The European Mirror

Robert Kuttner,  July 5, 2017

Is there any way out of the dialectic of neoliberal policies producing economic backlash and support for the nationalist far right?

The British election demonstrated that with the right combination of luck, circumstance, and leadership, popular economic grievances can go left as well as right. Jeremy Corbyn, the Labour Party leader who was long dismissed as hopelessly old left, demonstrated that if left means taxing the rich and restoring popular services such as free higher education, that sort of left is what lots of voters want, especially the young. Under Corbyn’s leadership, Labour made its biggest gains in a single election—about ten points—since Clement Attlee’s epic defeat of Winston Churchill in 1945.

But Labour did not win a governing majority. Instead, British politics is more muddled than ever, and the politics of exit from the European Union only adds to the muddle. The narrow referendum vote in favor of quitting the E.U. in 2016 was a spasm of popular protest against the declining living standards of ordinary Brits. It was not a nuanced analysis of the E.U.’s complex role in promoting free trade and the rights of finance while undermining jobs and social protections.

Working-class voters who voted for Brexit, especially in devastated industrial regions like the areas around Manchester, Liverpool, and Newcastle, were rebelling on a visceral level. They didn’t like Bulgarians and Poles taking local jobs, dark-skinned people invading their pubs, radical Islamists producing homegrown terrorists, and bureaucrats from Brussels adding insult to injury with ministries of silly rules. But mainly, they were rebelling against lost livelihoods.

The remedy of quitting the European Union may keep out some foreigners but will not address the deeper economic grievances. Brexit will only make matters worse. The United Kingdom sends half of its exports to the nations of the E.U., while Europe sends about 10 percent of its exports to Britain. As Britain has de-industrialized, its remaining auto plants are Japanese and Korean export platforms, whose main markets are the European continent. With the loss of tariff-free trade, they will likely relocate to E.U.-member nations. Britain is heavily reliant on finance, and the big banking houses are already making contingency plans to relocate to Dublin, Amsterdam, or Frankfurt. Leaving the E.U., especially under the auspices of the Conservative Party, which has no interest in rebuilding a mixed economy in one country, will do nothing for those who supported Brexit.

Does that ring a bell? The people who voted for Donald Trump, as a way of giving a fat middle finger to the mainstream of both parties whose cosmopolitanism had left so many Americans behind, are the losers from Trump’s actual policies. It remains to be seen what it will take for Trump’s working-class base to wake up. One necessary ingredient would be a Democratic Party that is more aggressive in serving the interests of the people whom the British call the left-behinds.
As the package of several pieces in this issue of the Prospect demonstrates, the Democrats, once the Party of Roosevelt, became so infatuated with globalism and the politics of rainbow identity that they forgot about class. They forgot about making sure that economic development benefited places that the new governing class viewed as flyover states. New Labour, under former Prime Ministers Tony Blair and Gordon Brown, suffered from the same myopia.

**IN MUCH OF THE WEST,** the revolt against elite globalization produced a paradoxical and perverse result of conservative rule poisoned with ultra-nationalism. None of this will address the real grievances that led to the revolt. In the United States, the president is not only a faux-populist buffoon whose antics front for a standard corporate agenda, but a true madman.

The story on the continent is hardly more reassuring—and a comparable ideological muddle. Beginning in the 1990s with the Maastricht Treaty that created the European Union, the European project became more about ever-freer markets and less about consistent social standards. Maastricht guaranteed freedom of movement for capital, goods, services, and people. It had few offsetting guarantees of social rights. The left became the center-left, trying to broker a slightly more benign version of neoliberalism. It didn’t work. Ordinary people lost security, dignity, and decent earnings—and found themselves with no credible political champions. Into this vacuum stepped the ultra-nationalist right, with plenty of scapegoats but no solutions to the pocketbook distress. (Hitler, at least, built the Autobahn.)

In several European nations, including onetime social democratic strongholds, far-right parties are now the second- or third-largest in parliaments. In parts of Eastern Europe and in Turkey, neo-fascist parties already govern. They are contemptuous not just of foreigners, but of democracy; they are bent on destroying liberal institutions. The Brussels bureaucracy and its banker allies, revealingly, are potent enough to demand that the French balance their budget, that the Swedes weaken collective bargaining, and that Greece pauperize itself, but not strong enough to prevent Viktor Orbán from destroying Hungarian democracy. This is the bitter fruit of neoliberal globalization on one continent.

Worse, leaders such as Orbán and Recep Tayyip Erdogan in Turkey are genuinely popular. They are promoting what Orbán proudly calls “illiberal democracy.” Since the Enlightenment, liberalism and democracy have come packaged together. Democracy has meant not just the formal right of the people to select a leader, but respect for the rules of an open society and a constitutionally limited state, in which leaders can be freely criticized without retribution, and the opposition has a chance to win elections.

The new, neo-fascist right conceives of democracy more along the lines of Mussolini or Hitler, in which the Leader speaks for the true People. Orbán is destroying pluralist institutions, but he could probably be elected by a wide margin in a free election. Likewise Hitler, had he deigned to compete in a free election in the late 1930s.

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The right-wing populist spasm is not a random event, nor is it simply a fearful response to terrorists and refugees. During the 30-year postwar boom, there was no support for far-right parties because the social settlement of that era served the common people. The evolving European project was a nicely balanced compromise between market and state, in which the predecessors of the current European Union advanced commerce, while individual nation-states governed capitalism and enforced social standards.

The architects of that era, having survived the 1930s, were determined never to suffer another European war. They recognized that limiting nationalism went hand in hand with promoting full employment and rights for labor. When that project was undermined by elites, and Europe became the instrument of a new experiment in laissez-faire, ghosts assumed to be long buried reappeared.

ELSEWHERE IN EUROPE, Emmanuel Macron has won a huge governing majority for his brand of centrism. In the recent Dutch elections, the far right fizzled. In Germany, Angela Merkel is likely to win re-election in September. The center seems to be holding against the far right. But look a little deeper and that is small comfort—for it is the policies of the center that produced economic stagnation and resulting ultra-nationalist backlash.

Macron, for one, hopes to liberalize labor laws to make it easier to fire workers, and in exchange put new money into retraining and public investment to create more and better jobs—a kind of Swedish solution. But that will take public borrowing, and Merkel, Macron’s close center-right partner in the role of Europe’s fiscal watchdog, won’t allow it. If France’s slump continues, and with even fewer worker protections, Macron’s personal popularity will prove transient.

Germany’s role is especially perverse and worth a moment’s further reflection. Postwar Germany’s economic recovery was partly built on the Allies’ willingness to write off almost all of Germany’s Hitler-era public debt. So while Britain, which won the war, was saddled with a debt ratio of about 260 percent of GDP, West Germany’s debt ratio in the 1950s was under 20 percent.

How about a little reciprocity? But Germany today would not for a moment consider writing off, say, most of Greece’s debt. (Whatever Greece did to fiddle its books was pretty tame compared with the sins of Hitler.)

In the German historical narrative, the Allies’ act of macroeconomic mercy has vanished into the national memory hole. What stuck was the Weimar hyper-inflation of 1923, which ruined Germany’s currency and middle class, and helped pave the way for Hitler.

When Germany reunified in 1990, its government poured a small fortune into modernizing the Soviet-style economy of its east—about 1.3 trillion euros in all. This in turn led to several years of relatively high inflation, a tight money policy by the Bundesbank, and a most un-German bout of high unemployment. Germany’s internal remedy was to weaken labor protections and cut labor costs, and to impose tight budgetary requirements on itself and on the rest of Europe.
The remedy worked for Germany, which benefits from what effectively is an undervalued currency—the euro. The German trade surplus today is larger than China’s. But the policy is deadly for the rest of Europe. By contrast, when the United States was the dominant Western power during the postwar era, America was generous with aid. As political scientists like to put it, the United States, as the hegemonic power, often placed “system-maintaining” responsibilities ahead of narrow national interest. Not so the Germans in their role as Europe’s current hegemon.

There is an old joke about European heaven and European hell. In European heaven, the police are British, the chefs Italian, the mechanics are German, the lovers are French, and it’s all organized by the Swiss. Hell is where the police are German, the chefs are British, the mechanics are French, the lovers are Swiss, and it’s all organized by the Italians. One might add that in the deepest circle of economic hell, fiscal policy is enforced by the Germans—the worse the recession, the more extreme the tightening.

Germany today is the European equivalent of Typhoid Mary. Germany itself is thriving; it’s everyone else who succumbs to the fiscal bacillus of deflation spread by Berlin. It was one thing to throw money at the reconstruction of the former East Germany—they were Germans after all. The rest of Europe can fend for itself. This is doubly shortsighted, since prolonged depression only nurtures neo-fascism.

The irony is that Germany’s own economic model is in many ways exemplary. Germany, leaving aside the special case of the former East, does not suffer from the kind of regional disparities described elsewhere in these pages, which in turn produce political backlash. Germany’s industrial excellence has long been promoted by a constellation of policies that include state banks, a federal development bank, high-quality apprenticeship programs, and subsidized job-sharing programs in downturns so that skilled local workforces do not dissipate during recessions. And although Germany does not have Japanese- or Korean-style planning, German industrialists and their union partners share a kind of soft economic nationalism; they know without being told to keep good jobs in Germany, while their Anglo-Saxon cousins relentlessly look for ways to outsource. Germany has been almost obsessed with spreading economic growth around. Around Germany, that is.

With this bleak tour of the West, is there any way out of the dialectic of neoliberal policies producing economic backlash and support for the nationalist far right? If there is, it will likely originate in America. Ultra-nationalism as a front for corporate plutocracy is most likely to crash and burn first in the United States. Post-Trump America could mark a return to genuinely progressive politics and policies. As in the Roosevelt years, the United States could once again stand for a brand of globalism that puts the rights of citizens and working families on a par with the rights of finance. Given the multiple blockages in Europe, it’s hard to imagine the road back to economic decency and broad redemption of democratic legitimacy beginning anywhere else.