The Liberal Order Is Rigged

Fix It Now or Watch It Wither

By Jeff D. Colgan and Robert O. Keohane, *May/June 2017 Issue*

Prior to 2016, debates about the global order mostly revolved around its structure and the question of whether the United States should actively lead it or should retrench, pulling back from its alliances and other commitments. But during the past year or two, it became clear that those debates had missed a key point: today’s crucial foreign policy challenges arise less from problems between countries than from domestic politics within them. That is one lesson of the sudden and surprising return of populism to Western countries, a trend that found its most powerful expression last year in the United Kingdom’s decision to leave the EU, or Brexit, and the election of Donald Trump as U.S. president.

It can be hard to pin down the meaning of “populism,” but its crucial identifying mark is the belief that each country has an authentic “people” who are held back by the collusion of foreign forces and self-serving elites at home. A populist leader claims to represent the people and seeks to weaken or destroy institutions such as legislatures, judiciaries, and the press and to cast off external restraints in defense of national sovereignty. Populism comes in a range of ideological flavors. Left-wing populists want to “soak the rich” in the name of equality; right-wing populists want to remove constraints on wealth in the name of growth. Populism is therefore defined not by a particular view of economic distribution but by a faith in strong leaders and a dislike of limits on sovereignty and of powerful institutions.

Such institutions are, of course, key features of the liberal order: think of the UN, the EU, the World Trade Organization (WTO), and major alliances such as NATO. Through them, the Washington-led order encourages multilateral cooperation on issues ranging from security to trade to climate change. Since 1945, the order has helped preserve peace among the great powers. In addition to the order’s other accomplishments, the stability it provides has discouraged countries such as Germany, Japan, Saudi Arabia, and South Korea from acquiring nuclear weapons.

This peace-building aspect of the liberal order has been an extraordinary success. So, too, is the way in which the order has allowed the developing world to advance, with billions of people rising out of crippling poverty and new middle classes burgeoning all over the world. But for all of the order’s success, its institutions have become disconnected from publics in the very countries that created them. Since the early 1980s, the effects of a neoliberal economic agenda have eroded the social contract that had previously ensured crucial political support for the order. Many middle- and working-class voters in the United Kingdom, the United States, and elsewhere have come to believe—with a good deal of justification—that the system is rigged.

Those of us who have not only analyzed globalization and the liberal order but also celebrated them share some responsibility for the rise of populism. We did not pay enough attention as capitalism hijacked globalization. Economic elites designed international institutions to serve
their own interests and to create firmer links between themselves and governments. Ordinary people were left out. The time has come to acknowledge this reality and push for policies that can save the liberal order before it is too late.

THE BOATS THAT DIDN'T RISE

In 2016, the two states that had done the most to construct the liberal order—the United Kingdom and the United States—seemed to turn their backs on it. In the former, the successful Brexit campaign focused on restoring British sovereignty; in the latter, the Trump campaign was explicitly nationalist in tone and content. Not surprisingly, this has prompted strong reactions in places that continue to value the liberal order, such as Germany: a poll published in February by the German newspaper Die Welt found that only 22 percent of Germans believe that the United States is a trustworthy ally, down from 59 percent just three months earlier, prior to Trump’s victory—a whopping 37-point decrease.

The Brexit and Trump phenomena reflect a breakdown in the social contract at the core of liberal democracy: those who do well in a market-based society promise to make sure that those disadvantaged by market forces do not fall too far behind. But fall behind they have. Between 1974 and 2015, the real median household income for Americans without high school diplomas fell by almost 20 percent. And even those with high school diplomas, but without any college education, saw their real median household income plummet by 24 percent. On the other hand, those with college degrees saw their incomes and wealth expand. Among those Americans, the real median household income rose by 17 percent; those with graduate degrees did even better.

As political scientists such as Robert Putnam and Margaret Weir have documented, such trends have led to different sets of Americans living in separate worlds. The well-off do not live near the poor or interact with them in public institutions as much as they used to. This self-segregation has sapped a sense of solidarity from American civic life: even as communications technology has connected people as never before, different social classes have drifted further apart, becoming almost alien to one another. And since cosmopolitan elites were doing so well, many came to the conclusion—often without realizing it—that solidarity just wasn’t that important for a well-functioning democracy.

Elites have taken advantage of the global liberal order—sometimes inadvertently, sometimes intentionally—to capture most of the income and wealth gains in recent decades, and they have not shared much with the middle and lower classes. Wealthier, better-educated Americans have pushed for or accepted regressive tax policies, trade and investment agreements that encouraged corporate outsourcing, and the underfunding of public and higher education. The result of such policies has been to undermine what the political scientist John Ruggie once called “embedded liberalism”: a global order made up of free-market societies that nevertheless preserved welfare states and labor-market policies that allowed for the retraining of people whose skills became obsolete, compensation for those who lost out from trade liberalization, and validation of the self-worth of all citizens, even if they were not highly productive in economic terms. Elites pushed for and supported the first part of this vision—free markets, open borders, and multilateralism—but in the 1970s and even more so in the 1980s, they began to neglect the other
part of the bargain: a robust safety net for those who struggled. That imbalance undermined
domestic support for free trade, military alliances, and much else.

The bill for that broken social contract came due in 2016 on both sides of the Atlantic. And yet
even now, many observers downplay the threat this political shift poses to the liberal order.
Some argue that the economic benefits of global integration are so overwhelming that national
governments will find their way back to liberalism, regardless of campaign rhetoric and populist
posturing. But the fact is that politicians respond to electoral incentives even when those
incentives diverge considerably from their country’s long-term interests—and in recent years,
many voters have joined in the populist rejection of globalization and the liberal order.

Moreover, business leaders and stock markets, which might have been expected to serve as a
brake on populist fervor, have instead mostly rewarded proposals for lower taxes with no
accompanying reduction in government spending. This is shortsighted. Grabbing even more of
the benefits of globalization at the expense of the middle and working classes might further
undermine political support for the integrated supply chains and immigration on which the U.S.
economy depends. This position is reminiscent of the way that eighteenth-century French
aristocrats refused to pay taxes while indulging in expensive foreign military adventures. They
got away with it for many years—until the French Revolution suddenly laid waste to their
privilege. Today’s elites risk making a similar mistake.

CAREFUL WHAT YOU WISH FOR

Some portion of the blame for the liberal order’s woes lies with its advocates. Policymakers
pursued a path of action favored by many academics, including us: building international
institutions to promote cooperation. But they did so in a biased way—and, for the most part, we
underestimated the risk that posed. Financial firms and major corporations enjoyed privileged
status within the order’s institutions, which paid little attention to the interests of workers.
WTO rules emphasized openness and failed to encourage measures that would cushion globalization’s
effects on those disadvantaged by it, especially workers in the traditional manufacturing sectors
in developed countries. Meanwhile, investment treaties signed in the 1990s featured provisions
that corporate lawyers exploited to favor big business at the expense of consumers. And when
China manipulated trade and currency arrangements to the disadvantage of working-class
Americans, Washington decided that other issues in U.S.-Chinese relations were more important,
and did not respond strongly.

Working-class Americans didn’t necessarily understand the details of global trade deals, but they
saw elite Americans and people in China and other developing countries becoming rapidly
wealthier while their own incomes stagnated or declined. It should not be surprising that many of
them agreed with Trump and with the Democratic presidential primary contender Bernie Sanders
that the game was rigged.

Much ink has been spilled on the domestic causes of the populist revolt: racism, growing
frustration with experts, dysfunctional economic policies. But less attention has been paid to two
contributing factors that stemmed from the international order itself. The first was a loss of
national solidarity brought on by the end of the Cold War. During that conflict, the perceived
Soviet threat generated a strong shared sense of attachment not only to Washington’s allies but also to multilateral institutions. Social psychologists have demonstrated the crucial importance of “othering” in identity formation, for individuals and nations alike: a clear sense of who is not on your team makes you feel closer to those who are. The fall of the Soviet Union removed the main “other” from the American political imagination and thereby reduced social cohesion in the United States. The end of the Cold War generated particular political difficulties for the Republican Party, which had long been a bastion of anticommunism. With the Soviets gone, Washington elites gradually replaced Communists as the Republicans’ bogeymen. Trumpism is the logical extension of that development.

In Europe, the end of the Cold War was consequential for a related reason. During the Cold War, leaders in Western Europe constantly sought to stave off the domestic appeal of communism and socialism. After 1989, no longer facing that constraint, national governments and officials in Brussels expanded the EU’s authority and scope, even in the face of a series of national referendums that expressed opposition to that trend and should have served as warning signs of growing working-class discontent. In eastern Europe, anti-Soviet othering was strong during the 1980s and 1990s but appears to have faded as memories of the Cold War have become more distant. Without the specter of communist-style authoritarianism haunting their societies, eastern Europeans have become more susceptible to populism and other forms of illiberalism. In Europe, as in the United States, the disappearance of the Soviets undermined social cohesion and a common sense of purpose.

The second force stirring discontent with the liberal order can be called “multilateral overreach.” Interdependence requires countries to curb their autonomy so that institutions such as the UN and the World Bank can facilitate cooperation and solve mutual problems. But the natural tendency of institutions, their leaders, and the bureaucracies that carry out their work is to expand their authority. Every time they do so, they can point to some seemingly valid rationale. The cumulative effect of such expansions of international authority, however, is to excessively limit sovereignty and give people the sense that foreign forces are controlling their lives. Since these multilateral institutions are distant and undemocratic—despite their inclusive rhetoric—the result is public alienation, as the political scientist Kathleen McNamara has documented. That effect is compounded whenever multilateral institutions reflect the interests of cosmopolitan elites at the expense of others, as they often have.

**SYSTEM UPDATE**

Derigging the liberal order will require attention to substance but also to perceptions. The United States has made only feeble attempts to sustain something like Ruggie’s embedded liberalism, and even those attempts have largely failed. Germany, Denmark, and Sweden have done better, although their systems are also under pressure. Washington has a poor track record when it comes to building government bureaucracies that reach deep into society, and the American public is understandably suspicious of such efforts. So U.S. officials will have to focus on reforms that do not require a lot of top-down intervention.

To that end, Washington should be guided by three principles. First, global integration must be accompanied by a set of domestic policies that will allow all economic and social classes to share
the gains from globalization in a way that is highly visible to voters. Second, international cooperation must be balanced with national interests to prevent overreach, especially when it comes to the use of military force. Third, Washington should nurture a uniquely American social identity and a national narrative. That will require othering authoritarian and illiberal countries. Fostering U.S. opposition to illiberalism does not mean imposing democracy by force, but it does require more than occasional diplomatic criticism of countries such as China or Saudi Arabia. A willing president could, for instance, make it clear that although the United States may have an interest in cooperating with nondemocratic countries, it identifies only with liberal democracies and reserves its closest relationships for them. Done properly, that sort of othering could help clarify the American national identity and build solidarity. It might at times constrain commercial relationships. However, a society is more than just an economy, and the benefits of social cohesion would justify a modest economic cost.

Developing policies that satisfy those principles will require innovation and creativity. Some promising ideas include tax credits to businesses that provide on-the-job training for dislocated workers and earned-income tax credits for individuals. Progressives have pursued such policies in the past but in recent times have retreated or compromised for the sake of passing trade deals; they should renew their commitment to such ideas. Officials should also require that any new trade deals be accompanied by progressive domestic measures to assist those who won’t benefit from the deals. At a minimum, Congress should avoid regressive tax cuts. If, for example, the Trump administration and its GOP allies in Congress decide to impose a border adjustment tax on imports, the revenue raised ought to benefit the working class. One way to make that happen would be to directly redistribute the revenue raised by the tax on a per capita basis, in the form of checks to all households; that would spread the wealth and build political support for the combination of economic openness and redistribution. Another way to benefit the working class would be to stimulate job creation by lowering employers’ payroll tax burden. Such ideas will face an uphill battle in the current U.S. political environment, but it is essential to develop plans now so that, when political opportunities emerge, defenders of the liberal order will be ready.

The more difficult task will be developing a national narrative, broadly backed by elites across the ideological spectrum, about “who we are”—one built around opposition to authoritarianism and illiberalism. The main obstacle will likely be the politics of immigration, where the tension between cosmopolitanism and national solidarity surfaces most clearly. Cosmopolitans argue (correctly) that immigrants ultimately offer more benefits than costs and that nativist fears about refugees are often based more on prejudice than fact. The United States is a country of immigrants and continues to gain energy and ideas from talented newcomers. Nonetheless, almost everyone agrees that there is some limit to how rapidly a country can absorb immigrants, and that implies a need for tough decisions about how fast people can come in and how many resources should be devoted to their integration. It is not bigotry to calibrate immigration levels to the ability of immigrants to assimilate and to society’s ability to adjust. Proponents of a global liberal order must find ways of seeking greater national consensus on this issue. To be politically sustainable, their ideas will have to respect the importance of national solidarity.

Like it or not, global populism has a clear, marketable ideology, defined by toughness, nationalism, and nativism: “America first” is a powerful slogan. To respond, proponents of an open liberal order must offer a similarly clear, coherent alternative, and it must address, rather
than dismiss, the problems felt keenly by working classes. For Democrats, “the party of jobs” would be a better brand than “the party of increasing aggregate welfare while compensating the losers from trade.”

Without dramatic change to their messages and approach, established political parties will fade away altogether. An outsider has already captured the Republican Party; the Democrats are cornered on the coasts. In Europe, the British Labour Party is imploding and the traditionally dominant French parties are falling apart. To adapt, establishment parties must begin to frame their ideas differently. As the social psychologist Jonathan Haidt has argued, progressives must learn to speak of honor, loyalty, and order in addition to equality and rights.

To derig the liberal order and stave off complete defeat at the hands of populists, however, traditional parties must do more than rebrand themselves and their ideas. They must develop substantive policies that will make globalization serve the interests of middle- and working-class citizens. Absent such changes, the global liberal order will wither away.