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# 1

## The End of Belonging

Spring had not yet arrived in Washington, DC, on Saturday, 4 March 1933, but the air was nonetheless filled with a sense of revival and new growth. A huge crowd had turned out to witness the swearing in of Franklin Delano Roosevelt, who had been elected US president in a landslide against the backdrop of a collapsing economy, extreme unemployment, and debilitating deflation. Roosevelt did not disappoint those who looked to him for hope. Declaring his inauguration a “day of national consecration,” he announced in words still remembered today that “the only thing we have to fear is fear itself.”

Across the Atlantic, the objects of fear were all too real. The very next day, while Roosevelt busied himself in the White House making good on his promise of “action—and action now,” Germany held a parliamentary election amid a campaign of violence and intimidation. Just five weeks earlier, Adolf Hitler had been appointed chancellor of a coalition with conservatives. Now he was using all the powers at his disposal,

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as well as the frenzied atmosphere following an arson attack on the parliament building, to arrest, abduct, and terrorise his political opponents. His Nazi Party swept to victory, dominating the new legislature, which would grant him dictatorial power. That same Sunday in March extinguished the last sliver of hope for Germany, just as hope was being reignited in America.

It is one of history's quirks that two of the West's biggest powers had their fates sealed and their courses set on diametrically opposite trajectories on the very same weekend almost nine decades ago. But what does it mean for us today? There is much talk of learning the lessons of the 1930s, and so we should. The rise of illiberal nationalist movements across the West today carries loud echoes of the interwar years. The poet William Butler Yeats wrote in 1919,

Things fall apart; the centre cannot hold  
Mere anarchy is loosed upon the world.  
The blood-dimmed tide is loosed, and everywhere  
The ceremony of innocence is drowned;  
The best lack all conviction, while the worst  
Are full of passionate intensity.

Yeats's "The Second Coming" is unsettling because his anguish perfectly captures the unmoored politics of the West today, a century later. Now as then, the political centre has come under siege as a result of both economic breakdown and the experience of violence (in the form of military misadventures, terrorism, or both). Now, as then, the insurgent extremes are "full of passionate intensity." It feels as if the twentieth century has come full circle, and we know that last time the direst warnings were vindicated. But as that fateful March weekend shows, there is another lesson we should remember from the 1930s,

which is that we are not powerless in the face of ill portents: we can turn things around for the better. This is a book about how it can be done.

For three generations after the Second World War, a particular ideal of how society should be governed anchored the most successful and prosperous countries on earth and inspired many more to emulate them. For a short, triumphal moment after the fall of communism in 1989, it even looked like a model every nation was eventually destined to adopt, and the world would be a better place for it. It is this social order that is facing its biggest challenge since 1945.

“Liberal democracy” is a common name for it. That is not incorrect, but it is incomplete, for it is an order held up by *three* pillars, of which liberal democracy is only one. This first pillar is a set of political principles centred on individual rights, equality before the law, and competition for political power organised through regular free elections, all scrutinised by free media and enforced by independent institutions. The second pillar is a social market economy where both “social” and “market” matter: a capitalist system, but one where competition is governed by rules in the common interest and whose growing prosperity is broadly shared. The third pillar is openness to the outside world in both political and economic terms—a commitment to gradually lower borders of all kinds between nation-states and their citizens and to realise the benefits of this social order jointly.

A broader term is simply “the Western social order.” For this way of life was created by the West, the democratic capitalist countries in which the model was consolidated after 1945, and rooted in the Western Enlightenment. At the same time, the values that underpin it are universal and not confined to the

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West at all. While it originated in Europe and North America, the Western model spread far beyond those regions, encompassing, for example, countries like Japan and the “Asian tigers” that followed its path of economic development. And there are important variations within “the West” defined in this broad sense. It is a long stretch from the US system of relative *laissez-faire*, even in the immediate postwar decades, to the Nordic mixed economies. But they are all recognisably of the same family. With their liberal democracies, regulated market economies, and embrace of globalisation, Scandinavian countries were indisputably on the Western side of the Cold War dividing line with the communist bloc.

As the Cold War showed, the Western social order has always been contested from the outside. While the Soviet Union’s demise removed communism as an ideological rival, today China’s authoritarian state capitalism consciously presents itself as an alternative to the Western model of social organisation—and not without success, even though China’s own spectacular rise owes a lot to the country’s having created limited copies of the Western model’s second and third pillars.<sup>1</sup> But national leaders who might once have aimed to join the ranks of the rich liberal democracies have understandably had second thoughts about the West as a model after the disaster of the global (but in origin Western) financial crisis of 2008.

A social order can survive without being the uncontested winner on the international stage. Losing the support of one’s own people, however, is an existential threat. That is what happened in 2016. Fringe antisystem forces had been on the rise for years, but two political earthquakes that year marked the first time since 1945 that such forces won decisive electoral victories in any major Western country. And not just any country, but

the two powers that had done the most to set up the postwar order in the first place. The British referendum to leave the European Union showed a major European nation turning its back on the European project, which had gone further than any other part of the world in realising the West's borderless, rules-based ideal. Then Americans elected Donald Trump as their president—an authoritarian who hides neither his racist-tinted nationalism nor his contempt for democratic principles and the rule of law—and thereby repudiated a world order the United States had shaped and led in its own image. Through these choices, voters at the core of the Western system showed that they no longer feel they belong to it. This end of belonging was a colossal fall from grace for the Western model, and one that has energised illiberal antisystem movements on the extreme fringes of politics in almost every Western country and beyond.

These forces have a straightforward take on two of the Western model's three pillars: they reject political and social liberalism as well as globalisation as ends to be pursued. That is what has led to the comparison with the 1930s and raised fears that democratic and open societies could again descend into fascism at home and close themselves off from the integrated global economy abroad. Admittedly, some supporters of Brexit and Trump style themselves as liberal globalists—they claim to want more or better trade deals than the established elites have achieved. In practice, however, what both groups have used their power for is to increase trade frictions, raise barriers to economic exchange across borders, and challenge the global rules—even the notion that there should be global rules—that make commerce between countries easier.

The attitude to the remaining pillar—the postwar social market economy—is more complicated. Ultimately it is also

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the most consequential, for, as I will argue, the other two pillars of the Western order will stand or fall depending on whether it can deliver on its economic promise.

The Western-style social market democracy that thrived in the postwar decades was an unwritten but firm social contract. One of its vital elements was economic solidarity: a promise that everyone would share in the fruits of growth. Common to most of those rallying behind illiberal or nationalist forces is their sense that the economy has changed for the worse in general, and for people like them in particular. The reason why the slogans about restoring past greatness—“Make America Great Again” and “Take Back Control”—have such appeal is that the economic and social order of the postwar decades is remembered not as something to be rejected but as something to be restored.

Behind the illiberalism and nationalism, therefore, there is a prior *economic* claim. This claim is that the economic opportunities on which previous generations thrived have dried up, and those that still exist have been closed off and reserved for an elite to which “normal people” don’t belong. Those turning against the Western order are those who feel left behind in it, but not just that: they feel left behind *by their own*—betrayed by the elites who constructed the system and were entrusted with making it deliver.

I call this “the end of belonging” because the notion of belonging captures the psychological and sociological, and in the last instance political, fallout from economic change. The sort of economy common to all Western countries in the decades after 1945 was one in which members of virtually every social group could aspire to an attractive place for themselves. Jobs were plentiful and offered increasingly adequate incomes and, just as importantly, status and dignity (which was



gradually extended to previously marginalised people). Most people could come of age expecting that a willingness to work and get along would be rewarded with material comfort and security, as well as with social respect. Incomes were growing closer together, both between social classes and between geographic regions, which narrowed differences in how life was lived. The populations of Western countries could justifiably see their national economy—and, by extension, their national society—as one where they all belonged, and belonged together.

In the first part of the book, I tell the story of how this togetherness unraveled because of technological changes and domestic economic policy choices, rather than because of economic openness. While much is made—including by friends of the liberal political order—of “hyperglobalisation” and such “shocks” as the rise of China, I will argue that globalisation is too often used as a scapegoat. But before we get into the *causes* of the economic changes the Western world has undergone in the last four to five decades, we should contemplate their most important *consequence*. This is that the Western social order no longer fulfils its promise of an economy that offers a (good) place for everyone. And just as such an economy used to sustain a psychological, sociological, and political togetherness, so the end of economic belonging has undermined those types of cohesion.

Large numbers of people in the West who could previously expect decent earnings in secure jobs are instead confronted with, at best, precarious employment that pays them too little to provide for themselves, let alone for a family, without serious economic stress. Economic insecurity has made a large group of people dependent on others, risking exploitation and abuse. And it is becoming increasingly clear that this particularly afflicts certain places and regions, destroying the

communities that call them home. When, at the same time, the economy provides other groups with more prosperity and richer opportunities than ever before, it is natural for those who are excluded from them to feel aggrieved, and to see the economy and the rules that govern it as rigged for the benefit of others. An economy—and a politics—that benefits some people and places while locking others out of prosperity is what the end of belonging means.

In this sense there is both truth and logic to the populist onslaught on Western institutions and the mainstream parties that built them. The truth is that a large group of people have indeed been economically left out or left behind; as I show in the pages that follow, Western economies have turned into something that many people legitimately feel they no longer belong to. The logic is that the end of *economic* belonging is used to reject the postwar Western order in its entirety. The populist antisystem offer is this: since the system and its elites failed you in upholding the economic part of the bargain, you should now throw them and their whole social contract out—including its social and political liberalism and its openness to the wider world.

That logic is flawed insofar as the proposed solution will not solve the problem. But rather than dismissing it altogether, the argument of this book is that we should turn the logic on its head. Since the Western order is under threat from the erosion of one of its pillars—an economy to which everyone belongs—rebuilding that pillar in a way fit for today’s social and technological conditions holds the promise of restoring support for the Western model as a whole. What we need, in short, is a new economics of belonging. That is the right lesson to draw from that March weekend in 1933.

Back then it was far from obvious that the United States would escape the scourge of fascism. Another interwar literary

work that feels hauntingly relevant today is Sinclair Lewis's fictional account of a fascist takeover in the United States. *It Can't Happen Here* is a chilling narrative of how the breezy presumption of the novel's title is proved wrong.

And why not? After all, the social and economic conditions were not all that dissimilar on the two sides of the Atlantic. Americans had suffered unemployment and deflation as bad as the Germans had from the start of the Great Depression in 1929. While the US First World War experience was less traumatic than Germany's, millions of Americans had been mobilised to fight in Europe, and hundreds of thousands were killed or wounded. And in the United States, xenophobia also followed conflict, with immigration radically curtailed by the end of the 1920s.

In reality, of course, it didn't "happen here." The United States avoided fascism in the 1930s, and Roosevelt went on to be reelected several times. Why did Lewis's dystopia not come to pass? Roosevelt and his contemporaries had to contend with a situation resembling in many ways that faced by the West's leaders in 2008: a deep financial crisis, a shadow of recent wars or terrorist violence, and electorates stunned by unemployment and shrunken incomes. What distinguished his leadership, however, was a degree of economic radicalism his successors never came close to emulating.

Roosevelt's New Deal was the epitome of crisis turned into opportunity. Within months of taking office in 1933, the new president had taken one previously unthinkable measure after another. He broke the dollar's link with gold to stop deflation in its tracks and stimulate the economy. He shut down the banking system nationwide, then equipped it with government-backed deposit insurance before reopening it. He launched large public works programmes. He radically tightened the regulation of Wall Street and introduced a minimum wage. Social security,

trade liberalisation, and housing policy reform followed soon after. Even today, any one of those measures would be radical. To adopt all of them together, in a society with no history or other democratic examples of the government taking a large role in the peacetime economy, was revolutionary.

Today's economic challenges resemble those faced by Roosevelt in scale and sometimes in nature as well. There are, of course, important differences given how much the world has changed since then. The nature of technological disruption is different. The threat of global climate change is unprecedented. Today's decision makers are challenged in their choice of policy options by slowing productivity growth and population ageing in a way that Roosevelt and his contemporaries were not. So the point is not to go back to all the policies that worked for him but rather to take away one crucial insight behind his success and apply it to our times. His were largely *economic* policies, yet they were successful in staving off a *political* threat—the attack on liberal democratic capitalism. Economic radicalism came to the rescue of political moderation in New Deal America. In western Europe, too, there were Roosevelt-like attempts at changing the economic system in the 1930s, and after 1945 fundamental economic reforms in many European countries won democracy a lasting political victory over the extremism that had been defeated militarily. In all cases, the architects of these reforms consciously pursued economic policies as the best weapon against political dangers. And the thrust of the reforms was to include everyone in national prosperity—to create what I call economies of belonging.

The New Deal was exceptional in its hyperactivity. But large-scale efforts to recast economic systems are not a historically uncommon response to crises. At the start of the twentieth century in the United States, endemic financial instability and

increasingly concentrated wealth led to a permanent income tax, the creation of a central bank, and the attack of an earlier Roosevelt (Theodore) on the power of the big corporate monopolies known as trusts. The Second World War forged a consensus in all Western countries around some variant of a social democratic mixed economy, with the unquestioned dominance of the state during the war years paving the way for transformations that might have required literal revolutions only decades before.

The contrast with our own times is stark. Western politicians have responded with nothing like Roosevelt's boldness to the two biggest economic disruptions since the war: the peak and subsequent decline of industrial employment starting in the 1970s, and the global financial crisis of 2008. In the next four chapters, I will explain in more detail how these economic tectonic shifts triggered the political earthquakes that have shaken the Western order, and how policy makers have mishandled the response. In the second half of the book, I outline a new economic radicalism—a concrete programme for building an economy of belonging—that can restore the wavering support for the West's open liberal system in our day as it did once before.

The idea that a programme of economic reform can overcome the backlash against the Western order is far from a consensus view. So before starting out, it is worth clarifying how it differs from two other positions that are more commonly heard in this debate.

One concerns the role of globalisation in eroding the economy of belonging in Western countries. It is not just illiberal populists who criticise globalisation; many who swear by rights-based liberal politics consider it threatened by international economic integration. They say globalisation has gone too far. In this book I argue that this is a dangerous mistake.

I will show (in chapter 5) that the lowering of economic borders between countries has not been a major factor in the weakening of domestic social contracts. That weakening started earlier and was worsened by avoidable *domestic* policy mistakes (set out in chapter 4), and, given those mistakes, it would have happened even if globalisation had been less intense. Most importantly, globalisation does not tie the hands of national governments, in whose gift it remains to restore an economy of belonging through better policy choices without pulling back from the international economy. I show how I think this can be done in part 2 of the book (chapters 6–11). If anything, wherever a domestic economics of belonging is pursued with dedication, more economic openness will reinforce that pursuit rather than threaten it (see chapter 12).

The other common position is about the importance of economics itself. Not everyone accepts the primacy of economics in the backlash against the postwar Western order. Some instead take the political pillar as fundamental and attribute the populist surge to irreconcilable splits over identity and values between cosmopolitan liberals and national or nativist communarians. There is a lot of resistance to the idea that economic change can explain how citizens of mature democracies have come to support xenophobes and authoritarians—and conversely, to the idea that an economics of belonging can restore support for the liberal order.

Resistance to the economic argument does not come only from those who deplore illiberal attitudes. There is a strand of opinion arguing that xenophobia is a perhaps regrettable but entirely natural reaction when elites dismiss ordinary people's preference for their own kind and their dislike of cultural change. For proponents of this view, the solution is to sympathise more with complaints that immigration has been

too high, that the cultural changes spearheaded by urban elites have harmed the social fabric of the “common people.” We owe it to our countrymen, they argue, to be less accommodating towards foreigners, towards companies trading across borders, and towards global rules—for cultural even more than for economic reasons.

Both arguments lead to the same conclusion. If political divisions boil down to disagreements over culture and identity that are impervious to economic change, the inevitable outcome can only be a culture war in which irreconcilable value differences must simply be fought out until one side wins. The debate over whether culture or economics is the ultimate cause of today’s divided politics is clearly crucial to the argument of this book, which is premised on the view that since economic change is the root cause, better economics can improve our politics. So I devote chapter 3 to addressing that debate in detail and refuting the view that cultural and ideological conflict is irreducible. That is *not* to say culture and values are irrelevant; it is obvious that the electoral insurgency against the liberal order and globalisation is expressed in terms of a political culture war as much as if not more than economic interests. But the key question as to what we ought to *do* about it is whether economics can explain that cultural conflict or whether disagreements over values are fundamental. If the former, a new economic radicalism to restore belonging will help. If the latter, such a reform programme is destined to disappoint.

For now, let me just make a simple appeal to intellectual pragmatism to convince sceptics why they should treat economics as both a root cause of antiliberalism and the key to disarming it. Even if voters opposed to the open Western liberal order—the millions of Americans, French, or Germans who support Donald Trump, Marine Le Pen, or the Alternative for

Germany—are motivated by cultural identity or authoritarian and illiberal attitudes, the question remains why identity and attitudes of this sort have become so much more politically powerful in the last decade. Have voters become more nativist and illiberal—and if so, why did this happen? Or is it that such attitudes have always been present to the same extent but their influence on how people vote has increased—and if so, why did *that* happen? Answering these questions convincingly is impossible without the economic story this book tells.

The United States offers a stark illustration. A decisive number of American voters swung from supporting Barack Obama in 2008 and 2012 to voting for Donald Trump in 2016. Those two leaders could not be more different. However strongly identity and values matter, it is hard to see how they explain how anyone could switch their allegiance from one to the other. Yet enough former Obama voters in the key battleground states did precisely this—in particular white, working-class voters—to make it fair to say that it was they who brought Trump over the threshold to the White House.

The economic trajectory of these groups helps us see why they did. So let us begin by understanding that economic trajectory as the first step towards changing their economic future and that of other groups who are being left behind.



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