

# Of Learning and Forgetting: Centrism, Populism, and the Legitimacy Crisis of Globalization

Rawi Abdelal

Working Paper 21-008



# Of Learning and Forgetting: Centrism, Populism, and the Legitimacy Crisis of Globalization

Rawi Abdelal  
Harvard Business School

**Working Paper 21-008**

Copyright © 2020 by Rawi Abdelal.

Working papers are in draft form. This working paper is distributed for purposes of comment and discussion only. It may not be reproduced without permission of the copyright holder. Copies of working papers are available from the author.

Funding for this research was provided in part by Harvard Business School.

**Of Learning and Forgetting:  
Centrism, Populism, and the Legitimacy Crisis of Globalization**

Rawi Abdelal  
15 July 2020  
8,004 words

Every order is a bargain with disappointments and trade-offs. Thus is every order an unstable equilibrium. The first era of globalization, *circa* 1870-1914, created both international prosperity and domestic instability. That instability was fully realized during the interwar years, which were characterized by financial chaos, virulent populist movements, and war. European and American political leaders learned hard lessons from those decades: that the international order must tolerate a diversity of national capitalisms; and that capitalisms within nations must be tamed in order to be compatible with democracy. A generation later, both scholars and policy makers seemed to have forgotten how important the post-war bargains were for maintaining economic and social stability. Instead, preoccupied by the disappointments of the 1970s, a new pro-market, pro-capital consensus emerged between the center-Left and center-Right. A second post-war international order emerged as a result: a new era of globalization made possible by this “neoliberal” political consensus. The new order was more trans-Atlantic than American, for European political transformations made it possible. This era of globalization created both prosperity and instability, just as the first era had done. Instability took the form again of virulent populism, driven by economic inequality, financial volatility, and a crisis of dignity among those who felt left behind by it. Although we are learning that neither national societies nor the international system can manage the trade-offs of globalization and neoliberalism well enough to avoid a backlash, in fact those lessons were learned once before. The cycle continues: learning, forgetting, and re-learning why these equilibria are unstable.

Rawi Abdelal is the Herbert F. Johnson Professor of International Management at Harvard Business School

Draft chapter for Peter J. Katzenstein and Jonathan Kirshner, eds., *Liberalism’s End: Populism, Authoritarianism, and the End of the American Order*

And so it is with our own past. It is a labor in vain to attempt to recapture it: all the efforts of our intellect must prove futile.

—Marcel Proust, *Swann's Way*, vol. 1 of *In Search of Lost Time*

A newly liberal, deregulating international order was built to underpin a second great era of globalization during the 1980s and 1990s. The new order undermined the post-1945 social bargain: the compromise of embedded liberalism. The “resurgent ethos of liberal capitalism,” John Ruggie explained at the beginning of this process, threatened the compromise that had created a stable, prosperous West.<sup>1</sup>

In this essay, I argue that the politics of creating our current era of globalization were composed of transformations of both the Left and the Right in the developed world: their convergence created the new system. The new system delivered financial instability, as well as an uneven distribution of income and dignity within the United States and much of Europe. The international order—more trans-Atlantic than American—thus created the beginnings of its own end. The convergence of center-Left and center-Right parties, furthermore, made possible the particular forms of the populist revolt of the 2010s and 2020s by leaving unattended the politics of economic anxiety and nationalism.

Thus continues a recurring cycle of learning and forgetting. During the late nineteenth and early twentieth centuries European leaders learned that an open world economy facilitated growth and dynamism. They believed that the free flow of goods, services, and capital—combined with a system of fixed exchange rates—would create an era of prosperity, with tolerable risks and manageable consequences. The financial chaos, income inequality, populist backlash of the 1920s and 1930s, and two devastating wars ruptured the policy consensus of that first age of globalization. The compromise of embedded liberalism represented the social learning from that unstable era. Just a few decades later, the economic malaise of the 1970s led policy makers and politicians to conclude that the Keynesian consensus had its own intolerable risks and unmanageable consequences; they had, they believed, learned something new about the desirability and usefulness of deregulating, integrating markets.

First came a change in practices created by a reactionary Right: transformations associated with Margaret Thatcher, Ronald Reagan, Augusto Pinochet, among others. This reactionary edifice was scaffolded by a language of learning: We now know, the argument went, that the old ways do not work, that they stifle and suffocate putatively natural sentiments of market participants. Critics on the intellectual Left blamed the Right for this “neoliberalism,” a word no neoliberal ever used to describe this shift. The intellectual scaffolding of learning by political elites supplemented the more venal appetite of economic elites to be set free from sovereign borders, national regulation, and social obligations. The result was that capital flowed more freely across borders. Barriers to the movement of goods and services declined. The U.S. financial sector—“Wall Street”—internationalized. The U.S. government—“Treasury” and “Washington”—promoted globalization, for which it was a prominent cheerleader. This neoliberalism came to be seen as part of a U.S.-centric international system in which the ideas of the Right triumphed. The Right moved toward the Center by prioritizing the globalization of markets over the insularity of nationalism.

The transformation of the Left—and particularly the European Left—was, however, more important for the emergence of this era of globalization.<sup>2</sup> The most significant turning point in the

---

<sup>1</sup> John Gerard Ruggie, “International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order,” *International Organization*, vol. 36, no. 2 (1982), pp. 379-416.

<sup>2</sup> Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, Mass.: Harvard University Press, 2007); Rawi Abdelal and Sophie Meunier, “Managed Globalization: Doctrine, Practice, and Promise,” *Journal of European Public Policy*, vol. 17, no. 3 (2010), pp. 350-367; and Dani Rodrik, “The Abdication of the Left,” *Project Syndicate*, 11 July 2016.

emergence of what would eventually be called the Third Way and New Left was the famous *tournant* of François Mitterrand's government in 1983. Later Tony Blair, Bill Clinton, Gerhard Schröder, Wim Kok, and Massimo d'Alema, to name a few, helped to bring their Left parties toward the Center as well.<sup>3</sup> The international compromise of embedded liberalism was domestically, as Sheri Berman argues, a social democratic order designed to make democracy compatible with capitalism and social stability. The decline of the Left's commitment to social democracy thereby made the ongoing process of taming capitalism a subsidiary goal of national politics.<sup>4</sup>

Their narrative was also one of learning: the Old Left was anachronistic, naïve, too obsessed with high taxes and regulations that “do not work.” The policy elite of this “neoliberal” center Left was technocratic and far removed from the traditional critiques of capitalism.<sup>5</sup> Thus Right and Left moved toward the Center almost simultaneously during the late 1980s and early 1990s. This convergence created the possibility for both political and policy consensus. Without the acquiescence of the Left, neither the political elites of the Right nor the economic elites could have possibly succeeded in their agenda to escape the trade-offs of the first post-war order.

The consensus of center-Right and center-Left created our era of globalization and the post-Cold-War order. It was a technocratic consensus: economistic, scientific, market-oriented. The achievements of this policy convergence were profound. Newly liberalizing practices were memorialized in national legislation and international rules. Capital was liberalized by national governments and then, increasingly, in the European Union (EU), Organization for Economic Cooperation and Development (OECD), and, very nearly, in the International Monetary Fund (IMF). A proliferation of regional trade agreements and the historic creation of the World Trade Organization (WTO) supported the movement of goods and services across sovereign borders.<sup>6</sup>

The Left-Right convergence was, in a way, a reassuring achievement of modern politics. Gone were the wild policy swings of the past. The extreme Left and Right were, as Peter Gourevitch argues, “contained.”<sup>7</sup> Patterns of economic policy making varied only marginally based on who held public office. Firms could rely on a business environment that progressively allowed the free movement of the factors of production. Supply chains became globally dispersed. “Where Ricardo and Marx were as one,” Karl Polanyi once observed, “the nineteenth century knew not doubt.”<sup>8</sup> Seemingly doubtless, too, was the late twentieth century.

Thus learning the lessons of the 1970s required a forgetting of the lessons we thought that we had, by the 1940s, learned from the experiences of the 1920s and 1930s. The certainty of the Left-Right convergence of the 1980s recreated the trade-offs of the 1910s and 1920s, trade-offs that, once upon a time, we had discovered were difficult to manage. Every order contains trade-offs that are difficult to manage. The only question is which set of trade-offs we choose and for how long we try to live with them.

---

<sup>3</sup> Mark Blyth, *Great Transformations* (New York: Cambridge University Press, 2002).

<sup>4</sup> Sheri Berman, “The Social Democratic Order and the Rise and Decay of Democracy,” (this volume).

<sup>5</sup> Stephanie L. Mudge, “What’s Left of Leftism? Neoliberal Politics in Western Party Systems, 1945-2004,” *Social Science History*, vol. 35, no. 3 (2011), pp. 337-380; Mudge, *Leftism Reinvented: Western Parties from Socialism to Neo-liberalism* (Cambridge, Mass.: Harvard University Press, 2018); Mark Bovens and Anchrit Wille, *Diploma Democracy: The Rise of Political Meritocracy* (New York: Oxford University Press, 2017); and Robert Kuttner, *Can Democracy Survive Global Capitalism?* (New York: W. W. Norton, 2018), chs. 6 and 7.

<sup>6</sup> On the overlapping international, regional, and domestic orders that composed both orders, see Berman, “The Social Democratic Order” (this volume).

<sup>7</sup> Peter A. Gourevitch, “The Construction of Compromise and the Rise of Global Orders” (this volume).

<sup>8</sup> Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Times* (1944; repr. Boston: Beacon, 1957), p. 25.

Then doubt began to return precisely as a consequence of the properties of the system that the Left-Right convergence produced. Unshackled, globalized financial markets were more prone to crisis.<sup>9</sup> The social purpose of the corporation also shifted from one that recognized firms as social entities embedded in national societies to entities with responsibilities only to shareholders—mere pieces of property.<sup>10</sup>

The new orthodoxy of capital mobility was undermined first by a wave of financial crises that struck emerging markets during the 1990s.<sup>11</sup> The global crisis of 2007 and 2008 introduced further doubt within the developed world, a process that ushered in an era not of orthodoxy but, as Ilene Grabel describes it, “productive incoherence.”<sup>12</sup> That crisis unraveled the intellectual and ideational underpinnings of the international order.<sup>13</sup> During the last decade the intellectual incoherence of policy practice became increasingly unproductive, even destructive.<sup>14</sup> As Mark Blyth argues, the contemporary international order essentially serves no well-understood, consensual purpose.<sup>15</sup> Without such a purpose, it is impossible to derive the principles that might inform the efforts to save it from itself.

The internationalization of production also led, in part, to rising income inequality and a crisis of dignity for the working class in much of the developed world. A backlash against globalization emerged. Indeed the backlash against the system was perhaps most profound in the United States, the country at the center of the international order. The biggest threat to the so-called American Order became American doubt.

The particular political manifestations of the backlash also resulted from the convergence of center-Left and center-Right.<sup>16</sup> Critics of the technocratic, neoliberal consensus became entrepreneurial. The populist Left found that the traditional concerns for the working class had been left unattended by the center-Left, which had ceased to be the vehicle of economic resentment.<sup>17</sup> The populist Right made use of the fact that the center-Right had left unattended traditional concerns for nationalism and nativism. Some populist politicians on the Right were even more creative: combining the anti-globalization rhetoric of the Old Left and the nationalism of the Old Right. Donald Trump and Marine Le Pen, for example, offered this new combination. The populist Left and populist Right argued against global capitalism, political systems that offered no meaningful choices, technocracy, expertise, and

---

<sup>9</sup> Jonathan Kirshner, “Keynes and the Elusive Middle Way” (this volume).

<sup>10</sup> John Gerard Ruggie, “The Paradox of Corporate Globalization: Disembedding and Reembedding Governing Norms” (this volume).

<sup>11</sup> Abdelal, *Capital Rules*, ch. 8.

<sup>12</sup> Ilene J. Grabel, “The Rebranding of Capital Controls in An Era of Productive of Incoherence,” *Review of International Political Economy*, vol. 22, no. 1 (2015), pp. 7-43; and Grabel, *When Things Don’t Fall Apart: Global Financial Governance and Developmental Finance in an Age of Productive Incoherence* (Cambridge, Mass.: MIT Press, 2017).

<sup>13</sup> Jonathan Kirshner, *American Power after the Financial Crisis* (Ithaca, N.Y.: Cornell University Press, 2014).

<sup>14</sup> Grabel, “Post-American Moments in Global Financial Governance” (this volume).

<sup>15</sup> Mark Blyth, “The End of Social Purpose? Great Transformations of American Order” (this volume). Also see Eric Lonergan and Mark Blyth, *Angrynomics* (Newcastle: Agenda, 2020).

<sup>16</sup> See, for example, Sheri Berman and Maria Snegovaya, “Populism and the Decline of Social Democracy,” *Journal of Democracy*, vol. 30, no. 3 (2019), pp. 5-19; and Berman, “The Social Democratic Order” (this volume).

<sup>17</sup> Gourevitch, “The Construction of Compromise” (this volume).

borderlessness.<sup>18</sup> The “governance deficit” of corporate and financial globalization also generated polarization.<sup>19</sup> The resulting backlash is hastening the end of this era of globalization.

In the rest of this essay I describe how the cycles of liberation and regulation of global finance follow a pattern of learning and forgetting. Then I explore the process by which the Left moved toward the Center and thereby made possible a consensus in favor of liberalization and globalization. I argue that liberalization and globalization created the instability and inequality that began to undermine the system from within. Finally, I explore the new modes of populist politics and their creative attacks on the norms and rules of the international order.

### ***Capital Mobility, Embedded Liberalism, and the Emergent International Order***

The compromise of embedded liberalism required the political management of capital mobility in two ways.<sup>20</sup> First, policy makers during the 1940s and 1950s regarded restrictions on the movement of capital across sovereign borders as a means to insulate national economies from quickly spreading financial crises. They regarded this as an obvious lesson of the financial chaos of the 1920s and 1930s.

Second, and more importantly, capital mobility might undermine the ability of national governments to manage one of the most difficult trade-offs in macroeconomic policy making: whether, namely, to prioritize domestic goals over the demands or requirements of international financial markets.

Both of these elements reflected the underlying principle, if not always an explicit practice, of embedded liberalism.<sup>21</sup> Global capitalism—much as any capitalist system—must be regarded as legitimate in the eyes of national societies. No organization of economic activity that lacks the endorsement of the majority of the public can last for long.

I present these arguments not as conjecture, but as a composite of the widely held views of the time.<sup>22</sup> These lessons were understood then as obvious, self-evident lessons of an era of instability. This consensus was memorialized in the institutional architecture of the post-1945 system. The rules of the IMF explicitly carved out for member states the right to regulate capital movements as they saw fit. The Treaty of Rome in 1957 enshrined fundamental freedoms that would create the contours of the European Community (EC), but again the rules treated short-term capital movements as a dangerous, potentially destabilizing force. The OECD’s 1961 Code of Liberalization of Capital Movements endorsed

---

<sup>18</sup> It has in fact become more difficult to describe these new populist movements and politics in terms of the traditional Left-Right continuum. See Liesbet Hooghe, Gary Marks, and Carole J. Wilson, “Does Left-Right Structure Party Positions on European Integration,” *Comparative Political Studies*, vol. 35, no. 8 (2002), pp. 965-989; and Hooghe and Marks, “Cleavage Theory Meets Europe’s Crises,” *Journal of European Public Policy*, vol. 25, no. 1 (2018), pp. 109-135.

<sup>19</sup> Ruggie, “The Paradox of Corporate Globalization” (this volume).

<sup>20</sup> On the place of capital controls in the embedded liberal compromise, see Eric Helleiner, *States and the Reemergence of Global Finance* (Ithaca, N.Y.: Cornell University Press, 1994); Jonathan Kirshner, “Keynes, Capital Mobility, and the Crisis of Embedded Liberalism,” *Review of International Political Economy*, vol. 6, no. 3 (1999), pp. 313-337; and Jonathan Kirshner, “The Inescapable Politics of Money,” in *Monetary Orders*, edited by Jonathan Kirshner (Ithaca, N.Y.: Cornell University Press, 2003).

<sup>21</sup> Rawi Abdelal and John Gerard Ruggie, “The Principles of Embedded Liberalism: Social Legitimacy and Global Capitalism,” in *New Perspectives on Regulation*, edited by David Moss and John Cisternino (Cambridge, Mass.: The Tobin Project, 2009), pp. 151-162.

<sup>22</sup> Among many examples, see Economic, Financial, and Transit Department, League of Nations, *International Currency Experience: Lessons of the Inter-War Period* (Geneva: League of Nations, 1944); Ragnar Nurkse, *Conditions of Monetary Equilibrium*, Princeton Essays in International Finance, no. 4 (1945); Arthur I. Bloomfield, “Postwar Control of International Capital Movements,” *American Economic Review*, vol. 36, no. 2 (1946), pp. 687-709; and Richard N. Gardner, *Sterling-Dollar Diplomacy* (Oxford: Clarendon, 1956), p. 76.

long-term, “productive” capital, but, bearing the influence of the consensus, left the regulation of “hot money” as a prerogative of member states.

Insofar as the compromise of embedded liberalism required restrictions on capital mobility, the social bargain was remarkably short-lived. Although it was not until 1986 that the bargain truly unraveled, the process began during the 1960s and 1970s. The Eurocurrency markets created fissures in the edifice. The unilateral liberalizations of the United States and the United Kingdom during the late 1970s made multilateral management of “hot money” increasingly untenable.

An additional set of disappointments emerged during the economic malaise of the 1970s. In addition to the American abandonment of a more-or-less universal set of fixed exchange rates in 1971, the combination of high unemployment and high inflation undermined the technocratic belief that governments could systematically manage the trade-offs implied by the Phillips curve. Sluggish output growth seemed to invite a rethinking of the post-war bargains.

Then, as financial globalization unfolded, unmanaged, European policy makers began to try to master the process in a new way: by writing its rules.

### ***The Paris Consensus: The European Left and the Rules of Global Finance***

Capital mobility had long been a contentious matter within the European project. Germany had always been in the minority in supporting capital mobility. Among almost all other member states, France, the most skeptical, was always in the way. Neither the Right in general nor the center-Right in particular could have created an institutional architecture that supported the liberalization of capital and the eventual dis-embedding of liberalism. For that the Left needed convincing.

The first decisive moment arrived early in the spring of 1983, when the Socialist government of François Mitterrand tried and failed to pursue its reflationary policy priorities as capital flowed out of the country. Mitterrand and his advisors changed course and re-committed to the European project—including exchange-rate stability—despite its domestic costs.

The Mitterrand team, which included Jacques Delors, Pascal Lamy, Michel Camdessus, and Henri Chavranski, recognized the difficult trade-offs the nation faced. Thus this crucial collection of European political elites learned that they could no longer live within the first post-war order. Three criteria were paramount.

These French Socialists and policy elites had become disillusioned with the practice of capital controls. They found that only the middle and upper-middle classes were constrained by their regulations. Elites made their way around the capital controls with relative ease. Thus their efforts were, at best, regressive. A group of “modernizing,” highly educated French elites in the Socialist Party saw France’s thoroughly regulated financial system as a burden for the working and middle classes, which also endured, they believed, higher interest rates as a result. So part of their agenda was to remake domestic finance.<sup>23</sup>

Delors and his team also saw the opportunity for a new European bargain with Germany, one in which France would agree to capital liberalization in exchange for a commitment toward progress toward a European currency union. German policy makers had unwaveringly favored freedom for capital movements for Europe as early as the 1950s. The Franco-German bargain, then, put into place a collection of rules that reflected German understandings of the discipline and market-proved stability that would emerge from a system of capital mobility amidst fixed exchange rates in Europe. German policy makers, particularly Hans Tietmeyer and Karl Otto Pöhl, insisted that capital movements be liberalized *erga omnes*—that is, with all countries and not only European member states.<sup>24</sup>

---

<sup>23</sup> Abdelal, *Capital Rules*, pp. 58-64.

<sup>24</sup> Abdelal, *Capital Rules*, pp. 64-71.



Most importantly, the French Left believed increasingly that an internationalizing financial system should be governed by rules. Neither the United States nor the United Kingdom seemed remotely interested in such a rules-based international financial system. This was, then, an opportunity for France—and Europe more generally—to exercise decisive leadership in rewriting the rules of global finance. The Paris Consensus, more than the Washington Consensus, was responsible for international order that we eventually called American.<sup>25</sup> The results may have appeared to be the result of neoliberals, but other logics were at work in the minds of those who created this world. Neoliberalism was not the creation of neoliberals.<sup>26</sup>

So Delors, by then president of the European Commission, helped to broker an historic agreement. A 1988 directive by the ministerial Council, Europe's main decision-making body, obliged EC members to remove all restrictions on the movement of capital among member states, as well as between members and non-members. Europe thereby created the most liberal obligations in the history of the modern capitalist system.<sup>27</sup>

In 1989 the OECD's Code of Liberalization of Capital Movements, which had previously excluded short-term capital flows, was amended to oblige members to liberalize virtually all capital movements. As had been true for the EC in 1988, the amendment became possible only when the French government dropped its opposition to such a sweeping legal obligation to liberalize. Another member of the Delors team, Chavranski, played a decisive role in the process of rule-making.<sup>28</sup>

One final, nearly-universal rule remained: the IMF's Articles of Agreement, which have no authority over the financial-account transactions of member states. Camdessus, a member of the Delors team, was then Managing Director of the Fund. Under his guidance and leadership, the IMF began to debate an amendment to its constitution to deliver to the organization authority over the financial account of members and the legal right to oblige liberalization. The United States was largely indifferent to this process.<sup>29</sup>

Ultimately the effort to rewrite fully the rules of the international financial architecture failed. The struggle was doomed by the Asian financial crisis of 1997 and 1998. That crisis sowed seeds of doubt. By the spring of 1999 it was clear that the IMF's Articles would not be thusly amended. This was the beginning of the end of the process of codifying the norm of capital mobility.

So a *cadre* of French Socialists from the original Mitterrand team helped to rewrite the rules of the international financial architecture. Although their leadership was essential, often decisive, many other policy makers played important roles. Within Europe and the OECD, the Franco-German partnership was, as is always the case in Europe, integral to decision-making and rule-writing. The Germans were, after all, finally getting what they wanted—what they had long been certain Europe needed. There were others as well: institution-builders in Europe, the OECD, and the IMF who saw in these new liberalizing rules opportunities to enhance the influence of the international organizations of which they were a part. Without the transformation of the French Left, its *Réalisme de Gauche*, however, none of this would have been possible.

The French were not the only policy makers of the Left who had turned toward liberalization. By the late 1990s almost all of the European Left had become center-Left.<sup>30</sup> The United Kingdom's Labour

---

<sup>25</sup> Rawi Abdelal, "Le consensus de Paris," *Critique internationale*, no. 28 (2005), pp. 87-115.

<sup>26</sup> On the putatively neoliberal Geneva consensus in Europe, see Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, Mass.: Harvard University Press, 2018), ch. 6.

<sup>27</sup> Abdelal, *Capital Rules*, ch. 4.

<sup>28</sup> Abdelal, *Capital Rules*, ch. 5.

<sup>29</sup> Abdelal, *Capital Rules*, ch. 6.

<sup>30</sup> Mudge, *Leftism Reinvented*, chs. 6 and 8. Also see Dani Rodrik, "The Left's Choice," *Project Syndicate*, 8 January 2019.

Party became U.K. New Labour.<sup>31</sup> The German Social Democratic Party became the New Middle.<sup>32</sup> Sweden's Social Democratic Party chose their Third Road. In the Netherlands, the Labor Party created the Dutch Purple Coalition. The virtue of profit, the value of the market, the primacy of social virtue over political economy, and the embrace of the supply side, according to Peter Hall, characterized this new configuration of center-Left.<sup>33</sup> Thus this new Center was, to use Anthony Giddens' exhortation and description, "beyond left and right."<sup>34</sup> The Left moved further toward the Center than did the Right, such that "a new political center emerged."<sup>35</sup>

The Third-Way, New-Left Left went beyond the liberalization of capital. They would not have seen it that way at the time, but they were dis-embedding liberalism out of a sense of having learned that embedded liberalism and social democracy created trade-offs that they could no longer manage. The center-Right would never have dared to undertake such a through transformation. Central banking practices evolved away from discretion and toward more rigid rules. Domestic financial systems were deregulated. Cross-border movements of capital were liberalized.

The United States was, of course, at the center of the international order. Europe's "open regionalism" was, however, essential to its creation.<sup>36</sup> The international system was built and maintained by trans-Atlanticism. The international order is as much a European creation as it is an American one.

### ***Achievements and Disappointments of Globalization***

Then we tried to live in this transformed world. The macroeconomic environment seemed, for a time, benign. We had evidently transcended the Phillips Curve. Unemployment declined, inflation was stable, and interest rates remained low. Capital flowed increasingly freely around the world, as did goods and services. Market forces triumphed.

The achievements of this era of globalization are many. Within the developed world, market efficiencies created the possibilities for extraordinary technological progress, and goods and services from around the world flowed freely to be purchased at relatively low prices. For developing countries, the open markets of globalization represented an opportunity for growth and development. Chinese output grew at an annualized rate of nearly ten percent for thirty years, all while household consumption as a share of output shrank every year. Thus the Chinese economy flourished precisely because of its access to world—and especially American and European—markets. After 1991 India was for services what China was for goods: the most successful exporter among emerging markets. Scores of developing countries flourished as a result of globalization. Some 800 million people around the world were thereby lifted out of poverty.

But every system creates trade-offs: risks, consequences, vulnerabilities. And every system has its enemies and creates particular resentments. Worrying developments belied the calm façade. Sovereigns, corporates, and households borrowed ever more at low interest rates. The U.S. government and U.S. households borrowed to maintain a standard of living well beyond what production and income could support. Massive U.S. current account deficits were financed by emerging-market sovereigns and societies. As real wages stagnated in the United States, access to credit replaced income.

---

<sup>31</sup> Tony Blair, *The Third Way: New Politics for a New Century* (London: Fabian Society, 1998).

<sup>32</sup> Tony Blair and Gerhard Schröder, *The Third Way: Die Neue Mitte* (London: Labor Party and SPD).

<sup>33</sup> Peter A. Hall, "The Comparative Political Economy of the 'Third Way,'" in *The Third Way Transformation of Social Democracy*, edited by Oliver Schmidtke (Hampshire: Ashgate, 2002).

<sup>34</sup> Anthony Giddens, *Beyond Left and Right* (Cambridge: Polity, 1994); Giddens, *The Third Way* (Cambridge: Polity, 1998).

<sup>35</sup> Mudge, "What's Left of Leftism?" p. 340.

<sup>36</sup> Peter J. Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca, N.Y.: Cornell University Press, 2005).

A number of trends created a legitimacy crisis for this system. That legitimacy crisis was most profound within the developed world—in the United States and Europe. The primary threat to the sustainability of this era of globalization exists at the very center of its system.

A world of mobile capital is more prone to crisis through a variety of mechanisms: over-borrowing, over-lending, cross-border contagion, and panic. The pattern was well described by the economist Hyman Minsky, who regarded moments of financial crisis as endogenous to periods of stability.<sup>37</sup>

The emerging-market financial crises of the late 1990s led to the emergent crisis of legitimacy for the new orthodoxy of capital mobility. The peak of our era of global finance was, intellectually, the autumn of 1998.<sup>38</sup> A series of crises culminated, finally, in the global crisis of 2007 and 2008. That great crisis delegitimized both global and domestic financial deregulation.<sup>39</sup>

Another feature of our era of globalization was increasing income inequality across much of both the developed and developing world. The globalization of finance and production were not the only reasons for the dispersion of wages—automation and increasing returns to talent and education also played their part. National societies over-emphasized the role of globalization in the rise of inequality because it seemed both know-able and potentially manageable. The U.S. data are striking comparatively and historically. [See Figure 1.] By the end of the 2010s the United States was approximately as unequal as it was in 1929.

I suggest that it was not merely the material fact of inequality that created a legitimacy crisis for the system. Data from the United States, France, and a number of other countries are suggestive. First, in the United States, as in some other parts of Europe, generational expectations were declining.<sup>40</sup> [See Figure 2.] The percent of Americans who earn—and expect to be able to earn—more income than their parents has been declining for the last thirty or so years.

Second, intergenerational economic mobility—what we might have once called class mobility—was declining.<sup>41</sup> [For a visualization of current patterns of international economic mobility across countries see Figure 3.] Thus in the United States, among a number of other developed countries, an era of stagnating real wages, rising inequality, declining generational expectations was combined with one in which the probability of being born into either a poor or a rich household powerfully determined one's economic fate. Societies came to feel—correctly—that the distribution of income no longer reflected individual merit. Rather, fate—in the form of unequal access to education, family investment, and elite networks—trumps hope. Unfairness as a social fact—rather than distribution as a material fact—contributed to the process of delegitimizing the system. A sense of unfairness had pervaded previous eras. Every order is composed of a series of bargains that leave out some.<sup>42</sup> In the first decades of the new century that sense of unfairness was felt increasingly by white Americans and non-immigrant Europeans. People of color had essentially always been left out of these political bargains.

---

<sup>37</sup> See also Kirshner, “Keynes and the Middle Way” and Grabel, “Post-American Moments in Global Financial Governance” (both in this volume).

<sup>38</sup> Abdelal, *Capital Rules*, chapter 8; Rawi Abdelal and Adam Segal, “Has Globalization Passed Its Peak?” *Foreign Affairs*, vol. 86, no. 1 (2007), pp. 103-114.

<sup>39</sup> Kirshner, *American Power after the Crisis*. Also see Ilene Grabel, “Post-American Moments in Global Financial Governance in the New Millennium” (this volume).

<sup>40</sup> See, for example, Miles Corak, “Income Inequality, Equality of Opportunity, and Intergenerational Mobility,” *Journal of Economic Perspectives*, vol. 27, no. 3 (2013), pp. 79-102.

<sup>41</sup> See Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, and Jimmy Narang, “The Fading American Dream: Trends in Absolute Income Mobility since 1940,” *Science*, vol. 356, no. 6336 (2017), pp. 398-406.

<sup>42</sup> Gourevitch, “The Construction of Compromise” (this volume).

This era of globalization was also, like the last, accompanied by extraordinarily large movements of people across the borders of sovereign states. Some of those people were in motion in search of a better life in Europe and the United States. Others, migrants and refugees, were fleeing violence and institutional upheaval. Thus this era of globalization was coincident with a wave of mass migration at a scale that the world has not witnessed for a century. European societies struggled in various ways to manage the challenges of assimilation, integration, and multi-culturalism at precisely the same moment that their frustrations with the economy reached their peak. Much the same was true in the United States. And so race, nationality, religion, and migration became bound up with national debates about identity, dignity, and worth.

Finally, the French experiment with redistribution suggests that concerns beyond money itself shape societies' anger and frustration. The French government has remained committed to the social democratic project of income equality for the past thirty years. Indeed, France's after-tax, after-transfer Gini coefficient is *lower* than it was several decades ago. [See Figure 4.] The pressures for wage dispersion in France manifested themselves in higher unemployment, and particularly youth unemployment. France's unemployed are, however, relatively well compensated. Yet they—among *Les exclus*, the excluded—are unable to participate fully in a society that values the status of particular forms of labor and the dignity that thereby accrues to individuals. Money cannot buy status or dignity, and this sense of indignity has turned to outrage.<sup>43</sup>

This suggests that the central promise of the New Left—that it could be liberalizing and manage the social and distributional consequences after the fact—cannot prevent the backlash against the system. The fragilities of this system in national economies and politics run deeper. Those fragilities have been exploited by varieties of populisms throughout Europe and the United States.

### ***The Entrepreneurship of Contemporary Populisms***

Such was the environment that the center-Left and center-Right made, and it has been their undoing. For these economic and political trends invited the entrepreneurship of populists across the developed world.

Populism is a mode of politics, a series of tropes, and a rhetorical style. The politics of populism contrast “the people” with “the elites” and “the establishment.” Populism is, as Rogers Brubaker

---

<sup>43</sup> Rawi Abdelal, “Dignity, Inequality, and the Populist Backlash: Lessons from America and Europe for a Sustainable Globalization,” *Global Policy* (forthcoming). On the connections between dignity, class, and race in France and elsewhere, see Michèle Lamont, *The Dignity of Working Men: Morality and the Boundaries of Race, Class, and Immigration* (New York: Russell Sage; and Cambridge, Mass.: Harvard University Press, 2000). On the connection between “hard work” and dignity” in the resentments that fuel the resurgence of contemporary American nationalism and populism, see Frances Fukuyama, *Identity: The Demand for Dignity and the Politics of Resentment* (New York: Farrar, Straus, and Giroux, 2018), pp. 88-90. On “social status” and “social integration” as essential elements of the populist backlash, see Noam Gidron and Peter A. Hall, “The Politics of Social Status: Economic and Cultural Roots of the Populist Right,” *British Journal of Sociology*, vol. 68, no. S1 (2017), pp. 57-84; and Gidron and Hall, “Populism as a Problem of Social Integration,” *Comparative Political Studies* (forthcoming). Also see Dani Rodrik, “Tackling Inequality from the Middle,” *Project Syndicate*, 10 December 2019; Cecilia L. Ridgeway, “Why Status Matters for Inequality,” *American Sociological Review*, vol. 79, no. 1 (2014), pp. 1-16; and Simone M. Schneider, “Why Income Inequality is Dissatisfying: Perceptions of Social Status and the Inequality-Satisfaction Link in Europe,” *European Sociological Review*, vol. 35, no. 3 (2019), pp. 409-430. This is a modern notion of dignity rooted in the evolution of capitalism. See, for example, Christine Dunn Henderson, “On Bourgeois Dignity,” in *Dignity: A History*, edited by Remy Debes (Oxford: Oxford University Press, 2017).

suggests, “a discursive and stylistic repertoire.”<sup>44</sup> Populist politics prioritize recognition and dignity more than materiality.<sup>45</sup> The repertoire, according to Brubaker, includes “antagonistic re-politicization,” “majoritarianism,” “anti-institutionalism,” and “protectionism” of various kinds.<sup>46</sup>

The convergence of traditional Left and Right parties toward the center of the political spectrum across the developed world thus created the economic conditions for the backlash that is undermining the international order, as well as a range of domestic political and economic orders.

That center-Left and center-Right consensus opened political possibilities that entrepreneurial populist politicians and movements have pursued. The opportunities were there for the traditional Left and Right parties to take, but mostly they did not until they had been over-run by the extremes. In some developed countries, near-majorities of citizens felt angry, aggrieved. Elections seemed not to matter, since center-Left and center-Right had become *status quo* parties. For many voters, it seemed that real choice had, for better and for worse, dissipated. So “social-democratic parties,” writes Brubaker, “did not seize the political opportunity created by these major economic shifts.” These center-Left parties turned away from a vast swathe of space on the political spectrum.<sup>47</sup> Their “neoliberal turn in recent decades left the field open to other parties, on the right as well as the left, to advance populist economic claims.”<sup>48</sup> Sheri Berman and Maria Snegovaya similarly highlight the crisis of the social-democratic Left and blame “the Left’s shift to the center on economic issues, and in particular its acceptance of ‘neoliberal’ reforms such as privatization of parts of the public sector, cuts to taxes and the welfare state, and deregulation of the business and financial sectors.”<sup>49</sup>

The insecurities of economic change had been, for most of the twentieth century, the political purview of the Left in the United States and Europe. The New Left had, however, either committed to managing distributional politics after the fact—as in France—or not at all—as in the United States. So the politics of economic insecurity were left unattended by the Left.

Concerns with national and racial identities had been, during that same era, a political focus of the Right. The “neoliberal” center-Right flirted with nationalism and racism, of course, but economic priorities were paramount. Explicit nationalist and racist language had been, by the early years of the twenty-first century, largely excluded from the more polite discourse of the Center. So the politics of national and racial identities were left insufficiently attended by the Right, other than an increasing reliance on racist and nationalist subtleties and dog whistles.

Clever populist politicians—and their advisors—recognized the political opportunities, or “representation gaps,” that were thereby created.<sup>50</sup> The most creative among them did not merely reproduce the egalitarianism and resentment of the erstwhile Left, nor the nationalist fears of the Right. With so many political issues left unattended, a new breed of populists felt license to mix and match.

---

<sup>44</sup> Rogers Brubaker, “Why Populism?” *Theory and Society*, vol. 46, no. 5 (2017), pp. 357-385. Also see Pippa Norris and Ronald Inglehart, *Cultural Backlash: Trump, Brexit, and Authoritarian Populism* (Cambridge: Cambridge University Press, 2019), ch. 1.

<sup>45</sup> Arlie Russell Hochschild, *Strangers in their Own Land: Anger and Mourning on the American Right* (New York: New Press, 2016).

<sup>46</sup> Brubaker, “Why Populism?”

<sup>47</sup> Christophe Guilluy, *Twilight of the Elites: Prosperity, the Periphery, and the Future of France* (New Haven: Yale University Press, 2019), ch. 4.

<sup>48</sup> Brubaker, “Why Populism?” p. 371.

<sup>49</sup> Berman and Snegovaya, “Populism and the Decline of Social Democracy,” p. 6.

<sup>50</sup> Peter A. Hall and Georgina Evans, “Representation Gaps: Changes in Popular Preferences and Party Positions over the Longer Term in the Developed Democracies,” unpublished manuscript. Also see Suzanne Berger, “Populism and the Failures of Representation,” *French Politics, Culture & Society*, vol. 35, no. 2 (2017), pp. 21-31. For a similar argument about populism and the disintermediation of traditional political parties, see Nadia Urbinati, *Me the People: How Populism Transforms Democracy* (Cambridge, Mass.: Harvard University Press, 2019).

Indeed the Left-Right axis has become decreasingly useful as way to characterize these new moments of populism.<sup>51</sup>

The U.K. Independence Party (UKIP) succeeded in turning the referendum on EU membership into a referendum on globalization and the *status quo*. So it was a populist Right movement that combined some of the traditional concerns of the far Right—nationalism, nativism, immigration, and identity—and those of the traditional Left—economic insecurity and the ravages of global markets. Thus the Brexit was metaphor. Although the literal text of the referendum invited U.K. citizens to choose or un-choose their EU membership, data from exit polls suggest that they were expressing preferences about a range of other issues. [See Figure 5.] Those who voted for the Brexit clearly expressed a preference to leave the European Union, but they also expressed antipathy for: multiculturalism; social liberalism; feminism; the Green movement; globalization; and immigration. This was a novel combination of the politics of the traditional Left and Right.

Similarly, President Trump creatively, cleverly combined borderless-ness and national grievances with a global order with the concerns of the white, in particular, working class. Senator Sanders had tapped into concerns about the implications of globalization for the working class, and the 2016 U.S. presidential election was nearly a struggle between the competing populist visions of Sanders and Trump. In the end, however, Secretary Hillary Clinton presented an ideal contest for an anti-systemic, anti-*status-quo* candidate in Trump. Clinton could hardly embody more fully the American establishment and, economically and politically, the *status quo*. Thus the Left ran its center-Left candidate against a candidate of the populist Right who also claimed, however improbably, to speak on behalf of the Americans who feel left behind by the declining status of white-ness and of the distributional consequences of globalization.

In France, Marine Le Pen's *Front National* also borrowed from far Right and far Left to create a potent, motivating combination. As with the campaigns for Brexit and President Trump, Le Pen endorsed cultural conservatism, nationalism, protectionism, and antipathy toward the European Union (itself, as with the Brexit, a metaphor for supranationalism, borderlessness, and globalization). President Emmanuel Macron may have saved us temporarily from the tumult of a French populist victory, but we should remember that Macron ran for office from neither the center-Left nor the center-Right party. Had Le Pen faced one of the candidates from either of those parties in the second round of the French presidential contest, she may well have emerged victorious. Data from surveys conducted by the Center for Political Research at Paris-based Sciences Po reveal that supporters of Marine Le Pen's populist bid for the French presidency are far less likely to believe that "society is structured so that people get what they deserve." Le Pen's supporters are also far less likely to believe that the state "should take from the rich to give to the poor." They conclude, in other words, that the system is unfair, but they do not want the state's post-hoc management of that unfairness.<sup>52</sup>

Italy's simultaneous turn hard Right—with the rise of *Lega Nord*—and hard Left—in the form of the Five-Star Movement (M5S) demonstrated how much political space had been ceded by the centrist consensus. Prime Minister Matteo Renzi's center-Left coalition, which had enjoyed so much success only five years earlier, was decimated in the 2018 parliamentary elections. Although neither the League nor M5S won a majority of seats in parliament, their combined total was approximately 60 percent. [See

---

<sup>51</sup> See, for example, Rogers Brubaker, "Populism and Nationalism," *Nations and Nationalism*, vol. 26, no. 1 (2020), pp. 44-66; and Brubaker, "Between Nationalism and Civilizationism: The European Populist Moment in Comparative Perspective," *Ethnic and Racial Studies*, vol. 40, no. 8 (2017), pp. 1191-1226. On the cultural fissures that have replaced traditional Left-Right divides, see Norris and Inglehart, *Cultural Backlash*.

<sup>52</sup> Yann Algan, Elizabeth Beasley, Daniel Cohen, and Martial Foucault, "The Rise of Populism and the Collapse of the Left-Right Paradigm: Lessons from the 2017 French Presidential Election," Center for Economic Policy Research, Discussion Paper 13103, August 2018.

Figure 6.] Both the League and M5S were vehemently anti-establishment, anti-elite, anti-EU, anti-immigrant, and anti-globalization. The League, representing primarily the industrialized north, favored a business-friendly taxation regime, while M5S focused more on a universal basic income for Italians. Their improbable, short-lived coalition reflected the country's collective appetite to combine Right and Left into a mix that would have been inconceivable a decade ago in European politics.<sup>53</sup>

Common to all of these episodes was another account of putative learning. In these cases what we had learned was that the old orthodoxies were, we were told by the populists, no longer a useful guide. The so-called experts could be disregarded as we found our way forward—and away from the Centrist consensus. The examples are many, but perhaps the sentiment was best expressed by British conservative politician Michael Gove, who insisted, "I think the people in this country have had enough of experts, with organizations from acronyms..."<sup>54</sup> The populists are defeating the technocrats of the center-Left and the center-Right. We no longer know who might know, but increasingly we think that we know who does not know: those who told us that they did.

Finally, these episodes are coinciding with a rupture of one of the essential foundations of the international order: trans-Atlanticism. Across a wide variety of issues, including political economy, defense, and the management of threats emanating from Iran and Russia, the United States and Europe have grown ever further apart. Although this process of dis-Atlanticism began before the Brexit referendum and the election of President Trump, those phenomena have accelerated it.<sup>55</sup>

### ***Reflections on Learning and Forgetting***

As this era of globalization either winds down or collapses, we will learn some valuable lessons about national economies and the international order. The next generation of policy makers and scholars will, after a time, put them into place as the world discovers—again—that a disintegrating, fragmenting world economy makes for slower growth, more inefficiency, higher prices, and constrained opportunities for economic development. The world will most likely learn—again—that the populist politicians are unable to deliver on their promises of economic revival. We will learn once more that nationalist resentments breed inter-state conflict of various kinds.

As the coming generation begins to rebuild a system that promotes international trade, its leaders will, I hope, implement the lessons that we will have learned from the crisis of this era of globalization.

Some lessons implicate the international system. The liberalization of movements of goods and services—freer trade—can promote both growth and international stability. The liberalization of capital can as well, as long as finance primarily serves the real economy. The full liberalization of capital movements—including "hot money"—can be dangerous and destabilizing. Such an international order is more manageable with multilateral negotiating and decision-making. An era of globalization in which markets determine almost all outcomes delivers more unequal societies.

Still other lessons focus on domestic politics and economics. Economic systems that do not benefit majorities of citizens cannot last. Dignity and respect are as important as income. The social fact

---

<sup>53</sup> Rawi Abdelal, Dante Roscini, and Elena Corsi, *The Rise of Populism and Italy's Electoral "Tsunami,"* Harvard Business School Case No. 719-042 (2019).

<sup>54</sup> *Sky News*, 3 June 2016.

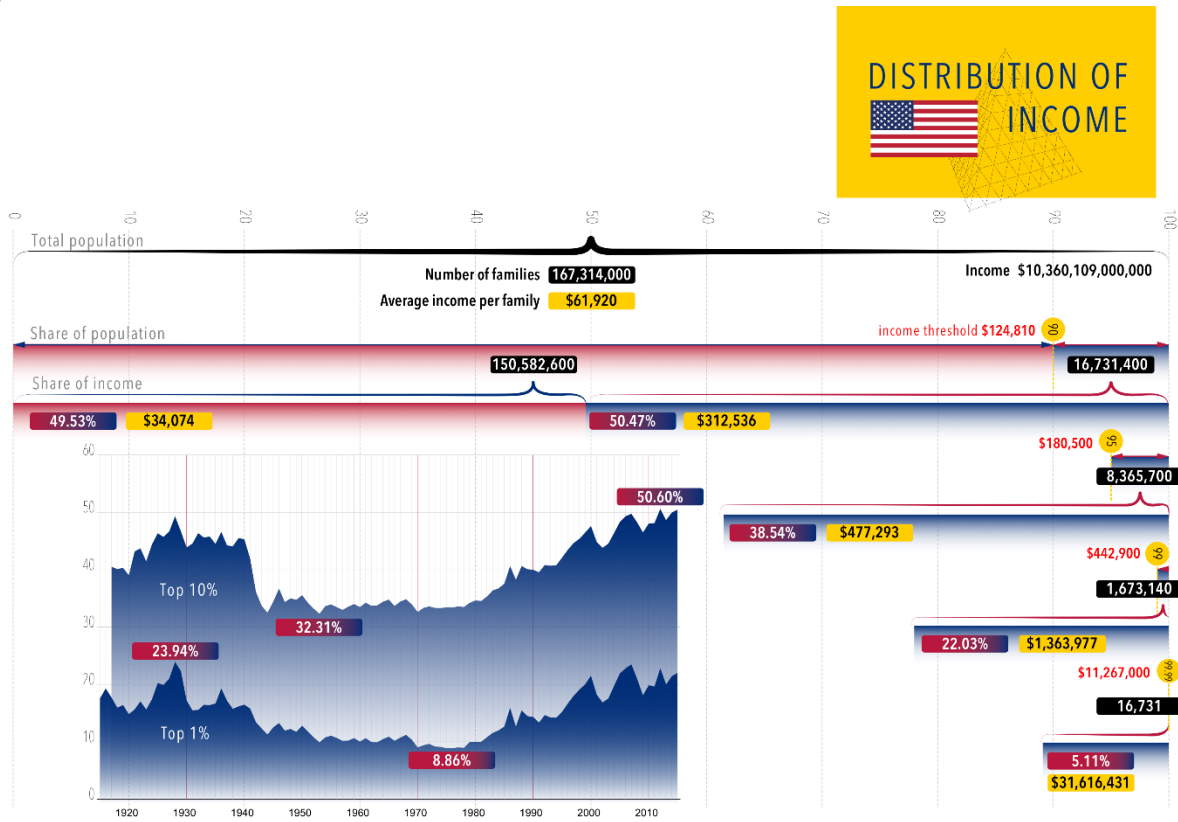
<sup>55</sup> Rawi Abdelal and Ulrich Krotz, "Dis-Atlanticism: The West in an Era of Global Fragmentation," in *Key Controversies in European Integration*, third edition, edited by Hubert Zimmerman and Andreas Dür (London: Macmillan, forthcoming). Also see Abdelal and Krotz, "Disjoining Partners: Europe and the American Imperium," in *Power in a Complex Global System*, edited by Louis W. Pauly and Bruce W. Jentleson (London: Routledge, 2014). On the effects of U.S. unilateral, extraterritorial sanctions on the fraying, fragile trans-Atlantic relationship, see Rawi Abdelal and Aurélie Bros, "Sanctions and the End of Trans-Atlanticism: Iran, Russia, and the Unintended Division of the West," *Notes de l'Ifri*, 23 January 2020.

of unfairness is more important than the material fact of income and wealth distribution. The combination of the social fact of unfairness, particularly when combined with the challenge of mass migration, creates domestic political systems prone to upheaval. When mainstream political parties converge on a technocratic, liberalizing consensus, such convergence creates opportunities for new forms of populist discourse to emerge. Clever populist politicians will try to exploit these political and economic weaknesses.

With these lessons in mind, perhaps the coming generation will build a more stable international order. Still, it is difficult not to be disappointed that we had to learn these lessons again, for they are identical to those that we were forced to learn from the years between the two great wars. We unfortunately forgot.



Figure 1. The Material Facts of Distribution.



Source: Sheets "Table 0," "Table A3," and "Table A6" in the data file for Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, 118(1), 2003, 1-39, updated to 2015, available at <https://eml.berkeley.edu/~saez/TabFig2015prel.xls>, accessed in August of 2017.

Note: Data is for 2015. Income is defined as pre-tax cash market income, including capital gains and excluding government transfers. Fractiles, defined by total income, also include capital gains.

Figure 2. The Disappointments of Generations.



The chart presents mean of all parent income percentile estimates.

For each child birth cohort from 1940 to 1984, the authors estimated whether a child earned more than their parents at the age of 30, by parent income percentile.

Source: Dataset "Online Data Table 1: Baseline Estimates of Absolute Mobility by Parent Income Percentile and Child Birth Cohort" for Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, Jimmy Narang, "The Fading American Dream: Trends in Absolute Income Mobility Since 1940," *Science* 356(6336): 398-406, 2017, <http://www.equality-of-opportunity.org/data/index.html#absolute>, accessed in August of 2017.

Figure 3. The Frustrations of Unfairness.

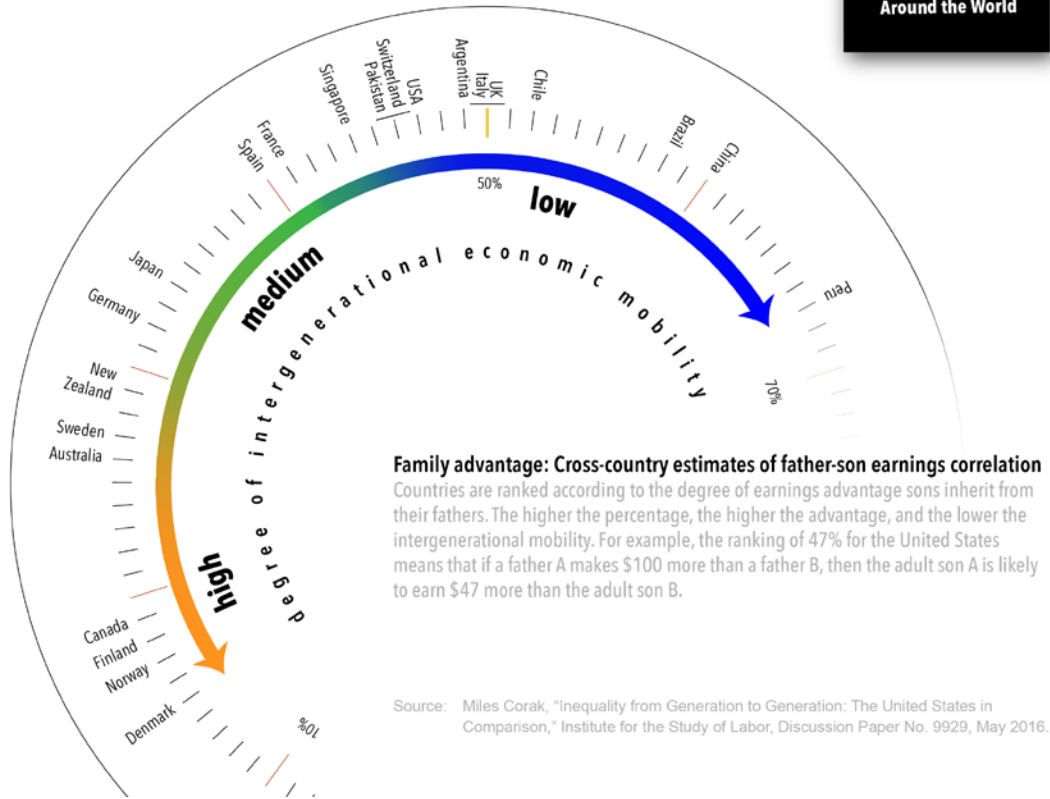
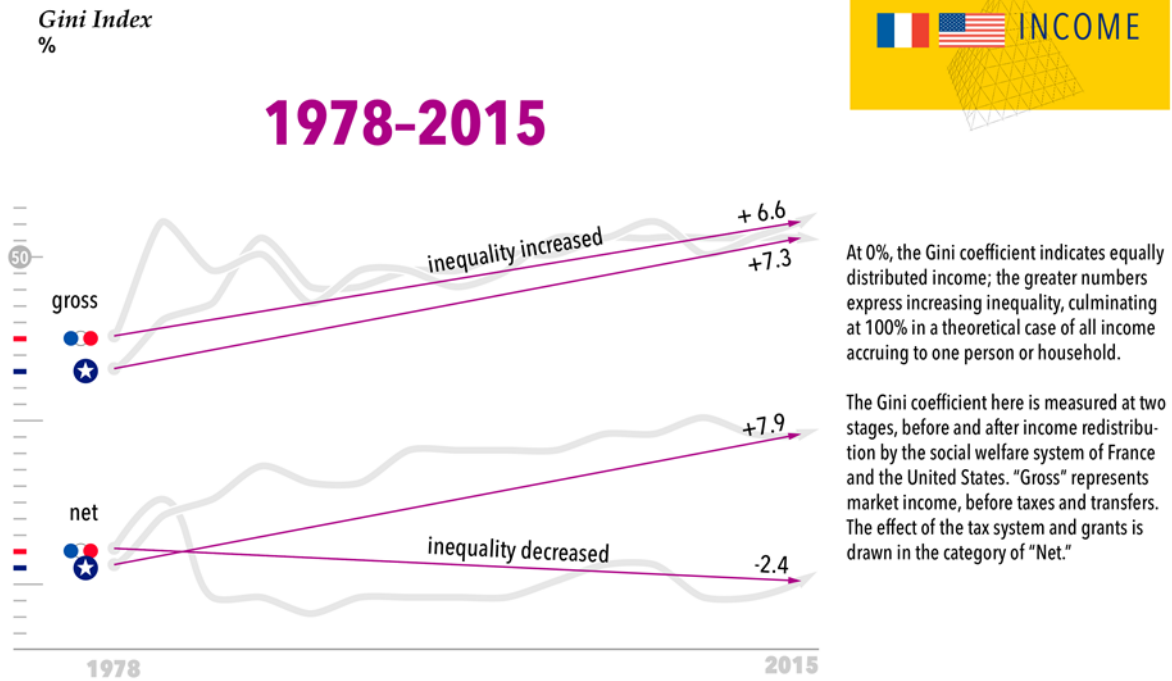


Figure 4. The Impossibility of Redistributing Out of the Legitimacy Crisis of Global Capitalism.



Source: Calculated based on data from *OECD.Stat*, <http://stats.oecd.org>, and *Luxembourg Income Study (LIS) Database* microdata, cited in Max Roser and Esteban Ortiz-Ospina (2018), "Income Inequality," *OurWorldInData.org*, <https://ourworldindata.org/income-inequality>.

Figure 5. The Brexit Metaphor.

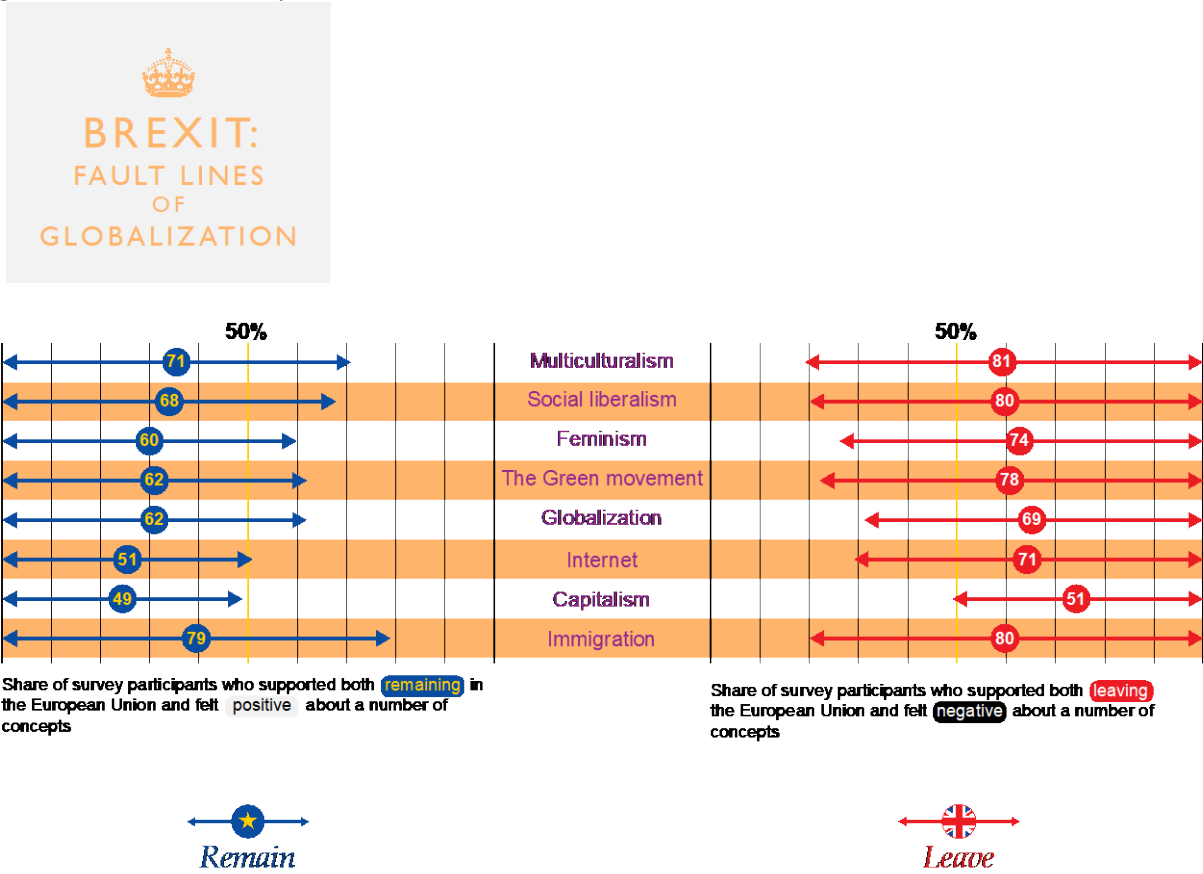
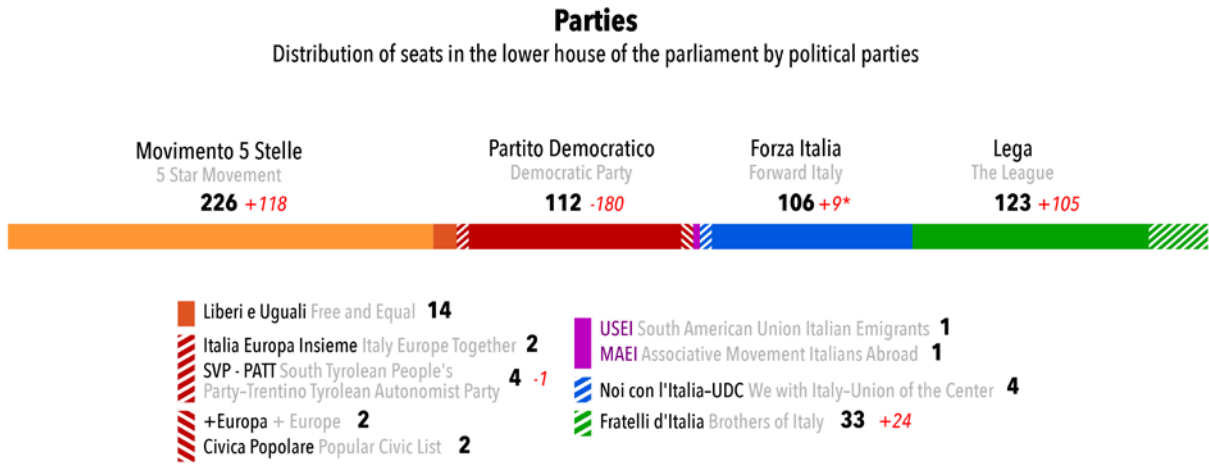


Figure 6. The Collapse of the Center.

## Italy's Electoral Tsunami

*The Results of the Elections of 2018 in Italy*



Source: Ministry of the Interior of Italy.

Note: The seat distribution figures combine gains through proportional representation and single-member districts, immediately after the elections in March of 2018. Parliamentary groups tend to change slightly over time. Gains and losses are in relation to the elections of 2013; Forza Italia's gains are compared to the 2013 achievement of Berlusconi's Il Popolo della Libertà. The results of the elections to the Senate are near identical.