global governance of migration. With millions of refugees fleeing their homelands, many recipient countries have experienced a potent political backlash from right-wing national groups and disgruntled populations, which further reduces the ability of countries to generate effective solutions to problems at the regional and global level. The resulting erosion of global cooperation is the fourth and final element of self-reinforcing gridlock, starting the whole cycle anew.

Avoiding the 1930s

Modern democracy was supported by the post-Second World War institutional breakthroughs that provided the momentum for decades of geopolitical stability, economic growth and the intensification of globalisation, even though there were, of course, proxy wars fought out in the global South. However, what works then

does not work now, as gridlock freezes problem-solving capacity in global politics, engendering a crisis of democracy, as the politics of compromise and accommodation gives way to populism and authoritarianism.

The 1930s saw the rise of xenophobia and nationalism in the context of prolonged and protracted economic strife, the lingering impact of World War I, weak international institutions and a desperate search for scapegoats. The 2010s has notable parallels: the protracted fallout of the financial crisis, the clamour for protectionism, ineffective regional and international institutions, and a growing xenophobic discourse that places virtually all blame for every problem on some form of Other. In the 1930s the politics of accommodation gave way to the politics of dehumanisation, war and slaughter. In the 2010s, we are taking steps down a dangerously similar path. The question remains: will knowing this help us choose a different route?

Chapter 5

INEVITABLE WAR?

BY JAMES K. GALBRAITH

In her most recent book Kari Polanyi Levitt observes that the word “globalization” cannot be found in the Oxford Shorter English dictionaries predating 1994 nor in the spell-check programs of that era. It emerged from nowhere at that time and for a reason: to cast a light of benign inevitability over the project of Western hegemony offered up as the future following the collapse of the USSR.

Today, as I write on the 200th birthday of Karl Marx, this project has fallen short and may be teetering on the brink of its own collapse. For three main reasons. One is China. A second is Russia. And the third and most important is the misgovernment of finance in the United States and Europe.

The big idea of the 1990s was that a unified open liberal world order dominated by banks could bring democracy and prosperity to the East. This idea, to be sure, had been road-tested since the early 1980s in the Global South, and the name for the experience there was the “Lost Decade.” But in the East it was fresh – as well as being, to a degree, authentically believed in the heady moments of the disappearance of second-rate socialism in Europe.

The illusions did not last long. In Russia they were already shattered by Yeltsin's tanks in 1993 and then by the open corruption of his re-election in 1996. Meanwhile, the promise of prosperity faded in an orgy of privatization, asset-stripping and wage and pension theft and demographic disaster. By the late 1990s, the hoax had been openly exposed, corrective measures had to begin, and the Russian flirtation with "Western" democracy was over.

China meanwhile chose a different path – Kadarism on an epic scale. Recall the Hungarian prime minister installed by the Soviets after the defeat of revolution in 1956 who then declared: "If you're not against us, you're with us" and found the way to social and cultural liberalization and consumer-based economics without political reform. Scale that up by orders of magnitude, and you have China. A crucial caution in the mid-1990s averted liberalization of capital controls, so that in 1997 China escaped the Asian financial crisis. Then Chinese growth in the 2000s spawned a worldwide commodities boom, making possible the South American summer, which brought a measure of sustained social democracy to that continent for the first time.

Hollow foundations

In the West George W. Bush and Dick Cheney demonstrated, in Afghanistan and Iraq, the obsolescence and futility of modern military power. At the same time, they exhausted what little remained, after NATO expansion and Kosovo, of respect in the East – and also among a significant share of European opinion – for the idea that Western values were a guiding principle rather than an empty slogan. Globalization became a synonym for accepting that one country, working in its own interest and heeding no-one else, would set the terms by which the world was governed, throwing its military force into the balance even long after it became obvious to any detached observer by how much benefits fell short of costs.

Then, at the end of the Bush era, the great crisis exposed to the entire world the hollow foundations of Western finance. In the decade since, the consequence of reactionary economic doctrines and incompetent, stubborn policymakers has been to tear apart the one great constructive project of the neoliberal age, namely the European Union. So, a decade after Wall Street followed the path of the USSR – but was rescued and propped up, unlike the Soviets, sustained in zombie form under Obama – we have a world made old, a tired hegemon and a fraying alliance, picking fights that, suddenly, it is surprised to learn, it cannot actually win short of nuclear war.

In Syria Russia has put an end to the project of regime change, with effects that will extend to Ukraine, the Caucasus and eventually to the heart of Europe. In Africa and Western Asia, China is taking charge of development engineering. These phenomena lack ideological content; they have nothing to do with Marx, Lenin, or even socialism – merely with the consolidation of a politics of national interest not dominated by the United States. In South America for the moment, US-oriented neo-fascist regimes are ascendant, but they cannot last long. And when the worm turns again, leaders of those countries will have to ask themselves, who interferes in their political affairs, and who does not?

War or depression

So yes, a crisis of globalization. It is one with a fair prospect of turning out badly, in either a final catastrophic war, or – more likely – a Depression in the West, alongside a consolidation of national development strategies on the Eurasian continent. China does not, in the end, really need the United States. And Russia, in the end, can forge the partnerships it needs with its geographic neighbors and near neighbors, including parts of what were once considered “Western” Europe. These processes, unless disrupted by war or internal upheaval, are likely to resist interruption from the outside.

For the West, all this poses a deep and difficult question. Having squandered your reputation for superior values, having debased democracy before finance, having shown disregard for the postwar structures of international law and, at the same time, having demonstrated that Mao was not far off when he coined the accolade “paper tiger” – how, having done all of this, do you restore your reputation and your position in the world?

A bit of humility, of recognition that the delusion of “globalization” as it was conceived twenty years ago by very foolish people, cannot be sustained, and a program of national and regional reconstruction focused on the most urgent social, resource and climate challenges – that might be the right way to start.

PART II

**UNDERSTANDING THE
POLITICAL ISSUES**

Chapter 6

POLITICS, PESSIMISM AND POPULISM

BY SHERI BERMAN

The rise of right-wing populism is probably the most pressing problem facing Europe today. Many analysts, including myself, have linked the rise of populism to the decline of the social democratic or centre left. Many traditional social democratic voters now vote populist; social democracy's embrace of a "kinder, gentler" neoliberalism opened a policy "space" populists filled with welfare-state chauvinism; and social democracy's fading electoral fortunes have rendered majority left government and, in many European countries, any stable majority government impossible, making it more difficult to solve problems, increasing dissatisfaction with democracy and support for populism further.

But beyond these connections lies a more fundamental one: the loss of a sense of the possible social democracy injected into post-war liberal democracy.

Social democracy was the most idealistic, optimistic ideology of the modern era. In contrast to liberals who believed "rule by the masses" would lead to the end of private property, tyranny of the majority and other horrors and thus favored limiting the reach of democratic politics, and communists who argued a better world

could only emerge with the destruction of capitalism and “bourgeois” democracy, social democrats insisted on democracy’s immense transformative and progressive power: it could maximize capitalism’s upsides, minimize its downsides and create more prosperous and just societies.

Such appeals emerged clearly during the inter-war years, when democracy was threatened by populism’s more dangerous predecessor—fascism.

In the United States, for example, FDR recognized that he needed to deal not merely with the concrete economic fallout of the Great Depression, but also with the fear that democracy was headed for the “dust heap of history” and fascist and communist dictatorships were the wave of the future. This required practical solutions to contemporary problems as well as an ability to convince citizens that democracy remained the best system for creating a better future. As Roosevelt proclaimed in his first inaugural address:

Compared with the perils which our forefathers conquered because they believed and were not afraid, we have still much to be thankful for... [Our problems are not insolvable, they exist] because rulers have failed... through their own stubbornness and... incompetence... This Nation asks for action, and action now... I assume unhesitatingly the leadership of this great army of our people dedicated to a disciplined attack upon our common problems... The only thing we have to fear is fear itself.

Swedish model

A similar dynamic played out in the other center-left success story of the era—Sweden. Recognizing the danger from the unstable minority governments that plagued the country during the inter-war years, the growing power of fascism, and the Great Depression, the social democratic party (SAP) developed a new view of

the relationship between the state and capitalism, culminating in its famous championing of “Keynesianism before Keynes.” Like Roosevelt they offered voters concrete solutions to contemporary problems as well as a commitment to creating a better world. During the 1932 election campaign a party newspaper, for example, declared “Humanity carries its destiny in its own hands... Where the bourgeoisie preach laxity and submission to...fate, we appeal to people’s desire for creativity...conscious that we both can and will succeed in shaping a social system in which the fruits of labor will go to the benefit of those who are willing to [...] participate in the common task”. The party paired this economic appeal with a promise to turn Sweden into a “*Folkhemmet*” or “people’s home”— a country where the “barriers that... separate citizens” would be eliminated and there would be no “privileged or neglected, rulers or dependent, plunderers and the plundered.” The result was that whereas in countries like Germany and Italy fascists appeared politically active and ambitious, in Sweden the SAP became known as the party with exciting plans for creating a better world.

After 1945 social democratic parties broadly accepted the policies championed by Roosevelt and the SAP. Ironically, the success of these policies in stabilizing capitalist democracy led many to begin viewing the left’s job in technocratic rather than transformative terms. This trend culminated in the late twentieth century with leaders like Blair, Clinton and Schroeder who believed transformative projects were passé or even dangerous and that the left’s goal should be managing capitalist democracy better than the right. The dangers or at least downsides of this were recognized by Blair himself who remarked in a 2002 speech that “sometimes it can seem as if it [politics had become] a mere technocratic exercise...well or less well managed, but with no overriding moral purpose.”

When times are good, such a politics can suffice, but when they are

not, a widespread belief that governments are unwilling or unable to change the status quo leads to dissatisfaction with democracy. This, of course, is where populism comes in.

Populism peddles a politics of fear—of crime, terrorism, unemployment, economic decline, the loss of national values and tradition—and asserts that other parties are leading their countries to disaster. Surveys make clear that populist voters are extremely pessimistic: they believe the past was better than the present and are extremely anxious about the future. But pessimism has infected Western societies more generally. A recent PEW survey for example revealed that even though growing percentages of European citizens view their country's economic situation as dramatically better than a decade ago, this has not translated into greater optimism about the future. Indeed, in many European countries the “experience-expectation” differential has grown: in the Netherlands, Sweden and Germany, for example, approximately 80 percent or more say the economy is doing well, but less than 40 percent believe the next generation will be better off than their parents. These views reflect a troubling reality: particularly in times of change and uncertainty, people's views are shaped more by emotions than rationality. Recognizing this, Roosevelt, the SAP and earlier social democrats understood that for the center-left and democracy more generally to thrive, what was needed was not merely practical solutions to contemporary problems, but also an optimistic vision to counter the dystopian one offered by populists.

During the postwar decades social democracy provided just this. Against communism and liberalism they argued that people working together could use the democratic state to make the world a better place. The problems of the 21st century are different in form, but they are not different in kind. What is needed is a combination of pragmatic policies that can address challenges like economic inequality, slow growth and discon-

certing social and cultural change as well as an ability to convince citizens that liberal democracy provides the most promising path to a better future. The rise of politicians as different as Trump, Corbyn and Macron makes clear how desperate many citizens are for leaders who insist that politics matters—that change is possible if the will is there. If centre left parties cannot respond to that yearning, voters will turn to other parties that do—with potentially dire consequences for the fate of liberal democracy.

Chapter 7

WHY THE LEFT MUST TALK ABOUT MIGRATION

BY ANKE HASSEL

For a number of years now the left has been disappearing fast from the electoral scene while the far and populist right has been gaining ground. Social democratic parties have been reduced to single-digit vote shares in France, Netherlands and Greece and face the risk of a similar demise in Germany.

Within countries and centre-left parties themselves there are intense debates taking place about the way forward. The starting point is frequently the legacy of the Third Way that pushed the centre-left towards embracing the middle classes at the expense of the working class. As the centre-left sold out the working and lower middle class, there is a deep issue of trust among the electorate, even if and when the centre-left starts caring about them again. The common ground of many analysts is that the centre-left should focus on core traditional policies such as redistribution, combating poverty, social housing and public spending priorities.

Immigration may be in most EU countries a topic of high salience but it is toxic and almost taboo for the left. Those who dare to address it, such as the Leftish new movement, *Aufstehen*, in Germany, or some social democratic local mayors who warn of

immigrant ghettos in their towns are often attacked. Colin Crouch warned in a recent piece of “anti-immigrant sentiment”. He wrote:

To assert that the presence of Poles in a local labour market brings down the wages of British workers is not a socialist critique of capitalism but a cynical dog whistle. Locally visible Polish people are present in a way that the abstract idea of capitalism is not and are easier to hate.

It goes without saying that turning migrants into a target of hate is abhorrent and an open society has to respond strongly to racist and xenophobic rhetoric. Does that mean the left should not talk about migration?

There is comprehensive research on the effect migration on wages by labour economists and there is ground to believe that migration affects the wages of those with similar skills negatively and those with higher skills positively. This should not come as a surprise.

It is assumed that the overall effect of inward labour migration on wage growth is negative as low-skilled migrants are hired on lower wages. For instance, the German Bundesbank showed in a report in April that net migration from the EU had a negative effect on wage growth in Germany, especially from 2013 onwards.

Moreover, there is also evidence from studies on the posting of workers in the EU that migrant labour experiences higher rates of exploitation and that trade unions in sectors with high levels of migrant labour find it rather difficult to maintain high levels of unionization and comprehensive collective bargaining which in turn would raise wages and increase protection.

Taken together, the impact of high levels of immigration is likely to challenge the institutions of comprehensive regulation of labour markets on which the European Social Model rests.

The left can choose not to talk about this because of the fear that

any mention or analysis of the effects of immigration is in itself already xenophobic. This can, however, badly backfire.

As long as migration is a messy business it remains an easy scapegoat for the far right. Unlike the UK government, which has an immigration target it fails to achieve year in year out, the German government has no explicit migration policy. Net migration into Germany has exceeded 500,000 annually since 2014. Immigration currently stands at more than 1m per year. At the same time, rents in cities such as Berlin have been rising by 10% per year and it is estimated that there is a lack of 2m affordable flats in Germany. While the housing crisis is not caused by migration but by government decisions to end social housing a decade earlier, it shows how little the country is prepared for high levels of immigration.

Dealing with issues

The German government has now decided on a proposal for an immigration law. It allows for third country labour migrants with mid-level skills to acquire work permits for six months while searching for a job. This will apply to any profession including for example truck drivers and cleaners. The German chambers of industry hail victory as, according to their own research, there is a shortage of “skilled” labour in the business of “doormen” and “restaurant workers” and other low-paid industries. Wouldn’t it be more appropriate to insist that work permits for third country nationals be tied to a minimum income or a work contract in order to avoid wage dumping in low-paid services sector jobs? Or a financial contribution by employers towards the integration of migrants or the housing crisis?

Labour exploitation is ripe in migrant communities and workplaces as many immigrants do not speak the language or know their rights. Labour inspection is weakly developed and workplace institutions are often not present. There is no German equivalent

to the British Gangmasters and Labour Abuse Authority which deals with rogue employers. The weak implementation of social standards in sectors with high shares of migrant labour creates unfair competition and will eventually bring those standards down.

The left has to find a policy on migration which is strong on anti-racism but does not ignore reality. If Germany wants to avoid the nationalist and anti-migrant turn of British and US politics it has to fight for the values of the open society by making sure that the lower middle class will not suffer from migration. The initial 'refugees are welcome' attitude of 2015 is being replaced by a creeping suspicion of economic migration to escape poverty not least because the current mess caused by mixing asylum with labour migration is deeply irritating for many people.

Discussing and proposing proper tools for managing migration is not the same as mimicking xenophobic or racist prejudices in the electorate. Rather the opposite. Open societies need clear rules and strong institutions. Solidarity is indeed the order of the day – as a practical and local exercise to help the new arrivals who are struggling and in the form of strong policies that do not let migration contribute to the undermining of social protection.

Chapter 8

MEETING THE MIGRATION CHALLENGE AND REFORMING CAPITALISM THROUGH MUTUAL SOLIDARITY

A CONVERSATION WITH PAUL COLLIER

How would you characterise the migration issue today? How has it become such a hot topic, and how do you think it's likely to develop in the future?

At the moment, obviously, public policy on migration and refugees is a complete mess. It's a broken system. In fact, it doesn't really deserve the word 'system'. How has it got into such a mess where we're changing policy week by week? That, incidentally, is a symptom of a totally broken system when you have to change policy week by week. It's unsustainable.

How did we get there? By incredibly irresponsible, short-term political decisions by the major figures of Europe – most prominently, Chancellor Merkel, who, first, pretty well ignored the refugee problem when it started in 2011, then woke up to it in a panic in 2015. Very irresponsibly, then unilaterally, opened the door, thinking only 10,000 people would come, and then, six months later, unilaterally slammed the door again by doing an incredibly expensive deal with Erdogan – such a nice man – and then attempted to coerce other European countries to taking the refugees that she unilaterally let in.

This is astoundingly irresponsible, so of course European policy is in a mess at the moment. It couldn't be anything else. There's no reason it should be in a mess. There are very straightforward policies that would be sustainable. That's what we've got to get to: we've got to build some sustainable policies.

Before we get to the policies, I know that you've done a lot of work especially on Africa and development economics. What do you think, beyond obvious sources of refugees, such as wars, what are the key drivers of migration, and how do you think they're going to develop in the future? Is this issue going to solve itself to an extent or is it likely to get worse?

I think, first of all, we've got to distinguish very sharply between migration and refugees. Refugees are a sub-component of people who are displaced from their homes. By definition, the people who are displaced are the people who choose not to migrate. So, refugees, by definition, are people who don't want to migrate. They're not migrants. That's the first point.

Most people who are displaced manage to find somewhere else within the same country, and they're classified as internally displaced people – about 65 million worldwide. About a third stagger over the nearest border and so legally become refugees, but nearly all in regional havens just, in effect, next door to the conflict. There are ten regional havens worldwide where most refugees are. That is the refugee problem: providing for the refugees in those regional havens.

Like most refugees in Syria are in Lebanon or...

They're in Lebanon, they're in Turkey, and they're in Jordan. Alex (Betts) and I got involved in all this because we were jointly called into Jordan. Jordan had nearly a million refugees who'd been left to hang out to dry: "Your problem." Turkey: two million got no help, virtually no help. These were absurdly irresponsible

European responses and so that was the heart of the refugee failure: a failure to respond to the crisis in situ.

There is this agency, UNHCR, which was designed for a completely different context: beginning of the 1950s, coming out of the problems of the late 1940s. Its solution was tented camps, with free food, free accommodation. That had made sense in the late 1940s in Europe. By the time you get to modern refugee situations, it doesn't.

90% of refugees worldwide ignore the whole UNHCR system because it's not what they want. What they want is to restore autonomy. Imagine... You've had to flee your home. You want to restore autonomy, you want to restore your community, and the easiest place to do that is to go to a town, which is what most refugees do: find a job in a town.

The Syrian refugees coming to Jordan, in one sense, were in paradise: same religion, same language. The big difference was that Jordan, per capita, is over six times richer than Syria, so, if a Syrian could get a job in Jordan, they're doing very well. They've reached heaven there.

That became a hell of a problem for the Government of Jordan because it couldn't allow people – the Syrians – to undercut Jordanians. The Syrians would be willing to deeply undercut the Jordanians, and that would have produced a big reaction – political reaction, understandably – on the part of the Jordanians. So, understandably, the Jordanian Government said, “You can have haven here, but you can't work.”

What Alex and I came up with was a strategy that said: “If we can make this work for both the Jordanians and refugees, would you agree to let refugees work?” The idea was Europe would bring jobs in – both for refugees and for Jordanians.

The Jordanians themselves said: “We'll split it. Let's split it: 70 jobs

for refugees, for every 30 for Jordanians.” They said: “If you do that, if you can get jobs to come here, firms to come here, because we desperately need firms – we’re stuck in the middle-income trap, we need firms – if you can get firms to come here, we’ll issue up to 200,000 work permits. That would have been a job for every refugee family.

So, your idea was, basically, to align incentives?

Yes, of course.

With a country like Jordan stuck in a middle-income trap.

Yes. Absolutely crazy to wag your finger and say: “You should give them jobs.” We can make globalisation work by bringing jobs to refugees where they are. Europe – and Germany in particular – was superbly equipped to do that. Germany is the place par excellence with firms that are operating in the region.

Hundreds of thousands of jobs in Turkey have been generated by German firms over the years. That hasn’t cost Germany jobs. On the contrary, it’s raised productivity in Germany because the less skilled jobs, the less productive jobs, have been moved to Turkey. This is globalisation at its best.

Instead, UNHCR, their response was: “We’re not a jobs agency. We don’t do jobs for refugees. We do free food and tents.” That’s the problem. People don’t want free food and tents for ten years. They want a job.

Yes. If I understand you correctly, first of all there is an institutional dysfunction because the UN agency was set up for something completely different.

Yes, that’s right, so they’ve just not got the skillset to do this.

Yes, and the policymakers are not on the same page, either, because they see it as some sort of help, and maybe just cutting deals on keeping them away from their own borders,

rather than trying to empower them where they could rebuild a life.

Exactly; exactly. When Merkel flew to Turkey, what was the deal? “You take one, we’ll take one back,” as if the currency is, “We don’t want these people. You take them, and we’ll take some of the people you don’t want.”

That is both a disgusting formulation but absolutely misses the opportunity that we can make the global economy work in the interests of the most desperate people on earth, which are the refugees displaced from their homes.

At the beginning of the conversation, you made a distinction between displaced people, refugees, and other sources of migration, because they’re not migrants.

Yes. Of course there are lots of people who are aspirational migrants. If you dangle a big enough carrot in front of a refugee, you can turn them into a migrant. You say, “Come to a scholarship at Harvard,” or, “Come to California,” then a lot of refugees in Jordan would turn into migrants. They wouldn’t be refugees still.

Refugee status, what it demands is the restoration of a degree of autonomy and a safe haven. Once you’ve got that, once Jordan’s providing that, refugee status isn’t a meal ticket to go live anywhere on earth.

I could double my income if I moved to Norway. I don’t see why... Most of the population of the world would increase their income by much more than double. There’s no right to that. It’s actually very sad if people define themselves by an aspiration to get out of their country. Inadvertently, Europe is in danger of doing that with Africa.

90% of my time is working with African governments, and their nightmare is that their young people are starting to get this narrative that hope lies in getting out. I’m working with the Governor

of Ghana – very fine government; President, Vice President, Finance Minister, very good, better than most of Europe’s top three. Ghana is growing at 9% (last year). They’re doing a good job.

There’s no way that the Government of Ghana can create economic opportunities that are better this year than getting a job in Europe – no way. That doesn’t mean we’ve got a right to lure the brightest and best young Ghanaians to Europe. They’re needed in Ghana.

Inadvertently, people think that they’re performing some great[morallynoble act by saying, “Welcome to Europe,” luring bright young people away from their real obligations and opportunities within Africa, to come and lead frustrated lives on the streets of Rome, which is what the reality is.

Yes. You said these are some pull factors, that Europe, sort of, dangles the carrot. But the concern at least, rightly or wrongly, among many policymakers is that there are push factors at work in Africa, as well.

There are, and that’s why I’ve been part of two big initiatives in the last year. Last year, I worked with the German Government, with the then Finance Minister Schäuble, whom I greatly respected. We travelled together to Africa to launch ‘Compact with Africa’.

‘Compact with Africa’ is a programme. It’s now got ten African countries who’ve joined it, and it’s pitched at the best-run countries of Africa. For example, Ghana immediately joined up. So did Morocco, and so did Rwanda, Ethiopia. What’s the objective of the ‘Compact with Africa’? It’s to get European firms and other G20 firms to go to Africa, bring jobs to Africa.

Volkswagen recently opened a car plant in Rwanda.

Exactly; exactly. That’s exactly the right thing to do: make globalisation work for people. The humane form of globalisation is bring jobs to people, not lure people across the sea to jobs which very

often don't exist. That's the humane strategy. Public policy should be making globalisation work for African societies.

We can do that by the million. Africa needs jobs by the million. Instead, we're luring Africans by the thousand to get into boats. That is deeply irresponsible and unethical because, once Africans get to Europe, they discover the reality, but they're trapped because to go back and face your friends is to be humiliated.

Humiliated as a failure. Had to come back, didn't make it.

Exactly; exactly, and so we are parading ourselves as, "Aren't we good?" and actually being deeply unethical.

Where do you think this narrative, then, comes from: the perception, probably widespread, that, in order to make it, you have to move to Europe because of good jobs? Are the European countries themselves to blame for establishing that kind of narrative?

Yes, I think so. I think a lot of European NGOs, this incessant stuff of, "Give money to Africa" – incessant, the begging bowl image of Africa, as if what Africa needs is entitlements to consumption, which the noble charities provide.

What Africa needs is empowered production, not entitled consumption. It doesn't need our charity, it needs our firms. In trying to get firms to go to Jordan to employ refugees, we talked with a lot of firms. Do you know what the number one obstacle was?

What?

The firms feared that, if they went in and employed refugees, the European NGOs would accuse them of running sweatshop labour, exploiting refugees. The NGOs that claimed to be the big defenders of refugees were actually the big problem. Again, it's

ethically disgraceful, and these NGOs need to be shamed so that their behaviour is actually called out.

Presumably, you can, obviously, do both: you can create jobs that are decent in terms of working conditions and standards.

Of course, but, frankly, if you're a Syrian, as I say, who, even before the conflict, was on \$2,000 a year – average for Syria – and you're working in Jordan, average \$13,000 a year, pretty well any job is going to seem great.

Of course, we were bringing proper firms into industrial zones which would meet legal requirements in Jordan and so be fabulous jobs for a Syrian, so no issue about labour standards and so on, none at all. It's a totally spurious concern.

Instead what happened was we got less than 5% of Syrians moved to Germany, but highly selectively. Who moved to Germany? Young, well-off men, so approximately 40% of all the Syrians with university degrees are now in Germany.

40%?

So, less than 5% of the population but around 40% of graduates. Exactly the people who will be needed to rebuild Syria. This is so irresponsible it needs to be called out.

If I understand you correctly, if your solution, or the beginning of a solution, is to turn the whole mechanism around, saying, basically: "It is about economic development in the region," what is your explanation for why the refugee issue in particular has become such a polarising issue in Europe?

Because it's not been thought through. We've had policymakers who haven't done their job of actually thinking long term what would be a sensible, long-term policy. Instead they seem to have reacted week by week, or even day by day, to events. If you just

take short-term decisions driven by short-term events, you get deeper and deeper into a mess.

And then nitty-gritty details, in the grand scheme of things, don't mean much, such as the recent spat in whether you should secondary migrants back at the Bavarian border.

These are just short-term, reactive things. We should start by saying: "What will a sustainable policy look like?" I believe that we can very rapidly build a very broad consensus, across both the left and the right, on what a sustainable policy will look like.

A sustainable policy will, I think, have three features. One is it will be ethical. It will meet our ethical duties towards refugees and towards the people in poor countries who desperately need credible hope. They need opportunity.

What exactly are these duties?

The duties towards refugees are we must show solidarity. In 2011, when there's a huge refugee flight out of Syria, that is a European responsibility, as well as a Jordanian, Turkish, and Lebanese responsibility.

We must show solidarity, but we join solidarity with the principle of comparator advantage. "You Jordanians do what you do best: keep your borders open, and provide safe haven, and allow people to work. We'll do what we do best: make it in your interest, as Jordanians, to allow all that to happen. We will bring the jobs that provide refugees with autonomy, and we'll provide the money that makes it viable for Jordan."

We didn't. Jordan's budget deficit exploded because it was paying for those refugees, unhelped. That's the ethical duty to refugees. The ethical duty to people who live in societies without credible hope is to bring credible hope.

'Compact with Africa' is about the top end. I've just co-directed a

new commission which reported in April, called 'Escaping the Fragility Trap', which is about what to do with the highly stressed end of the spectrum – not just in Africa but worldwide. They're the societies which are generating the refugee.

You can all just Google 'Escaping the Fragility Trap' and there's a hard-hitting report. I was in Berlin last week, speaking about it to the German Government. There are very clear things we can do which we've not been doing – very clear.

The main things being?

One is economic and one is political. The economic thing is – remember that Clinton phrase: "It's the economy, stupid" – the only way long term to lift states out of fragility is to grow the economy, to grow economic opportunities. There are desperately, desperately few firms in fragile states because why on earth would a decent firm go there? But there's a huge public interest in getting firms to go there, and so we need public money to bring firms into fragile states. Not big firms, not firms that will export, just firms that will organise people in groups of more than two. Most Africans in fragile states work on their own, solo – no scale, no specialisation, very low productivity, doomed to poverty. The basic thing that a firm does anywhere is organise people, in scale and specialisation. So, paying, using public money to bring decent firms into environments where they'd rather not go but are desperately needed, that is the use of public money that's important.

All our governments have agencies that deal with that. It's the part of the aid programme or aid agency that deals with the firms. In Germany that's DEG, which is a part of KfW (credit agency for reconstruction: Ed). In Britain it's CDC, which can get its money from DFID (overseas development ministry). In the World Bank Group, it's IFC, which at last is getting money from aid. Until last

year, IFC had to make a profit to pay for the public aid programme. That was crazy.

If you've got to make a profit, you invest in China – complete denial of purpose, misunderstanding of what these agencies were for. There are 45 development finance institutions around the world – public agencies, with public money to get firms to do things. Many of them have not yet understood their true purpose. We're convening all of them jointly with IFC here in Oxford, in February, to try and just get a new sense of purpose.

The tools are there. Let's use them. This is not that difficult, frankly. It's just that we've had these institutions for years and not used them.

Why do you think that is?

Because policy hasn't been joined up. Refugee policy has always been given to UNHCR. When Alex Betts and I first went into Jordan, my first thought, because I used to work for the World Bank, directing the research department, was: "What's the World Bank doing? Where is it?"

I went back to my friends at the World Bank and they said, "Paul, you've forgotten, we're not in Jordan. It's not a middle-income country, so we're not there." I said, "There are a million refugees." They said, "No, no, no, if it's refugee, it's UNHCR."

I challenged my friends, "Take it to the board," so they took it to the board. The board unanimously agreed that they change policy, and they created a \$2bn programme every three years for work in the haven countries, bringing economic opportunity both to refugees and to local citizens where they're providing haven.

That is now pumping big money into Jordan and into Lebanon. Yes, that's a sensible strategy, so things have woken up. If they'd been running like this for 20 years, the Syrian crisis would have played out very differently.

So, there is a lot of institutional inertia where the institutions either are not designed to respond to this or not, in their own view, in charge.

Yes. The migration people, when you talk to migration people – I had two European officials here yesterday – and when you talk to them about the need to get firms into fragile states, and that their own countries have agencies which could do that, they look amazed. They write it down and they'll go and do something, but it never occurred to them. It never occurred to them.

They're migration people and so they think, "What should we do with Africa? We should say, 'If you take your people back, we'll take other people'" – in other words, migration for migration. They just put it into a damn box of migration and are not understanding that you've got to think outside that box.

So, there's a complete lack of joined-up policymaking and thinking. Okay, let's use that opportunity, then, at least where we have a polity, a framework in the European Union running up into the European elections next year. Obviously, the refugee issue and migration in general, we're in Oxford, we're in the UK, where EU freedom of movement has been a big issue recently. These issues – asylum policy, refugees, freedom of movement, and non-EU migration – will be big issues, so, if you were advising a European policymaker, what would be a good policy mix? What kind of measures would you put in place immediately, in the medium term and long term, to deal with a lot of these pressures?

Yes, actually, Alex and I are advising on European migration and refugee policies. Our starting point is we've got a polarised debate because people are fighting over the wrong things and that actually, once we've shifted focus from, "What do we do tomorrow?" to, "What would be a sustainable system?" there'd be very widespread agreement.

Just to summarise, the widespread agreement starts from whatever we do has got to be ethical. That means it's got to meet our duties to refugees, which we do by bringing jobs to refugees and providing big support for the governments of haven countries so that those borders stay open. That's vital. If it's not to the advantage of the haven societies, they won't keep their borders open, and then you get the dreadful pressure cooker of displaced people not able to get out.

The other ethical duty is to bring opportunities to countries where there's a dangerous narrative developing that the only thing you can do is get out. My whole working life, for over 40 years, has been dedicated to the idea that poor societies have got to catch up with us. They don't catch up with us by being drained of their brightest and best people.

I've got a student at the moment who's a Sudanese doctor. I'm not teaching him medicine, I'm teaching him public policy because he wants to go back and work in the Prime Minister's office in Sudan. You know, his friends – other Sudanese doctors in Britain – think he's crazy. There are more Sudanese doctors in London than in the whole of the Sudan. It's an ethical disgrace that Britain has run a health service in which it's recruited Sudanese doctors rather than train doctors here. Britain has three of the top ten universities in the world. Africa doesn't have any. The idea that we need African-trained doctors is absurd. Africa needs British-trained doctors.

There's a whole political story of why Britain chose to undertrain. It's something to do with the trades union for British doctors (BMU), which found it very advantageous to keep their numbers of British doctors very small so they got the plum jobs, but the idea that it is anything to celebrate that we've had a lot of immigration of Sudanese doctors, that is just manifestly false. It is shaming that Europe runs its policy like that. We need our duties. Ethical duties. Then we have to run a policy which gets broad democratic endorsement, that the majority of people say, "Yes, this is fine." If

you try and run a policy that most people in your society think is irresponsible, you tear up your democracy.

That's what's happening. Governments around Europe have lost the trust of citizens – very measurably. That's a disaster because government, to function, depends on trust – not just in this area of migration but in any area.

In general terms, yes.

Yes. The third criterion is that we should run policies which are sufficiently precautionary that we don't end up regretting them.

What would that, for instance, mean in practice? Can you give some examples?

At the moment, if you asked, if you did a survey, "Do you think there's been too much migration?" what would be your guess?

There are these surveys, and it is high up on the list of what people are concerned about.

Yes, so there's a regret. It means we run policies in a way that people don't end up in ten years' time saying, "We regret that." That means we don't regret leaving refugees stuck in camps, with no jobs; that young Africans coming to Rome don't regret having done it; that we don't run our health system in Britain dependent on Sudanese doctors and find that Sudanese have got a high mortality rate because there are no doctors. These are the 'no regrets' stuff.

Those are the three criteria. I believe there's a very large majority of people who say, "Yes, we want policies that meet those three criteria." We can broadly agree on what they'll look like. In that system, people getting on rubber boats to come across the Mediterranean manifestly has no place whatsoever. That cannot be a sensible part of a sustainable policy on migration.

Let us finish on this trust point, because that is, in a sense, a

precondition to policy change. Across Europe we've seen the rise of populist politics, and using that issue and abusing, obviously, sentiment to erode trust in the political (system). What would be your starting point, because, in the run-up to the European elections or in the run-up to national elections, one of the fundamental underlying problems that every mainstream party is addressing is how can you regain trust?

Yes. I've just written a whole book on that. It's called 'The Future of Capitalism', and it comes out beginning of October. It is about how the centre can restore trust, and I believe that can... I'm a kid who grew up and benefited from that glorious period, 1945 to '70, in which social Europe was built.

The British National Health Service was started exactly 70 years ago, 1948, July, and 9 months later I was born in a National Health Service hospital. I then went to a school which had, until 2 years before I was born, been a private school, but it was turned into a state school. I got there, it was only a high-quality state school for 19 years. I got 7 of them. Both my parents had left school when they were 12, so, without that school, I'd still be a poor butcher, like my dad.

Then I came to Oxford. My education at Oxford was completely free because at that time, for poor kids, there were scholarships. There aren't now. I then went on to graduate work. I got a doctorate in Oxford, and again that was all free because at that time there was money for it if you were poor enough.

I was made by that period. What was the defining feature of that period? People built reciprocal, mutual obligations around real anxieties. I think it was the co-operative movement, which was born in the North of England, where I grew up. Rochdale, Halifax Building Society, these were all the towns around where I lived. Sheffield was the first Labour council in the whole of Britain.

That was the period when ordinary people and their anxieties

were met by these mutual obligations. The genius of mutual obligations is all the rights you generate are precisely matched by the obligations you generate.

Then, from about 1980 onwards, all that got dismantled, partly by the lunacy of the Right – the, sort of, Milton Friedman type of agenda: what's good for business is good for everyone, this crazy agenda – and partly by the craziness of the new left, which abandoned the idea of reciprocal obligations, mutual obligations, in favour of individual rights, and the rights of victim groups and stuff, and social paternalism.

The last 40 years, in my view, have been a tragedy of dismantling the true foundations of social democracy. That's what people are rebelling against.

In that sense, the solution to the displacement problem and the solution to regaining trust domestically is, in a sense, similar: rebuilding economic incentives around mutual interests and reciprocity.

Absolutely; absolutely. Reciprocity is the big theme of the future of capitalism.

Also, there is a very strong political implication there. About two months ago, I wrote a column for the 'Süddeutsche Zeitung' about Brexit. What I'm worried about, or what a lot of commentary seems to miss, is the three major fault lines in Brexit: education, geography, and age.

They have one thing in common: it's broadly the net taxpayers and the net tax recipients. If these two camps are remaining disjointed and opposed, as they are now, the basis of solidarity, which is the foundation for any welfare state, which is the foundation for any redistributive economic system, in my view, will erode.

That's it. That's exactly my own analysis of Brexit, is it is a tragedy

of... We cannot afford polarisation into 0:41:07 rival ideologies, because, now more than ever, we need a sense of solidarity. The people who are suffering the most need to be able to draw on that social capital – accumulated social capital – of reciprocity, mutual regard.

Chapter 9

A GLOBALISATION FOR PEOPLE, NOT BUSINESS

BY GUSTAV HORN

Economists were certain that free trade would be a major source of general welfare enhancement. Resistance against it has been widely seen as irrationality driven by blind nationalism. Recent developments have shaken this firm belief in the benefits of free trade. The rise of right wing populism with all its severe political repercussions seems to indicate that deeper and deeper, stronger and stronger global economic integration is rejected by many people. So, what went wrong?

Economic theory is not the real issue. The conclusion that a global division of labour is beneficial given a wide set of assumptions still holds. This is even true with all the usual caveats referring to distributional problems within international trade as well as the impact of technological change that may change comparative advantages of individual economies. All these problems can be solved with appropriate compensatory policies that can be financed out of the benefits of free trade. The lack of sufficient compensatory policies is sometimes seen as the root of the present distrust in globalisation. Beyond a shadow of doubt, these considerations contain more than a grain of truth. But they are not at the core of the problem.

What is relevant in this debate is understanding what the term “free trade” means precisely. In earlier times, it meant the absence of customs and tariffs as well as non-discrimination of importers. In more recent times, the concept of free trade was extended to embrace the abolition of so-called non-tariff barriers. These are norms and regulations that are in principle different for each economy. They are based on political considerations and reflect the political preferences of each society. From a trade perspective they can be easily interpreted as barriers to entry into a market. This opens a completely new field of thinking and of shaping global trade.

From this perspective their removal looks like a recipe for intensified trade. There may be good reasons to argue in favour of getting rid of norms that had been specifically designed to keep imports out of domestic markets. However, a general abolition or equalisation of norms and regulations could prove detrimental to further economic and political development.

Protection is vital

Several types of regulations should be considered important in this respect. These are labour market, environmental and consumer protection regulations. All of them are of major influence on people’s everyday lives. Their nature reflects the views of a particular society in all these fields. These may be based on economic, political or even philosophical considerations that may be shared in other societies – or not.

Defining such regulations as a trade barrier then ignites a severe conflict. This clearly showed up during the TTIP negotiations. A relatively innocuous if now infamous example in this context is chlorine chicken. An initially heated debate was about the potential harm they may cause for consumers. Americans insist on chicken being chlorinated in order to feel safe to eat them, Euro-

peans on the other hand fear the very same chlorine is detrimental to their health. One can find reasonable arguments for both positions. If the difference between them is understood as an obstacle for free trade that should be removed, trade becomes a divisive issue. After all, decisions have to be taken if trade is supposed to be freed from such barriers.

As a European either you allow chlorinated chicken to be traded or it is forbidden to import them to Europe. As an American either you allow unchlorinated chicken to be imported to the US or you decline it. From a position of barrier-free trade, everything should be allowed. But this means that consumer preferences in both regions come under pressure.

Transpose this problem to the labour market and environmental standards and the problem becomes very grave indeed. In these cases, barrier-free trade puts working conditions and environmental standards prevailing within a society at risk. Against this backdrop, trade is no longer an unequivocal way of increasing welfare. Free trade between countries with very different labour standards creates a trend towards generally lower standards. Cheaper overseas labour will oust more expensive labour at home driven normally by the greater competitiveness of foreign firms. The same applies to environmental standards. Lower standards, by imposing fewer costs on firms, tend to displace higher ones. Both effects reduce the welfare of an economy with at least initially relatively high or simply different labour and environmental standards.

One might hope – as in case of traditional tariffs – that these negative impacts can at least be financially compensated for by the additional high revenues created through trade freed from non-tariff barriers. However, many empirical studies show that gains from these types of trade are of a minor order. This applies especially where customs tariffs are already very low, which is the case for most countries that are integrated into global trade these days.

The additional removal of non-tariff barriers seems to have only a very slight wealth-enhancing impact. Consequently, it is highly doubtful whether the losers in any trade-induced de-regulation can gain anything from the removal of non-tariff trade barriers. Their hopes of compensation will most likely be disappointed. Given that, their resistance against free trade agreements of this kind is completely rational.

The bottom line is: Globalisation is in crisis because of its almost totalitarian outreach to all areas of everyday life. People feel a loss of control, because their way of life is perceived as subject to trade requests solely for the benefit of globally acting firms. From this perspective, free trade means a limitation of people's freedom. That fuels support for all kinds of populism whose proponents promise to regain control of their own country and restore freedom rather than be a "vassal state".

If the benefits of global trade are to be preserved, constraints are unavoidable. In order to establish such a new global trade architecture, a return to multilateralism is necessary. But a fundamental reform of rules seems advisable. A key point should be that national regulations cannot be part of trade agreements. That leaves political leeway for democratic institutions to shape their own country according to the preferences of their citizens. At the same time, the benefits associated with trade are basically preserved as long as tariffs are low and imports not discriminated against. This is a globalisation for the people and not for companies alone.

Chapter 10

ELECTORAL AUTHORITARIANISM, ELECTIVE DICTATORSHIP

BY JAVIER LOPEZ

Jair Bolsonaro will be President of Brazil. A homophobic soldier with authoritarian excesses, who has scorned democratic mechanisms and threatened his political rivals, will lead the greatest regional power in Latin America that is now a global giant. In fact, his profile, a caricature of a third-rate dictator, would be comical if it weren't for the fact that he amassed more than 50m votes. His election, with incalculable consequences, is the latest in a long line highlighting the battered fragility of democracy. What is happening to our societies when voters decide to put their destiny in the hands of eccentric authoritarians, while the influence of the far-right multiplies election after election all over the planet?

Democracies are like Tolstoyan families: the happy ones resemble each other, yet each is unhappy in its own way. In Brazil it was not the losers of globalization or the countryside versus urban elites that handed victory to Bolsonaro. It was the white middle class and big cities who threw their support behind this shady character. This far-right-winger built an electoral alliance that gave answers to diverse sectors of the country. He promised family values to evangelists, hard-line tactics to the military and police, economic orthodoxy to the markets and the establishment, a break

with traditional politics to those fed-up with corruption and rivers of hatred towards the Workers' Party (PT) which Fernando Haddad could not counter. That the impulse of 'anti-PT-ism' has cemented electoral victory makes his rise to power even bloodier. The PT, a reference for the left, a force capable of bringing tens of millions of workers out of poverty, led by a global icon, the charismatic Lula Da Silva: beaten by a candidate who defends the previous military dictatorship.

But Brazil has been just the latest appointment with these characteristics. From Donald Trump in the US to Narendra Modi in India or Rodrigo Duterte in Philippines, Bolsanaro's real alter-ego, they form a mosaic of a new electoral authoritarianism. Strong men who have become vehicles for widespread resentment, rage and weariness. The answer that many voters are finding for changes, in their eyes bewildering changes, facing their societies: digitalization of the economy and communication, rise of diversity, disappearance of traditional spaces of socialization or the egalitarian transformation of gender roles. We're dealing with abrupt and profound changes that are behind an anxiety that propels election behaviour in people who approach ballot papers like those applying the handbrake.

An end to rational thought

We are experiencing an emerging blackout of rational thinking. Uncertainty provokes a search for strong anchoring that acts as a mirage. Facing liquid modernity, people cry out for solid references and, facing vulnerability in a risk society, there is a demand for security. It's a type of reactive pendulum of which far-right charlatans and sorcerers wrapped up in the cloak of the nation take full advantage. Because it's precisely the nation which is the only scaffolding that seems to be left standing. After the death of God in the 19th century, ideologies at the end of the 20th and progress at the end of the 21st, it is the old and always seductive

idea of nation which seems ready to act as our collective compass. A nationalism that takes full advantage of our instinct for roots, that protects the community in an accelerated, globalised world. This is the backlash to globalization: a shout, an appeal to more animal instincts, a call for the recovery of control and denunciation of economic abandonment. A desperate and harmful cry with causes that deserve to be answered by presenting a horizon of hope and concrete solutions.

It is at this crossroads, between national democracy and a global system, where electoral authoritarianism finds a rich vein of contradictions to exploit. The difficulties of digestion that national democracies have with globalization are obvious: the territorial de-coupling of political power from the economic, the lack of instruments for dealing with global challenges or the limits imposed by interdependence. Those who feel free without power, under a system of fundamental freedoms but with a right to vote that has felt to be useless, seem prepared to sacrifice freedom to recover the sensation of control; to achieve this, who better to recover power than the one who is the very incarnation of the will of the people? That's how this game of mirrors works. Fed up with what they perceive as an impotent deliberation, they've decided to vote for the personification of this decision.

At the same time, these incarnations of "national determination" delight in this era of nostalgia. The fatigue of optimism has given way to a search for the past as a positive narrative, engendering a toxic relationship with the future that has stopped tomorrow from being a desirable destination for many people and thereby altering one of modernity's favourite sons: progress. There are many causes behind this phenomenon, but we can find in the current intolerable levels of inequality the reasons for the breakup of multiple elements of confidence in our societies: confidence in institutions, confidence in our fellow citizens or confidence in the future.

Social media deconstruction

To find other reasons for the rise of the far-right we should look towards profound behavioural changes in the sphere of communications. Social networks have become a factor in the deconstruction of public debate. Without doubt they have permitted individual empowerment, but they've also modified the way public opinion is gradually built. Working as self-referential tribal echo chambers, they are a giant tool at the service of confirmation bias, and feed polarization, bypassing editorial control and the hierarchy of information intermediaries. They are machines that, misused, can become weapons of mass distraction; they empower us and make us easier to manipulate: a contradiction we still don't know how to resolve.

But it's not just something to do with social networks *per se*. We live in a time of massive audio-visual consumption and message saturation, a phenomenon fed by mobile devices, wreaking havoc on our attention span. Well, this language and its codes have also colonised politics. The narration time of "stories", as if we were dealing with a HBO series. And it is a time when political histrionics and thuggish behaviour are more efficient at grabbing our attention, as if we were watching a reality show. The strong men take advantage of the irresistible attraction of the villain in a good story. This is also the effect of politics as spectacle. In a limitless competition to capture our attention, submitted to a constant bombardment of inputs, messages and signs, disruption has its reward. The prize is media coverage, attention and votes. *Nothing is true and everything is possible*: it's no surprise that it was a TV producer, Peter Pomerantsev, who sensed this logic by referring to the absurd heart of the new Russia. Entertainment and authoritarianism: the two sides of the new radical right.

Europe must learn to face the future under this new international political scenario. A scenario where democracy is no longer a

source of universal authority, but is seen as a strategic weakness. Our continent is stalked by the same monsters roaming the planet who now have free reign in Rome, Budapest and Warsaw. Whereas the ideals of the European Union represent the quintessence of all that this new authoritarianism wishes to destroy: a space of cosmopolitan cooperation based on deliberation and rules.

Europe should learn from its errors and take note of this popular unease if it doesn't want to be devoured by its voters. To do so, measures must be taken, especially via a true agenda of social rebalancing in the form of redistribution, to be seen as a protective armour of security for citizens. And it will need to make its institutions more robust, as their checks and balances are what protect us from the siren calls that could end up endangering our democracies. This will be the political battle of the century: the defence of democracy. And it could have Europe as its last great bastion.

PART III

**HOW TO SOLVE THE CRISIS
OF GLOBALISATION**

Chapter 11

“NEW” PERSPECTIVES FOR EUROPE

BY JÜRGEN HABERMAS

I am invited to talk about New Perspectives on Europe, but new ones fail me, and the Trumpian decay afflicting even the core of Europe makes me seriously question my *old* perspectives. Certainly, the risks associated with a significantly changed state of the world have penetrated public awareness and have altered perspectives on Europe. They have also directed the broader public’s attention to the global context in which the countries of Europe have more or less unquestioningly felt at home so far. The perception has grown within public opinion throughout the nations of Europe that new challenges affect each and every country *in the same way* and therefore could best be overcome *together*. That strengthens, indeed, a diffuse wish for a politically effective Europe.

So, today, the liberal political elites proclaim, louder than before, progress *should* be made in European co-operation in three key areas: Under the heading European foreign and defence policy, they demand a boost to the military self-assertiveness that would allow Europe “to step out of the shadows of the USA”; under the motto of a common European asylum policy, they further demand

robust protection of Europe's external borders and the establishment of dubious reception centres in North Africa; and, under the slogan "free trade", they wish to pursue a common European trade policy in the Brexit negotiations as well as in the negotiations with Trump. It remains to be seen whether the European Commission, which is conducting these negotiations, has any success – and whether, should it fail, the common ground of EU governments simply crumbles away. That's one, encouraging side of the equation. The other is that nation-state selfishness remains unbroken if not bolstered by misguided considerations of the new International of surging right-wing populism.

Nationalist short-termism

The hesitant progress of the talks on a common defence policy and on an asylum policy that, again and again, falls apart over the distribution question shows that governments give priority to their short-term national interests – and this all the more so, the more strongly they are exposed at home to the undertow of right-wing populism. In some countries there's not even any tension left between empty pro-European declarations on the one hand and short-sighted, un-cooperative behaviour on the other. In Hungary, Poland and the Czech Republic, and now in Italy and pretty soon probably in Austria, this tension has evaporated in favour of an openly europhobic nationalism. That throws up two questions: How is it that, in the course of the last decade, the contradiction between residual pro-European lip-service and the actual blockade of the required cooperation has come to such a head? And why is the eurozone nevertheless still holding together when, in all countries, right-wing populist opposition to "Brussels" is growing – and at the heart of Europe, i.e. in one of the six founding nations of the EEC, has even led to an alliance of right- and left-populists based on a shared anti-European programme?

In Germany the twin issues of immigration and asylum policy have since September 2015 dominated the media and pre-occupied public opinion to the detriment of anything else. This fact suggests a swift answer to the question about the decisive cause of the increasing wave of euroscepticism, and that suggestion may be supported by some evidence in a country which still suffers from the psycho-political divisions of an unequally reunited nation. But, if you look at Europe *as a whole* and especially the eurozone *in its entirety*, growing immigration cannot be the primary explanation for the surge in right-wing populism. In other countries, the swing in public opinion developed far earlier and indeed in the wake of the controversial policy for overcoming a sovereign debt crisis brought on by the crisis in the banking sector. As we know, in Germany the AfD was initiated by a group of economists and business people around economics professor Bernd Lucke, that is by people who feared the snaring of a prosperous major exporter in the chains of a “debt union” and who set in train the broad-based and effective polemical campaign against the threat of mutualising debt. Last week the tenth anniversary of the insolvency of Lehmann Brothers recalled the arguments about the causes of the crisis – was it market failure or government failings? – and the policy of enforced internal devaluation. This debate was conducted in other eurozone member states with substantial impact on public opinion whereas here in Germany it was always played down by both the government and the press.

Germany alone

The predominantly critical voices in the international debate among economists, which were the voices of the Anglo-Saxon mainstream against the Schäuble- and Merkel-driven austerity policies, have been barely noted and appreciated by the business pages of the leading media in Germany, just as on their political

pages the social and human costs that these policies have dished out – and by no means only in countries like Greece and Portugal – were more or less ignored. In some European regions the unemployment rate is still just below 20 percent while the youth jobless rate is almost twice as high. If we today are worried about democratic stability at home, we ought also to remember the fate of the so-called “bail-out countries”: It is a scandal that in the unfinished house of the European Union such a draconian policy which impinged so deeply upon the social safety net of *other* nations was lacking even in basic legitimacy – at least according to our usual democratic standards. And this still sticks in the craw of Europe’s peoples. Given that within the EU public opinions on politics are formed exclusively within national borders and that these different public spheres are not yet readily available *one for one another*, contradictory crisis narratives have taken root in different eurozone countries during the past decade. These narratives have deeply poisoned the political climate since each one draws exclusive attention to one’s *own* national fate and prevents that kind of *mutual* perspective-taking without which no understanding of *and for another* can be formed – let alone any feeling for the shared threats that afflict all of us equally and, above all, for the prospects of pro-active politics that can deal with common issues and only do so in a cooperative mode and mentality. In Germany this type of self-absorption is mirrored in the selective awareness of the reasons for the lack of co-operative spirit in Europe. I am astonished about the *chutzpah* of the German government that believes it can win over partners when it comes to the policies that matter to us – refugees, defence, foreign and external trade – yet simultaneously stonewalls on the central question of completing EMU politically.

Within the EU, the inner circle of the member states of the EMU are so tightly dependent on each other that a core has crystallised, even if only for economic reasons. Therefore, the eurozone countries would, if I may say so, naturally offer themselves for acting as

pace-makers in the process of further integration. On the other hand, however, this same group of countries suffers from a problem that threatens to damage the entire European Project: We, especially those of us in an economically booming Germany, are suppressing the simple fact that the euro was introduced with the expectation and political promise that living standards in *all* member states would converge – whereas, in fact, the complete opposite has come to pass. We suppress the real reason for the lack of a co-operative spirit that is more urgent today than ever before – namely, the fact that no monetary union can in the long run survive in view of an ever-wider divergence in the performances of different national economies and thereby in the living standards of the population in different member states. Apart from the fact that, today, in the wake of an accelerated capitalistic modernisation, we have also to cope with unrest about profound social changes, I consider the anti-European feelings spread by both left- and right-wing populist movements not as a phenomenon which only mirrors the present kind of xenophobic nationalism. These eurosceptic affects and attitudes have different roots that lie in the failure of the European process of integration itself; they emerged independent of the more recent populist inflammation of xenophobic reactions in the wake of immigration. In Italy, for example, euroscepticism provides the sole axis between a left and a right populism, i.e. between ideological camps that are deeply split when it comes to issues of “national identity”. Quite independently of the migration issue, euroscepticism can appeal to the realistic perception that the currency union no longer represents a ‘win-win’ for all members. The south against the north of Europe and *vice versa*: Whilst the “losers” feel badly and unjustly treated, the “winners” ward off the feared demands of the opposing side.

Macron plan

As it transpires, the rigid rules-based system imposed upon the eurozone member states, *without creating compensatory competences and room for flexible joint conduct of affairs*, is an arrangement to the advantage of the economically stronger members. Therefore, the real question to my mind does *not* arise from an undetermined either “for” or “against” Europe”. Underneath this crude polarisation of a “pro” or “con” which goes without any further differentiation, there remains among Europe’s supposed friends a tacit question which so far remains untouched even though it is the key fault-line – namely, whether a currency union operating under sub-optimal conditions should just be made “weatherproof” *against the risk of further speculation*, or whether we should hold fast to the broken promise about *developing economic convergence* in the euro area and therefore develop the monetary union into a pro-active and effective European political union. This promise was once politically linked to the introduction of the EMU. In the proposed reforms from Emmanuel Macron both goals have equal value: On the one hand, progress towards safeguarding the euro with the aid of the well-known proposals for a banking union, a corresponding insolvency regime, a common deposit guarantee for savings and a European Monetary Fund democratically controlled at the EU level. Despite diffuse announcements it is well known that the German government has been blocking any further steps from being taken in this direction – and is resisting all this up to now. But Macron is on the other hand also proposing the establishment of a eurozone budget and – under the heading “European minister of finance” – the creation of democratically-controlled competences for political action at the same level. For the European Union could gain political prowess and renewed popular support only by creating competences and a budget for implementing democratically legitimised

programmes against further economic and social drifting apart among the member states.

Interestingly, this decisive alternative between the goal of stabilising the currency on the one hand and the further-reaching objective of policies aimed at containing and shrinking economic imbalances on the other hand has not yet been put on the table for a wide-ranging political discussion. There is no pro-European Left that comes out for the construction of a Euro Union which is able to play a role at the global level and, thereby, has in sight the far-reaching goals such as an effective clamping down on tax evasion and a far stricter regulation of financial markets. That way, European social democrats would first of all emancipate themselves from the convoluted liberal and neoliberal goals of a vague “centre”. The reason for the decline of social democratic parties is their lack of profile. Nobody knows any longer what they’re needed for. For social democrats no longer dare to take in hand the systematic taming of capitalism at the *very* level at which deregulated markets get out of hand. In making this connection I’m not in particular concerned with the fate of a distinct family of parties – although we should always remember when talking about this that the fate of democracy in Germany is historically more tied up with that of the SPD than with any other political party. My general concern is with the unexplained phenomenon that the established political parties in Europe are unwilling to or fail to forge platforms upon which positions and options vital for the future of Europe are sufficiently differentiated. The upcoming European elections serve as an experimental design in this regard.

On one side, Emmanuel Macron, whose movement so far is not represented in the European Parliament, is trying to break up the current party groups so as to build a clearly *recognisable* pro-European faction. By contrast, all those groups currently represented in the Parliament, with the obvious exception of the anti-EU far right factions, are internally divided even below the actu-

ally required degree of differentiation. Not all the groups allow themselves such a widely-spread balancing act as the EPP which so far is clinging on to Orbán's membership. The mindset and conduct of the CSU-member Manfred Weber who is seeking to become president is typical of the wishy-washiness that goes with a totally ambiguous stance. But there are similar splits running through the liberal, socialist and (not least) leftist groups. With regard to at least a lukewarm commitment to Europe, the Greens might share a more or less clear position. Thus, even inside the Parliament, which is supposed to create majorities for societal interests generalized across national borders, the European Project has obviously lost any sharper contours.

Caught in a trap

If you in the end ask me, not as a citizen but as an academic observer, what my overall assessment is today, I'll have to admit to failing to see any encouraging trends right now. Certainly, economic interests are so unambiguous and, despite Brexit, as powerful as ever that the collapse of the eurozone is unlikely. That implies the answer to my second question: why the eurozone still clings together: Even for the protagonists of a northern euro the risks of separation from the south remain incalculable. And for the corresponding case of a southern state's exit we have seen the test case of the current Italian government that, despite loud and clear declarations during the election campaign, has immediately relented; for one of the obvious consequences of leaving would be unsustainable debts. On the other hand, this assessment is not very comforting either. Let's face it: if the suspected link between the economic drifting apart of the eurozone member economies on the one hand and the strengthening of right-wing populism on the other hand in fact holds, then we're sitting in a trap in which the necessary social and cultural preconditions for a vital and safe democracy face further damage. This negative scenario naturally

cannot count for more than just that. But already common-sense experience tells us that the European integration process is on a dangerous downward curve. You only recognise the point of no return when it's too late. We can only hope that the rejection of Macron's proposed reforms by the German government has not been the *last lost opportunity*.

This text is an abridged version of a speech given at a conference on "New Perspectives for Europe" at Humanities College, Goethe University (Frankfurt), in Bad Homburg (21 September 2018). Translated by David Gow.

Chapter 12

TRUMP, PUTIN, ORBÁN, KACZYŃSKI, MAY, SALVINI... AN OPPORTUNITY FOR EUROPE

BY GUILLAUME DUVAL

Salvini, Orbán, Kaczyński, Trump, Putin, May... the European Union has so many enemies one wonders more and more frequently if it'll survive. Yet these challenges may turn out to be opportunities instead.

Donald Trump, in truth, represents a great stroke of luck for Europe. His repeated casting of doubt over the American military protection granted to the old continent since the end of the second world war is a powerful invitation for us to construct at last a defence and security policy independent from the US. What's more, this is a terrain on which France is well-placed to play a leadership role in Europe. At the same time, Trump's aggressive trade policy vis-à-vis countries showing trade surpluses in their commercial dealings with the US might finally force our German neighbours to accept a change in economic policy in Europe so as to grow domestic demand here to avoid the possibility they are no longer able to sell cars across the Atlantic.

Vladimir Putin's aggression towards the EU does not simply pose a serious geo-strategic threat on its eastern flank but also prevents countries in central and east Europe from pushing their euroscep-

ticism too far and taking head-on west European countries. Moreover, Europe's current very strong dependence on Russian gas is a powerful incentive to join in speeding up the energy transition in order to get rid of that dependence.

Orbán, Kaczyński and co won't push their countries to leave the EU as they fear being left alone with the Russian bear. And the economy of all these countries is today very tightly bound up with that of west Europe. On the other hand, the deep Euroscepticism that is obviously there for the long term in central and east Europe eases a serious difficulty. So far, the Germans have been pretty lukewarm about the idea of a multi-speed Europe and a deeper integration of the eurozone so as not to isolate the Poles. Now they've understood that from now on there's no other solution if they want to pursue European integration.

As for Brexit, it removes from the game the British who have effectively blocked European integration for 40 years by successfully limiting Europe to a single market based on all-out mutual competition and fiscal and social dumping. Their departure, moreover, deprives Germany of a privileged spare partner when it wants to oppose French initiatives.

Finally, Matteo Salvini is forcing the other Europeans, especially the French, to stop burying their heads in the sand as regards to migrants and draw up a proper common policy in this area even if, right now, such a policy is more than likely to turn out to be profoundly unsatisfactory. Equally, Italy's refusal to carry on playing by the stupid budgetary rules imposed on the eurozone by Wolfgang Schäuble and the Eurogroup hawks who have brought the country to a dead-end economically, might call these rules into question because Italy isn't Greece. Indeed, you cannot treat the zone's third biggest economy, founder signatory of the Treaty of Rome, with the same off-handedness and spite as meted out to Greece since 2010.

Last of all, Angela Merkel is profoundly weakened internally. And Germany's economic domination in Europe is no help at all geopolitically: militarily and diplomatically Germany is still a dwarf. When it comes to trade, it cannot cut the mustard alone confronting Donald Trump. After Brexit and the eurosceptical shift in central Europe, Germany has no option but to reach an understanding with France if it wishes to pursue European integration. That won't always be the case but, for now, there can scarcely be any doubt that the great majority of Germans still favour it. If Germany has put European construction at risk with its catastrophic management of the post-2008 crisis this has been involuntary, through ideological blinkeredness and not through any determination to smash the vehicle.

Might Emmanuel Macron be the one, as he proclaims, to seize this bundle of opportunities to finally relaunch European construction? That's clearly desirable since it is he who, as president of the French Republic, could start doing so straight away but nothing is less certain, however. His obsession with advancing the Franco-German tandem is counter-productive because it seriously rubs other Europeans up the wrong way. His 'Jupiter-like' manner of intervening in Europe, as he does in France, raises the hackles of all our neighbours who still fear, after all the havoc wrought over the entire continent by Napoleon Bonaparte, French ambition and imperialism in Europe.

What's more, the way in which he has continued at home the irresponsible policy begun in 2015 by his predecessor on the question of migration – whereby France refused to take its share of welcoming them in – significantly contributed to the turn towards Euroscepticism that took place in Italy. Last but not least, economically and socially he does little more than back the continuation and heightening of the deflationary policies that have prevented Europe from recovering post-2008 and have fed everywhere

Euroscepticism and the rise of the populists. If we are to profit from the present cluster of factors that favour a relaunch of European construction we unfortunately need to find, without delay, another engine...

Chapter 13

A NEW DEAL ON LABOUR MOBILITY

A CONVERSATION WITH DANI RODRIK

What do you think is the crisis of globalisation and how did it come about?

The crisis is the result of a lot of people not being particularly happy about the way that globalisation has gone. I think it's rooted in the highly asymmetric effects that globalisation has had in societies around the world – particularly the advanced democracies, which have seen their underlying social contracts dissolved.

This is the result not just of globalisation but globalisation is an important reason behind changes, really, since the 1980s. And the asymmetry has driven both economic inequality and, also, greater social distance. And I emphasise both the economic and social aspects of this phenomenon: that greater separation from groups that see themselves as beneficiaries of globalisation because their networks are global.

They're mobile. They have the resources and the skills to take advantage of global markets. And there are other groups which view themselves as much more tied in with their local communities, much more dependent on the local economy and without the

skills and networks and resources to take advantage of global economy.

And I think this shows up in many places, particularly where social insurance is weak, in greater inequality between the winners and the losers. But, even when it doesn't show up as greater inequality in economic terms, it almost, always, shows up as greater social distance between these two groups in terms of divergence in values, norms.

Divergence in terms of, sort of, the cognitive maps of these two groups in terms of how they explain the world to themselves and what they think of the other group.

And where do you think, especially, that social distance comes from? I mean does it maybe also result from the upward social mobility of the previous generation? That you have sort of a new mixture of these social strata that now seem to struggle to understand each other?

No, it is rooted both in material structural factors that we have differences in levels of wealth and education and skills across the different strata and it's also rooted in the development of a new kind of narrative about how the world works.

And a new understanding of economics and the relationship between the market and society or the market and the state, which really comes out of the failure of the post-war Keynesian or the perceived failure of the post-war Keynesian intellectual framework, as a result of the crisis of the 1970s, as a perceived crisis of the welfare state.

And what has happened is that the intellectual elite have converged around, a much more market fundamentalist or, if you will, neo-liberal view of the role of markets in society with the difference between the right and the left of this elite, being, essentially limited to whether you want more sweeteners at the margin

or fewer, whether you want more transfers and more social insurance or less. But, fundamentally, there's agreement on a significant role of the market and reduction in the role of the government and social entitlements in general.

And, do you also see a political dimension to this crisis of globalisation? I think it was Mark Blyth who said that, if a political economy operates in the way that, at least, at a relative level, large parts of society feel disadvantaged at some point, then it's not really surprising, it doesn't take a genius to predict some sort of political crisis as well.

Politics is both at the root of the crisis in some sense, but also it's affected by these developments and the deepening of these economic and social cleavages. It's at the root of this, of course, to the extent that these structural trends and the kind of ideological transformation that I've just described induced political elites to engage in a set of new global arrangements.

So, we have the kind of globalisation model we have followed since the 1990s that has been a very, very different model than the pre-1990 model. I think the concrete expressions of that are the formation of the World Trade Organisation, which was a much more ambitious undertaking, reaching much more behind the border in terms of domestic regulations and domestic measures on everything from intellectual property to subsidies and investment measures.

And, on the one side, the other side of this equation, the deepening of financial globalisation, for which, I think, again, the 1990s are a kind of a watershed when financial globalisation or the opening up of capital flows became the norm, rather than the exception.

And, I think, both -- the new WTO model of trade and the financial globalisation model of finance -- were very sharp departures that didn't fall on our laps from the sky. It was, actually, political decisions, i.e. by governments of the centre right or the centre left,

in fact, often it was the centre left, to rewrite tools or deepen globalisation in a particular direction.

And I think many of the consequences of these in terms of the deepening of the economic and social cleavages were, of course, a result of this new model of globalisation. And then, of course, there is always a political response to these divisions.

So, I think the kind of populism we're seeing together today is to an important extent driven by these cleavages and the distrust and the distance from the elites that have been created and the inability of the centrist, mainstream political parties, which are deeply implicated in this process, to really provide an adequate response and, therefore, opening up of the political space for mostly parties on the far right or nativist groups that exploit some of this populist backlash.

And interestingly, in your discussion, especially, about this populist backlash, you often hear that in addition to some of the structural and socio-economic factors that you mentioned, there is a cultural dimension to the backlash taking place. Do you see a cultural backlash towards globalisation?

The extent to which the cultural intermingling has gone too far in the view of many people, even amongst those who might not be economically disadvantaged by it?

There are always latent group differences. And these can be expressed more or less depending on the context and what is being rendered salient. My view is that the underlying shocks of the last two or three decades, in other words, what has made the difference, has been mostly of an economic nature and rooted in economic anxieties and in economic inequality. And the accompanying differences in the social status and perceived social status of different groups, vis-a-vis the elites, vis-a-vis the world economy in general.

But then in the political sphere these anxieties and these divergences can be expressed in a number of different ways. And I think what political institutions and political systems do is, essentially, provide a supply of political entrepreneurs and groups that produce various framings, various explanations of what the source of the problem is and, therefore, what the remedy is going to be.

I think what is striking in recent years and the one thing that I had not really foreseen is how successful the right has been, how successful the right-wing populists have been in terms of being able to provide a cultural framing, a cultural narrative, an ethno-nationalist narrative to provide an explanation for what is going on.

So, if you're suffering, it's because the rules of the game have favoured disproportionately, you know, minorities or immigrants and your problems have not been taken care of. So, it's a way of framing the problems in a cultural or nativist kind of a way. One can also frame these things in terms of a more traditional leftist social class that the problem really lies with the rules that large corporations, financial institutions and the wealthy have imposed.

And, therefore, the remedy is not in ethno-nationalism and kicking the foreigners out. The remedy is simply pursuing more inclusive policies. So, that emphasises a very different kind of struggle, a very different policy agenda. There are some left-wing populists around, but I think mostly what gets our attention are the right-wing nativists.

And to get back to the question you asked, I mean, clearly there is a very strong cultural element in what we're seeing but I don't see that cultural element as the deep cause here. Not to under-emphasise the importance of racism in the United States or anti-immigrant sentiment in Europe. But I think these are always there somewhere below the surface and we cannot explain a change with a constant.

And I think what has changed much more visibly is the economic context.

Quite interestingly, these developments have been the result of political decisions taken in the 1990s or some of them earlier, as you mentioned. Many people seem to perceive that this has unleashed a beast that is now out of control. The idea that politics is no longer in control and cannot effect a positive change or change in any shape or form is very damaging, because that seems to strengthen tendencies to go for autocratic leaders be it in the United States or elsewhere.

How do you see these political levers? Are they still there? Before we get to the sort of policies that would be conducive to shaping globalisation going forward, do you still think that politics, in general, still has the power to affect that kind of change?

Oh, very much so. I think it's a myth that technological change, improved communication and all that have undercut the power of the nation state or the ability of politicians to do anything to such an extent that, you know, we are really powerless against these trends.

I think this was, basically, the line that, more or less, the centre left took from the 1990s onwards. This was, sort of, the line of Tony Blair, that globalisation is upon us and the best that we can do is just adjust and anybody who is saying the winds of change can be resisted doesn't know what they're talking about.

I think this is completely wrong. I mean I think, as I was saying before, these rules of globalisation are heavily dependent on the choices that elites made. Financial globalisation runs on a financial system that's underpinned by regulations and legal arrangements that are, for the most part, maintained by the nation state.

When things go wrong in finance, the first thing that happens is

banks go, you know, to their governments for help and without those governments, for example, in the last financial crisis, the effects would have been many, many times worse. And, of course, the rules of globalisation and the particular direction that we have gone in globalisation, privileging pharmaceutical companies or multi-national corporations, let's say over labour or consumer groups, is a very deliberate choice.

And this is not something that cannot be altered or corrected or rebalanced. I think there has been a political interest in spreading this myth of powerlessness. Because often, of course, businesses want to tell governments that, "Look, you can't do anything. You have to reduce regulations and our taxes, because we're competing in the global economy and we have to compete with low taxes and the regulations elsewhere. And otherwise we'll go."

And, oddly enough, I think, many governments, as I was saying, including centre left governments, have hidden behind globalisation, basically, saying: "Look, we have no choice. We have to do this." And I think the language around globalisation has in some ways has magnified the backlash against it over time, because it wasn't just the right who kept saying: "Look, we need to reduce taxes. We need to reduce regulation so that we can compete in the global economy."

All the things that the left wanted to say were that they were being motivated by the needs of globalisation too. So, the left was saying, "We need to invest in infrastructure. We need to invest in education, because that's what we need to do to compete in the global economy." It seemed whether you took the right variant or the left variant, it seemed that globalisation was this thing that was driving what is it that we have to do, as opposed to globalisation, in principle, being a *means* to what is it that we want to do.

So, it's not an end. And because it was taken as this thing that cannot be changed and that to which we're all subject, essentially,

we've aggravated in ordinary people's minds the pressures or the ills that globalisation brings. And we've completely underestimated the degree to which it still is under our own control.

I couldn't agree more with that. I think the then German chancellor, Gerhard Schröder put it all in that one sentence, when he said: "Either we're reforming or we're being reformed." So, it's just that whole notion that you have to adjust domestically to whatever is out there, that is extraneously created and you can't do anything about it.

So, where do you see these political levers? Are they still at a nation state level? Are they on a supranational level? Or is it necessarily a combination of both?

No, I think it's mostly in the nation state. Even in those areas where the pressures of globalisation and international mobile capital and finance are very strong, such as the race to the bottom in corporate taxation, for example: even there, the nation state has a significant amount of rule. For example, you don't have to negotiate with other countries to change your tax regime and put it on a basis of sales in a particular jurisdiction.

So, you can tax, for example, corporations in proportion to their sales that they undertake in your own jurisdiction. And, therefore, the location of the corporation in its subsidiaries is no longer an issue. And so, even where the pressures from globalisation are fairly strong and where we do see the downward race to the bottom in terms of reducing corporate taxes, the fact is that we are unable to tax corporations largely as a deliberate choice, rather than an inability or a lack of imagination on our part.

But, of course, in many other areas, I think, it's even more the case. So, I think, the United States has still significant room for improving its social insurance policies. And nothing in globalisation prevents the United States from having health insurance for everybody, for having health insurance that is completely portable,

for having active labour market policies or unemployment insurances or a minimum wage that pays a decent living wage for everybody. Similarly, a lot of other things that would increase jobs and living standards such as a significant ramping up of spending on infrastructure. And the United States could expand on a lot of things that it already does under the radar screen, in terms of industrial policies and restructuring policies and there's a lot more that could be done with those.

And certainly, there's a lot more room for progressivity in income taxes and in introducing wealth taxes before you get into the problem of skilled and wealthy people running away to the Cayman Islands. So, most of the agenda really has to be at the national level and I do think that there are things to fix in our trade agreements and the WTO as well. But I think, in some sense, that's not the first priority.

Okay. And if you put yourself in the shoes of policymakers now. If you were now tasked with reforming globalisation and putting it on a more sustainable footing, what would be your agenda? What would be your top priorities?

With respect to globalisation, per se, I think, the way that I see the main line of reform, I would express it as, essentially, a kind of rebalancing. I don't like posing the problem in terms of a reversal in globalisation. So, I don't think the issue has really been slowing down or reversing or going back on globalisation.

Once you put the debate in terms of pro- versus anti-globalisation, I think, you miss where the real issues are. The problem with our existing model isn't that we have too much globalisation, the problem is that we have too much globalisation of the kind that particular interest groups have been successful in getting, while other interests have been left out.

So, we have a globalisation that disproportionately privileges multinational corporations, pharmaceutical companies, financial

institutions, high-tech companies. And labour and environmental groups and many consumer groups just feel left out. So, I think, the issue is really rebalancing. What does that mean?

It means paying a lot more attention to the kinds of issues that labour cares about and paying a little bit less attention to the issues that capital cares about. So, I think we should take, for example, the ISDS (investor-state dispute settlement) investor rights in trade agreements. Frankly, it's an abomination. It should not be there. And I think it should be taken out.

I think we have gone way too far in terms of intellectual property rights protectionism and this is one of the areas where corporations lobby the most when they're supporting trade agreements. Because intellectual property rights protection is one of the main benefits. But it is not properly a trade arena.

The thing we ought to be discussing in trade, essentially, are redistribution from lower income countries through to rich countries. And, I think, so, trade agreements are not the right domain for discussing that. I think we should have a lot less behind the border harmonisation.

The WTO was the transition to a new model where we said: "We're going to try to target all transactions brought about through international trade investment even if those are regulations behind the border." And I think once you're starting to go into regulations behind the border, you're really reaching into deeply political territory.

And one company's trade restriction is another social group's protection of jobs or health and safety standards or embodiment of their norms with respect to how we should be treating the environment, for example. And so, it's very dangerous for trade regime officials to start thinking about regulatory diversity in the world economy as a barrier to trade.

Everything is a non-tariff trade barrier, by definition?

That's right. It becomes a non-tariff barrier. So, I think, those are all areas where I think we should be doing a lot less. There are areas where globalisation or global governance hasn't gone far enough. And, I think, there are areas where we should do a lot more: corporate tax harmonisation and much greater transparency in global banking is one such area.

So, international coordination of corporate tax policies and much greater exchange of bank and other related information for tax purposes, that's an area where there are still big gains from improving global rules. And another area is probably the area where the greatest gains from globalisation are to be had, that we have not explored sufficiently, is a global regime for temporary labour mobility.

In goods and capital, global markets are already fairly free. So, we're really trying to eke out very tiny efficiency gains from further reductions in barriers like border barriers. Whereas in labour mobility, at first the barriers are huge and thus the economic gains are extremely large. That's also an area where there are potential concerns about what the distribution implications would be from having workers from low-income countries given greater access to labour markets in the advanced countries.

But somewhat paradoxically, the economics of international labour mobility tells us that, in fact, if you compare the overall economic gains to the redistributive effects, they are much, much larger in the area of labour mobility than when we're negotiating about barriers to trade in goods or in financial services or capital.

What that means is that we, basically, have much greater ability to redistribute those gains because the net gains, the aggregates are so large in relation to the potential redistribution that would take place. So, our possibility for doing what is huge, superior trade reforms, which is to say, you reduce barriers without leaving

anybody, necessarily, worse off by undertaking the compensations that are required: we have much greater, in principle, ability or potential to do that in labour markets than we do in our traditional negotiating domains.

But that, obviously, runs the danger of running up against the anti-immigrant sentiments that are sweeping across the political landscape?

The deep problem there is that we've never been able to separate in people's minds economic mobility from immigration. And, of course, there's always a concern that a temporary work visa programme, allowing people to work for three to five years, say, in a host economy, necessarily will turn into an expanded immigration programme.

But I think we need to separate out different kinds of programmes and different dimensions of people crossing borders. We need to separate the issue of refugees, which is, fundamentally, a human rights issue, from the issue of migration, which is, fundamentally, a question about how much diversity do we want?

How large a population do we want? And what kind of policy are we going to follow in terms of whether we want more family reunification? Do we want more skilled immigrants? That's really, sort of, very much an economic, social political discussion that every country has to sort out for itself.

Third, we just have an issue of worker mobility, which is, basically, people coming to work under the labour standards of the host country, but with no claims to eventual citizenship. And, I think, you know, the gains from that last domain of labour market economics (labour mobility) are so large that it would really be a pity if we kept that domain hostage to all the problems that we encounter when we talk about immigration policies.

And, I think, that's an area where the left has to be able to get over

its hang up that the human rights issues are so large that any temporary work visa programme that did not, at some level, provide a path to citizenship would be a fundamental violation of human rights.

And, I think, applying that standard really backfires, because we're preventing a lot of people in the developing countries from substantially increasing their economic livelihoods for themselves and for their families and for their countries back home, by applying a standard that is not going to be met in practice anyhow.

And could that, also, be a two-way benefit? So, obviously, if these migrants can return after three to five years to their home countries, they will probably transfer quite significant skills and would be able to apply those in their home economies as well. So, could there be a developmental aspect?

Yes, I've written up a proposal along these lines in several places but encouraging return would be a very big part of this proposal. Now, of course, people say: "Well, it's very difficult to do that." It's true. But I think there are a combination of incentives – both carrots and sticks – that would be worth experimenting with. And the incentives ought to apply to the economic migrants themselves through an incentive to return.

And you can do that by, essentially, for example, just having enforced saving programmes where part of their incomes are held in escrow accounts and are not returned until the migrant goes back home. But there also have to be carrots and sticks for the home governments of the migrants.

One idea I proposed is that if each home country, each sending country, has a given quota and that the renewal of the quota would be conditional or subject to a large enough proportion of each wave of migrants returning to their home country. Now, for a home or a sending government, that gives a very strong incentive

to find ways in which to attract their economic migrants back home because otherwise they would lose out.

So, they would be able to send fewer people in the next wave, in the next round. And, presumably, lots of people are waiting in a queue and that would not be a very popular thing. So, again, if you set the right incentives, I can easily see how sending governments would be competing to bring their migrants back home.

And it would be nice for a change to see governments competing to bring their people back home as opposed to competing for tax and subsidiaries for foreign investors.

Yes, that could be an, especially, important policy for Europe if you look at the migration coming from Africa driven by economic despair, which is unlikely to go down naturally any time soon.

Yes, this is going to happen whether it happens formally or illegally under the radar screen. And the benefits will go both to the migrants themselves, but also, of course, to the host economies, especially in Europe with demographic change and shrinking labour forces. That's potentially a very important source of economic gain in the host economy with the right kind of complementary programmes in place.

But, as you say, these pressures are going to be there. And are not going to disappear. And we have a chance to regularise some of these flows. And so, countries that care about their human rights and democracy record can say with a straight face: "Look, we're going to be tough on illegal migration, on people crossing the borders, illegally, for economic reasons, because we already have this programme that is a formalised programme of temporary work permits." So, I think, that makes these countries look better.

Okay. Very interesting policy idea, which we will try to popularise here in Europe.

Chapter 14

RESTORING SOCIAL INVESTMENT IS KEY

BY ROBERT KUTTNER

Why is democracy under siege throughout the West? How much of the story is cultural or racial, and how much is economic? And can the slide into authoritarianism be reversed? I think it can.

In the course of researching these issues, I took a deeper look at the remarkable three decades after World War II, a period when the economy delivered for ordinary people and there was broad support for democracy. That era was unique in two key respects.

First, the economy not only grew at record rates for peacetime, but it also became more equal. Second—and not coincidentally—this was a period when raw capitalism was tightly regulated, on both sides of the Atlantic, economically and politically.

Banking was very limited in what products it could offer, and at what prices. It was almost like a public utility. There were no exotic securities like credit derivatives to deliver exorbitant profits and put the whole economy at risk. Globally, there were fixed exchange rates and capital controls, so bankers could not make bets against currencies and entire economies.

Organized labor was empowered. Unions were accepted as legiti-

mate social partners and had substantial influence. This was true in both Europe and America.

Government played a leading role in the postwar reconstruction and in other public investments. This mixed system worked better than any version of capitalism before or since. Not surprisingly, the far right had no support.

Glorious thirty

My generation grew up thinking of that social bargain as the new normal. But in fact it was exceptional. In a capitalist economy, owners of capital ordinarily enjoy an extra measure of political power. In the postwar era, that power was suppressed in the broader public interest.

The postwar social contract came about via a harmonious convergence of events, insights, leadership and politics. Western leaders were determined not to repeat the aftermath of the First World War. In that dismal period, there was no recovery program, speculative finance ran wild, austerity crushed growth, unemployment reached socially unbearable levels—and the result was Hitler and a second world war.

In the Depression and World War II, both the far right and the free-market right had been discredited by events. After the Great Crash of 1929, and the twin successes of the New Deal and the wartime mobilization, no serious person could contend that markets did best when left alone. The political influence of finance had been weakened, while the influence of labor and of the activist democratic state had been strengthened.

At Bretton Woods in 1944, the architects of the new international monetary and trading system were determined to create a kind of managed globalism. The new global economic order allowed commerce to resume but preserved plenty of space

for each nation to run well-regulated, full-employment economies.

In July 1945, when Clement Attlee became Britain's first Labour prime minister with a healthy working majority in Parliament, the UK's war debt was over 240 percent of GDP. What did Attlee do? He did not pursue an austerity program to reassure the country's creditors. On the contrary, he doubled down on public investment and built a welfare state. He could do this because the rules of that era precluded a speculative run against the pound.

A third of a century later, when Francois Mitterrand became the first Socialist President of France in 1981, he also attempted a bold recovery program with lots of public investment. But the rules of the global system had changed, laissez-faire finance was back with a vengeance, and speculators pummelled the French franc. Within two years, Mitterrand had to reverse course and pursue austerity.

Hyper-globalization

In the years since then, political and financial elites have redefined trade agreements to mean not just reciprocal cuts in tariffs but broader changes in global rules to make it easier for banks and corporations to evade national regulation.

Laissez-faire, discredited and marginalized after 1929, got another turn at bat(ing). Hyper-globalization was a key instrument. And that reversion had economic and ultimately political consequences.

The broadly shared prosperity and well-managed markets of the postwar boom evaporated. Increasingly, the gains only went to the top and the livelihoods of the rest became more and more precarious. Those who suffered the displacements of globalization were looked down on as economic losers.

It took a while for economic resentment to reach boiling point.

Two factors supercharged the political reaction. One was the collapse of 2008—the result of the same anything-goes financial antics that were supposedly ended in the 1930s and 1940s, but resurrected in the 1980s and 1990s.

In the aftermath of the collapse, economic displacement intensified. In Europe, austerity policies added to the misery. And then, pouring oil on the flames, economically conservative but socially liberal elites tried to pursue generous policies towards immigrants and refugees.

The new globalists, epitomized by the annual Davos meetings, failed to grasp that when you deprive the locals of their livelihoods, it is asking a lot to expect them to open their hearts and their villages to strangers. In one European country after another, neo-fascist parties became the second or third largest.

Race card

People not only turned against governing parties; they started turning against democracy itself—a terrible echo of the 1920s, the very catastrophe that the architects of the postwar order had hoped to avoid.

In America, race and immigration played a comparable role. When the economy was rock solid and prosperity broadly shared in the 1960s, it was possible for the civil rights movement to make major gains with the support of substantial numbers of whites. In Britain, the Brexit vote was a similar mash-up of economic frustrations and cultural resentments.

Today, as police killings of young black men attest, the struggle for racial justice is not over. But downwardly mobile whites are far from sympathetic. Figures like Donald Trump and his strategist Steven Bannon succeeded in racializing economic grievances.

Bannon once told me that he hoped Democrats would talk about race every day.

In 2016, Democrats played right into the trap. The campaign of Hillary Clinton seemed one part coziness with Wall Street and one part identity politics. This was not a winning recipe, especially in the economically depressed heartland. Trump succeeded in depicting the globalists not only as people who don't care about your job, but the very people who want to take away your guns, abort unborn babies, disparage you as losers, and snicker at your religion. Cultural, racial and economic grievances blurred.

The grand bargain of the postwar era enjoyed political tailwinds. Today, we face political headwinds. Is there a solution? Can we expect more and more disaffected and displaced citizens to turn to neo-fascists as we watch our economy divide and our democracy collapse? Dare one be an optimist?

Social investment

In 1939 and 1940, the Great Depression was over, but unemployment seemed stuck at well over 14 percent, and economists worried that this was the best the economy could do. Machines were displacing human workers.

Then came the war, which was catastrophic for Europe, but provided a massive recovery program for America, driven by immense levels of public investment funded by surtaxes on the wealthy and war bonds pegged at low interest rates. In less than a year, US unemployment dropped to about two percent.

What we need today is the same kind of social investment program, but without the war.

There is a European variant and an American one. That sort of investment would create lots of good jobs, restore economic possibilities, and would demonstrate that government is capable of

delivering for ordinary people. The twin threats to democracy and a decent society are dire—but still reversible.

One can even imagine the slogans that need to be taken back from the far right: Make America Great Again, Make Europe Great Again.

Chapter 15

OVERCOMING CRISIS OF GLOBALISATION: REBUILD POLITICS, RETHINK INTERNATIONAL COOPERATION

A CONVERSATION WITH NGAIRE WOODS

Recently there's been a lot of talk about globalisation being pushed back. How would you characterise the situation?

I think there was always a deal that permitted globalisation to go ahead. If you think about the 1950s and '60s, governments promised their citizens that they would open up the borders but they would protect their citizens. So you saw trade liberalisation take place, but against a background of some quite strong protections. We'll make sure you've got a house, health, good education for your kids, and we're going to open up trade and then eventually capital flows as well.

And that period was followed by really rapid globalisation, of throwing open the borders, particularly capital and the international monetary system, so that suddenly a lot of societies, a lot of economies, seemed to be either enjoying a flood of money or suffering from an absolute dearth of it. So we started to see more and more financial crises and more and more violent financial crises, if we think about Latin America and East Asia and so forth. And the biggest of all was of course the global financial crisis in 2008, which brought globalisation to a stop, and within six

months we saw a massive shrinking of global capital flows and a seizure of global trade.

So, to me that was kind of a stop. It was a crash stop for globalisation, which required everyone to sit back and go, “Well, what is it? What is it and what are its impacts?” And, of course, the costs of the global financial crisis, the sense of injustice and unfairness that it’s wrought in societies around the world, which has partly been about government responses, governments having to bail out the banks but also then having to suffer the consequences of this crash. And that’s taken even the wealthiest countries real effort, and it’s caused real pain, and those people who have suffered that pain have a vote. And now they’re voting for almost anyone that promises to roll back globalisation.

So there has been a financial crisis, there have been costs, but there’s also a cultural dimension to this kind of rejection. I mean if you look at the policies, say, of Donald Trump or what Brexit promises the UK, it is hardly any improvement for the people who might feel pinched by what happened in the financial crisis. So, on top of what is happening in economic reality, in socio-economic reality, is there also a crisis of a presumption of openness? So that people just feel they don’t want to be open any more, that slogans such as “taking back control” or “America First” truly resonate with these people beyond what their real-life socio-economic grievances might be?

Look, I think people look at governments and see that governments can do things that they themselves have no control over, like trade agreements with other countries, like rules of taxation, like working out whether Google and Starbucks and Amazon are allowed to operate within your boundaries. These are the things that governments do that are a long way away from people, but that people feel their effects.

And in the decade since the global financial crisis a lot of people

have started feeling the negative effects of all of that, of what happens after a crisis, when government spending on things like roads, houses, hospitals starts going down, getting ratcheted back. What happens when incomes and certain sectors start declining and jobs become more precarious. Some of it's offshoring, some of it's the introduction of technology.

But people in that anxious place ask in my view one question of the politicians that they have the choice to vote for. They say: "Which one of these guys or women, which one is on my side? Which one is unequivocally on my side?" And I think they're voting today, whether it's in Mexico, Brazil, Germany, Italy, Britain, France, they're voting today on that issue, after 30 years of governments telling them, "Don't worry. We're going to manage globalisation inclusively. We're going to manage globalisation so that it's safe for all. We're going to manage globalisation to bring prosperity to everybody."

There's been a series of messages. Every G20 has had its own slogan, which is something around managing globalisation to make sure that it delivers something to everybody, and I think mostly everybody feels that their governments have failed. And so to me it's not so much cultural as saying:, "Who is on my side?" Which one of these politicians is prepared to stand up and say, "No matter what..." For example with Trump, "He's going to be on my side."

And Trump did that very effectively in his election campaign. He said: "Multinationals? Don't worry. I'm going to tell them that if they don't put the factory in your town, we're going to do terrible things to them. I'm on your side. I'm going to protect your job. I'm going to use steel and aluminium tariffs to protect your job." Of course, we know that that's not without expense – for every job in the steel and aluminium sector he's protecting there are 16 jobs being lost in the United States in other sectors. We know that, but the message to those workers is unequivocal: I'm on your side.

And I think whether it's in Germany or Brazil or the election that just took place in Mexico, that's what people are asking.

Do you see any sort of variations in that price of globalisation? I mean you mentioned Germany, for instance. Germany is in my view an interesting case, because if you look at the economic data, Germany hasn't suffered much from the crisis. So there was a sharp fall but a quick recovery, and if you look at all the major indicators, GDP development, unemployment, the country's never had it so good. But at the same time, the mood is – I wouldn't say quite rotten, but the mood is very, very bad, because there's a lack of trust in the system.

If you look at certain polls it comes out that people don't believe in this basic promise that the next generation will be just that slightly bit better off than the previous generation. So the mood, then, even in the countries that haven't suffered any sort of real cutbacks – I mean in Britain it's clear there was a long period of austerity, public services cut through the bone, you could understand that. But none of this actually happened in Germany, but at the same time there there's still the feeling it can only get worse.

Well, except that in Germany's election a majority of people were still voting for the establishment political parties. There's always been a minority of ardent nationalists and a minority of ardent communists or ardent left-wingers, but if you ask the question: "Are most people voting for establishment parties?" that's truer still for Germany than it is in any of Europe's recent elections.

In Italy there were very small votes for establishment parties. In France, if you look at the main centre left, centre right, it got, what? 10% or less of the vote. So I think you're right about Germany, and I think that's why, as it were, the establishment might have lost trust, but it's still holding on.

Yes, although the direction of travel, unfortunately, is the same.

I mean if you look at the last results, the SPD, the Social Democratic Party, it had the worst result ever. The recent polling also for the conservatives after recent rows about immigration, is also quite poor... I mean Germany is maybe a specific case because of the specific history as well, but the direction of travel seems to be similar.

But, given this sort of push back that we're experiencing, what kind of effects are you seeing? What do you think are short-term effects and the long-term effects, if you can't actually change the direction of travel?

Well, I would go right to ask what's the essence of this moment that we're living through? Because I think there's a bigger shift that this is part of. I think that Western Europe, the United States, Britain, the sort of Western capitalist economies are being led by people whose mindset is fixed on an idea of free market completion. And they are now finding themselves having to share power at the global level with countries, not just China but Russia and countries in the Gulf, whose mindset is commerce, but much more robustly mercantilist, long-term, strategic commerce. And I think those two views have not yet found a comfortable accommodation.

So I think that in the United States at the moment we're watching some US policy makers arguing vigorously that China should not be permitted to invest in the tech sector in the United States. And one could ask: "Can American investors invest in the tech sector in China?" Or during the Eurozone crisis, European countries, Portugal sold its electricity grid to China. Greece leased in a long-term way one of Europe's largest ports, Piraeus port, to a Chinese para-statal.

Would European companies and European governments have been permitted to purchase China's ports, or China's electricity grid, or infrastructure? I think the answer is no, and I don't say

that critically, I just say in a world where the new patterns of investment and trade are going to be quite powerfully mercantilist and based on long-term strategic interests, how long are we going to have to wait before Europeans and Americans change their mindset to understand that, and start accommodating in sensible ways? I think what we're seeing is the sharp end of the mindset change in the United States, which is saying: "Hold on. This isn't right. Actually we're being taken for a ride here."

What we need to see the United States do instead of shooting from the hip is to say: "Well, where do our long-term strategic interests lie, and then how can we forge an accommodation with China, for example, that is good for both countries?" Because they do have long-term interests, but at the moment there's a real risk that they will clash over short-term interests, and that both the United States and Europeans will see this as a clash of values, whereas actually, in my view, it's a clash of short-term interests.

So, if I understand you correctly it is basically a crisis of Anglo-Saxon capitalism, because suddenly there's a realisation ownership really matters. Because for a long time in publicly traded companies, whatever, people did not care very much who were the actual owners. That was again slightly different in Rhenish capitalism countries. I mean, Volkswagen in Germany, for instance, there's even a law protecting ownership, right? And also, different forms of corporate governance are also ways to protect against that.

So, as you rightly said, Trump is now at the very sharp end, because suddenly even cars is about national security. So the argument is just basically: we take control of how it's being managed, because in a given framework the only level that I know is about national security. But do you think there's a general shift that because of the necessity for more long-term strategy and more long-term strategic thinking about where an economy is moving towards, that this sort of realisation comes

that now ownership and governance and such things matter much more than we gave credit for?

Yes, I think there's a huge correction going on in capitalism, that if we look at the deepest thinkers about capitalism, whether it was Adam Smith or anyone after that, none of them were blind believers in simply leaving everything to the market. And I think the world went too far that way, and so the excesses of capitalism, which were so exposed with the global financial crisis, the excessive cost to the public purse and the general population of permitting a small group to gamble and leverage against an implicit public guarantee, that's all been exposed.

And so too the short-termism of capitalism, which even the world's great capitalist institutions are now rallying to say: "Hey, capitalism's become too short-term. It does matter who owns and who takes long-term decisions." Because if you've got CEOs with very short tenure, less than four years, shares which are being traded several times a day, boards which are playing a sort of token function, then actually the governance of some of the world's largest companies does not look strategic or long-term or robust.

So I think capitalism has got its own crisis, and then alongside that it's now competing with a very different model of prosperity, of economic growth and of international relations. And so, if we look at the Chinese model of investment and infrastructure building, what we can see emerging is a new silk road, which runs roughly from Egypt right down to Indonesia. And it's a silk road which is built not on free trade agreements, it's not built on IPOs and shared share markets, it's built on real roads, dams, electricity grids, industrial policy mixing with huge infrastructure investments, which are permitting a really tight new trend bloc to emerge.

And on top of that it's going to see that the most dynamic parts

of the economy, especially technology, obviously they're even suffering from a lack of competition because they have a tendency towards monopoly. And then maybe the strategic decisions are not being taken at all by governments because monopoly companies have such a big power, and they can basically determine which direction they want to take a whole sector.

I think that poses another challenge. I think in the technology sector there's tons of start-ups and they're doing really innovative work, and there's lots of competition. I think the point that you're making is actually about control of data, and that what we're seeing is a kind of monopolistic ownership of data at the very top of the tech business system, and that is of concern.

So all businesses are now relying on data and technology, and in Europe they're relying pretty much on Google, Amazon, Microsoft, Apple, on four tech giants that are American. And if they want an alternative to that then it's Alibaba, Tencent, so it's China. If you talk to Google, every top engineer they recruit gets a competing offer from Alibaba. Europe's not there in that competition, so we should step back and say: "Is that a strategic sector?" I would argue it is a strategic sector. We should be thinking about what the European long-term strategy is, for Britain, for Europe, for other countries. And certainly the data regulation that the European Union is bringing in is one step towards that. I think that issue needs a lot more thought.

And it's interesting, especially in starts-ups, it seems to me that a lot of founders, especially with traditional sort of VC, angel Investments, VC-funded enterprise, the exit strategy has been thought right at the beginning. So if you're one of the big fours you just basically see what is happening there, and if you see any sort of competition that could be meaningful competition you should buy the company and swallow it up so they're basically shoring up your market position. But you're obviously

right that in every part, Spotify, whatever it is, there is no European major player in this.

Okay, let's come to potential solutions. So we've talked a lot about how capitalism is changing, and obviously being able to stabilise political systems, regaining trust in existing political systems, will to a large extent also depend on how policy makers will be able to manage these transitions. So from a European point of view, where would your key priorities lie? You already mentioned that there is a need for much more strategic economic policy making. So how would you start going about this?

Well, I would actually start with the politics. Why are people so disenchanted with their political establishment? Why is it that they will vote for those who promise to smash it rather than those who promise to do better within it? Because that's a kind of first order point, because if you can't get to that point you're not going to be able to do anything. And to me that requires coming right back to basics.

So we're sitting in Britain and, if you ask, "Well, what are the real concerns of most voters?" there are some pretty core concerns. First would be housing, and the lack of housing that's affordable and that's decent. Most of the population is forced into a rental sector, which is really, really sub-standard accommodation, and that's of real concern to people. Housing, health, education, jobs. Perhaps jobs I would put up there with housing. Jobs that are decently paid, that permit you to work hard and make more money so your kids can have a better education and a better house than you had. That's what most people want, and I think governments have to come back to that.

Now, I think governments are starting to recognise that, so last year if you looked at what Theresa May and Jeremy Corbyn were each advocating, both were advocating a huge increase in house

building in Britain. Both were advocating going after and regulating utilities better, like starting to recognise that it's these day to day things that really matter to people, and that we really need a refurb, a reset.

Just after the second world war Britain was building a couple of hundred thousand houses a year, and ensuring that every British family had a decent house. That's long since stopped, and there's now a very serious housing crisis that's been in the making for about 20 years. So they have to start there. There aren't magic bullets to this. Governments have to get some basics right, and to me that starts with thinking about how to respond to the basic needs of their own population, and that might mean politically, that might mean going quite local. And I do think that the new politics is going to be a politics which is more local, because that's the level at which people engage and trust more.

And do you think – obviously in Britain this sort of housing strategy has been tried for 20 years, and it's obviously the temptation with long-term investment if there are budgetary pressures, It's easier to kick those kind of investments into the long grass than anything else. So it seems to me that even in Germany where the economic policy fetish is the 'black zero' (balanced budget), even though the capital stock, the public capital stock, is depreciating. So there needs to be some rethinking of what economic policy is really for.

And do you think that if you really were able to address these underlying issues, that other issues that are on the agenda might be proxy issues, such as migration? So would for instance, the opinion polls identify changes in attitude towards migration, in your view, if there was an effective strategy to address some of the more underlying socio-economic grievances?

I think there's both things at play. I think most humans are suspi-

cious of people different to them, and that's true throughout history. If you look at America and each wave of immigrants, each wave of immigrants had a huge discrimination against them. The Polish, the Italians, the Irish, the Chinese – as they arrived there would be a wave of discrimination and then they would become the second generation and be discriminating against the next wave of immigrants. And I think we've got to recognise that people are suspicious of people they don't know, but that there's lots of ways that societies can bridge, can shorten the time that that suspicion lasts.

Public spaces are incredibly important. Public housing is incredibly important. Singapore does a really interesting thing of housing people in mixed communities, so they get to know each other and their fear of each other lessens, and they become a more cohesive society. So we can think proactively about how people mix in our societies, but I think there is a tipping point. If a society becomes overwhelmed by people who have different rules, a different culture, different behaviour, they will want to reject that group.

There's a different phenomenon, though, that I think we've seen in Europe in the last couple of years, which is that at just the time that public sector budgets have been cut, and so people are feeling that the schools are overcrowded, that housing is more of a problem, that they're waiting longer for a hospital appointment, that that makes them very easy targets for politicians who want to say: "The reason you're suffering all those things is because immigrants are taking your jobs, your houses, your hospital places and your school places."

And we've done some research in the School. We had a researcher looking at accident and emergency wards, just looking at whether it was true that a larger number of immigrants increased the wait in A&E, and there was absolutely no correlation. But of course the facts on the ground are not always what shapes the popular

perception. Politicians play a huge role in framing the narrative that people either pick up or don't.

So for me it's two things. People, communities, will always be made more vulnerable to anti-immigrant rhetoric if they themselves are feeling as though they're losing out. But even in situations where they're not losing out there's always a human element – it takes time for human beings to accept things that are different to them.

Yes, and if you finish at the European level, the crisis of the acceptance of European integration is interesting in a sense, because it's based on different ideas in different areas. I mean in the North it's the wrong but wider perception that there's a profligate South that's living off the North. And in the South it's the opposite, that they're being basically eroded; the democratic system is being eroded because basically policy is decided elsewhere for them. And in Eastern Europe, particularly in areas that haven't seen much immigration in recent decades, people are struggling to accept the idea that has been more widespread in other countries that societies are becoming multi-cultural, and more diverse.

And we're having European elections next year, so policy makers trying to figure out a policy agenda for how to improve things in the European Union in the next five-year term. So where would you basically start from a European level? I mean going along with the local, hopefully.

Yes. So I think there's a core of European integrationists who have a strong set of values and who believe that the path forward is more and more integration, and that if they just preach their values more strongly that others will be changed by those values and come to accept them, and also accept with that a rationale for deeper integration. And I respect the view. I think that European integration from Monnet forwards has been an extraordinary

thing, and I respect the values those people have. But I just do not think that that's the way that the world is moving, and therefore I think that it's dangerous to hold fast to that approach to the European Union.

I think that Europe is really struggling with deep fault lines at the moment. So there's the creditor versus debtor fault line, the wealthy North and the indebted South. The indebted South, many of whom have sold their national treasures after the global financial crisis, which in their view was not a crisis of their own making, so that's really one huge division. I think there's a real division emerging between as it were the East and West of Europe on values, and where at the core, in France and Germany, people believe that Poland, Hungary, probably Austria are now way off track on the *Acquis Communautaire*; they're way off track on the core European values. Which poses a question of what those values mean, like is there a European Union founded on a common set of values or have we now seen that break apart?

I think there are other divides across Europe, countries struggling with the immigration crisis, and they're all at different levels on that. So some are really feeling it sharply and others not so sharply, and there's an inability to come to a common agreement on it. So in my view the future for Europe means that actually there's the saying that you have to *reculer pour mieux sauter*, you've got to step back in order to jump forwards. And I actually think Europe's there. Europe's going to have to step back a little bit to gain the trust of its citizens. Each government in Europe is going to have to regain the trust of their citizens in order for the European project to be able to move forward with trusted governments taking the European project forward.

So I think we're moving into a phase where every European democracy has to consolidate and reinvent itself, and on those terms has to re-imagine, again, what the European Union community might look like.

So your answer to how to address the crisis of globalisation would be rebuild politics from the bottom up?

It's two things. Rebuild politics from the bottom up, and rethink international cooperation in terms of long-term strategic interests instead of values. Since the 1940s Europe and others have preached the values of liberal democracy and said: "The whole world will cooperate when the whole world is liberal democratic." That hasn't worked. They haven't persuaded other countries to adopt their own model, and I don't think they will. So now we have to move into a different model, which is mutual accommodation, and that means Europe needs a much clearer sense of its long-term, shared strategic interests. It needs to pursue those together vis-à-vis the rest of the world and finally to reach accommodation. And in the meantime each European government has to restore its own trust and governability within its own borders.

Chapter 16

SOCIAL DEMOCRATS MUST SAY ANOTHER GLOBALISATION IS POSSIBLE

BY EUNICE GOES

Social democratic parties across Europe are now paying the electoral price for their uncritical embrace of globalisation in the 1990s. Then, responsible politics was equated with adaptation to the demands of global markets. As Tony Blair and Gerhard Schröder put it in their much-quoted *The Third Way/Die Neue Mitte* pamphlet: ‘Social Democrats must accommodate the growing demands for flexibility’.

This refrain was accepted as ‘pragmatic realism’ and was quickly adopted by most social democratic parties that governed Europe in the late 1990s. Thus, as Dani Rodrik recalled, the centre-left was complicit in pointing globalisation in a neoliberal direction. Crucially, social democratic parties in government were happy to support the launch of the euro without ever questioning its ordoliberal governance rules and to sign up to further depoliticization of public policy whereby technocratic institutions gained control over areas of policy that thus far had been subject to democratic scrutiny.

But by treating globalisation as a force of nature that could not be

controlled, social democratic parties contributed to the rise of inequality, to the erosion of the welfare state and social protection that had characterised the European social model, to the creation of a new social class, the working poor. Both New Labour's tax credits programme and the SPD's Agenda 2010 were predicated on the idea that greater economic competition implied lower wages and weaker social protection. Ultimately, they contributed to the 2008 global financial crisis and subsequent Eurozone crisis, from which most European economies have not yet fully recovered.

Uncritical embrace

The electoral decline of social democratic parties is directly linked to the consequences of this uncritical embrace of globalisation. Over the past decade, European centre-left parties have been voted out of office as their traditional supporters felt abandoned. Whilst many of these voters stopped participating in elections altogether others started to vote for the parties of the radical left, which have now adopted social democratic stances, and to a smaller extent for parties of the populist and far-right.

A reversal in the poor electoral fortunes of European social democracy will not be easy. Having so easily agreed to a deepening of European integration that addresses the demands of global corporations to the detriment of workers, citizens and democracy, it will take time to undo the ordoliberal and neoliberal knots that prevent the adoption of social democratic policies across Europe. It does not help that the centre-right now dominates the governments of most European countries and is the prevailing ideology in EU institutions such as the European Parliament and Commission. These political actors are resisting the adoption of reforms to the eurozone that will challenge the prevailing ideology of a minimal but strong state. The difficulties of French President Emmanuel Macron in convincing Berlin and other Northern

European governments to support his moderate programme of eurozone reforms illustrate well this problem.

Justified anger

To make matters worse, across Europe voters are very angry. The recent rise in support for parties of the radical right suggests that voters have had enough with politicians and parties that seem more responsive to the needs of the invisible and unaccountable forces of the markets than to their own needs. As the elections in Italy, Hungary, Sweden and, more recently, in Andalucía as well as the so-far non-partisan protests of the *gilets jaunes* in France, have shown, voters are in no mood to be reasoned or to be told that politics is complicated. They have had enough of stagnating living standards, of rising levels of personal debt, and of feeling that their lives are at the mercy of forces they do not control. If their choice of nativist parties that scapegoat migrants and refugees is alarming, it is important to remember that the radical right has only been able to maximise its vote potential when it added to its xenophobic platform promises to raise the minimum wage, to protect jobs, to introduce a basic income and invest in public services.

Chapter 17

REVERSING THE GLOBALISATION BACKLASH

BY COLIN CROUCH

Reversing the backlash against globalization requires active politics in two opposite directions: the strengthening of democracy beyond the level of the nation state; and strenuous efforts at local economic development.

In *The Globalization Paradox* Dani Rodrik argued that we have a choice among democracy, national sovereignty and hyper-globalization, a trilemma, and that we could have any two of these but not all three. ‘Hyper-globalization’ clearly implies the neoliberal ideal of a totally unregulated world economy. Democracy separated from the nation state – the only form of democracy ‘capable’ of dealing with the global economy – implies global democracy, which is impossible to achieve. A non-democratic nation state is compatible with hyper-globalization, because it implies a national ‘sovereignty’ willing to accept governance by the market and corporate power alone. This seems to lead to the conclusion that we can preserve democracy only by limiting political ambitions to the nation state and seeking to use it somehow to evade globalization.

But there is an alternative. Globalization does not have to be

'hyper'. It can be moderated through regulation by international agencies, which, although they cannot be fully democratic, can be subjected to far more democratic pressure than is common today. It is not feasible for global bodies like the World Trade Organization or the International Monetary Fund to have directly elected parliaments, as has been possible in the European Union, but there can be public debate over the policies that national governments will pursue within these organizations.

National politicians need freely to admit that there are problems that are beyond their reach, that they need to cooperate with others within international agencies. Governments' policies within those agencies must then become fiercely debated within national politics. Is it unrealistic to imagine a general election in which an opposition made a major issue out of a government's failure to work with other countries within the WTO to suppress slavery, child labour and inhuman working hours? If Donald Trump had demanded the incorporation of International Labour Organization standards within the rules of the WTO instead of retreating into protectionism, he would have made a major contribution to good global economic governance.

The world needs political will across a number of countries based on recognition that: the high tide of neoliberal deregulation has been damaging; and that national communities can only reassert regulation of that process by pooling their sovereignty and trying to introduce as much democracy as is practicable into that process. The gap between the three points of the Rodrik triangle is reduced when it is accepted that globalization requires some regulation, that the international agencies necessary to such regulation need elements of democracy, and that the democracy of the nation state best expresses itself as pooled sovereignty within that framework.

The local in the global

This approach then has to be combined with attention to local economic development and subsidiarity. Across the democratic world there has been a notable geography to the appeal of xenophobic forces. Cities whose residents can feel they are part of a flourishing future have resisted that appeal – from Budapest and Vienna to Liverpool or San Francisco.

Market forces in the post-industrial economy favour a small number of large cities, with very little trickle down from them. Whole regions and many smaller cities have been left without any dynamic activities that can retain the young and give people a sense of pride in their local *Heimat*. It is not enough to provide generous social support for people who are unemployed or left in low-income occupations as a result of these processes, or to encourage firms and government organizations to locate back-office and warehouse activities in such places. We need collaboration among EU, national and local authorities to identify new activities that can thrive outside existing successful centres and provide the infrastructure that will facilitate them.

Quite apart from economic development in itself, people also need high quality local environments of which they can be proud. This requires considerable public spending – a strategy that belongs to the left, not the populist right that claims to be the main defender of *Heimat*. Success in this task will not be achieved everywhere; there will always be sad areas that fail to find a place in a changing world. But combinations of imaginative national and local planning with entrepreneurship, and determined attention to the geography of dynamism, can reduce their number and therefore the numbers of those who feel left behind.

These strategies address the discontent of those who feel neglected, particularly working-class men of the dominant ethnicity who believe that politicians, especially of the left, have

shifted their attention to the inequalities endured by women and ethnic minorities in post-industrial sectors. Their complaint is justified: widespread acceptance of neoliberal ideas made purely economic inequalities an unmentionable. But it cannot be addressed by an attempted return to an industrialism that is lost, less still through misogyny and xenophobia.

Multi-layered citizens

The globalization backlash has a cultural as well as an economic dimension, and so must the fight against it. A globalised world needs citizens who are at ease with a variety of layered identities, happy in our skins with loyalties and identities of varying strengths to our local community, our town or city, our region, our country, Europe, and with goodwill to our common humanity. These loyalties must be able to feed on and reinforce each other, not be set in zero-sum conflict. Many people have shown a capacity to do this, but to continue like it they need to feel confident and secure.

The task of future politics is to create environments in which these values can flourish, not snuff them out under an insistence on the monopoly claims of national or ethnic identity. And neoliberals must learn that unless they are willing to accept the public policies and taxation levels that sustain such environments they will lose the globalization project that is so dear to them.